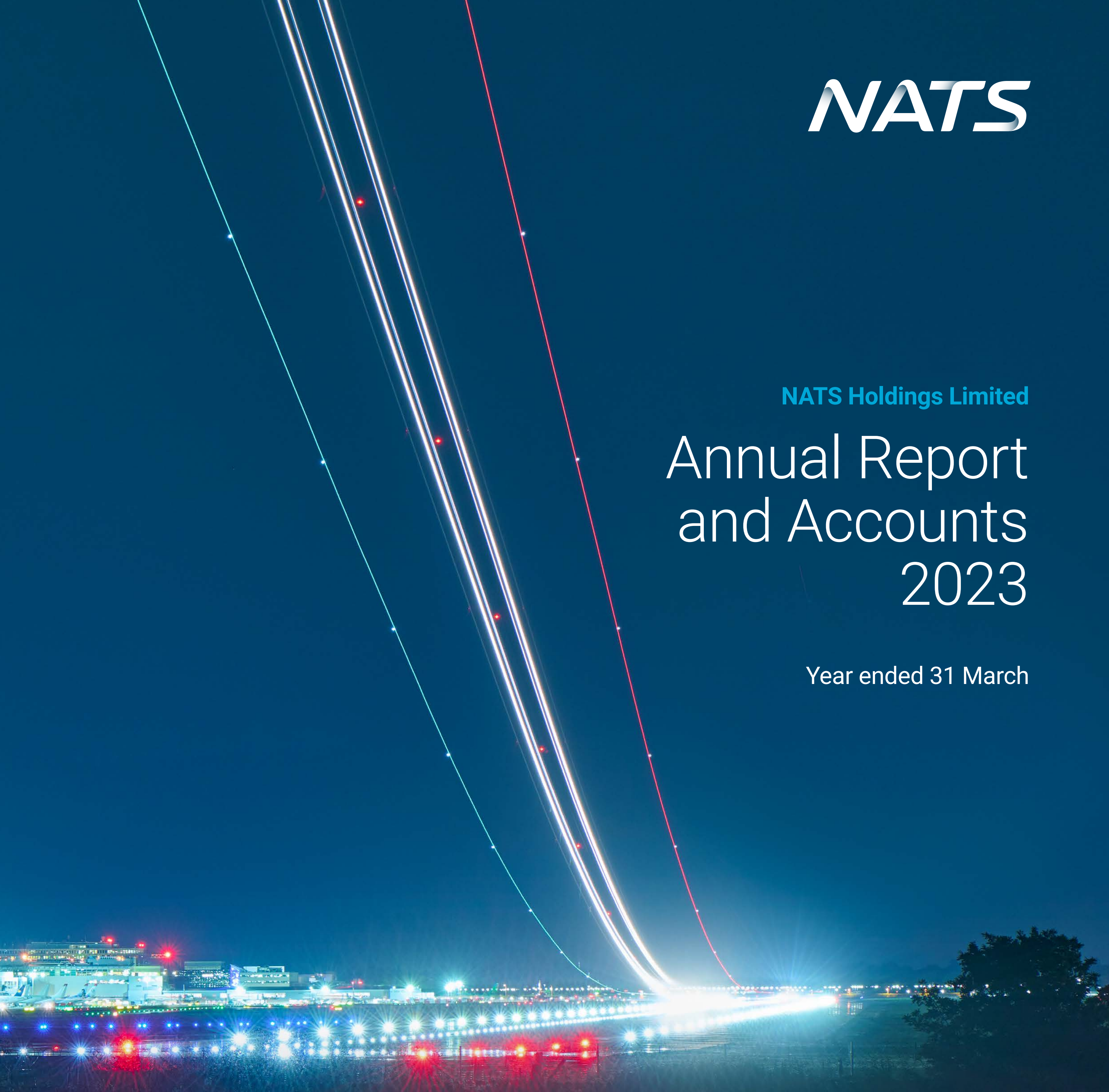

NATS

NATS Holdings Limited

Annual Report and Accounts 2023

Year ended 31 March

2023

nats.aero

Company Number: 04138218

Highlights

Financial highlights (year ended 31 March) £m (unless specified)	2023	2022
Revenue and regulatory allowances	**930.0**	749.8
Profit before tax	**148.5**	8.7
Debt-adjusted cash inflow/(outflow)	**58.1**	(241.1)
Capital expenditure	**113.7**	100.1
Net debt[a]	**803.6**	849.5
Gearing[b] (%)	**52.3%**	60.1%
Dividends	**nil**	nil

Notes: [a] see note 21 to the financial statements. Net debt excludes derivative financial instruments; [b] ratio of NERL's net debt (as defined by its licence) to regulatory assets[1]. Debt-adjusted cash flows exclude repayments/drawings on borrowings[1].

Financial highlights

- The group reported a profit of £148.5m (2022: £8.7m, after refinancing costs of £41.7m). As for the prior year, the result includes our assessment of the regulatory allowances still to be determined by the CAA for the 2020-22 Covid period shortfall between flight income and costs incurred.
- In October, the CAA published its initial proposals for NERL's next price control (NR23: 2023 to 2027). While the CAA recognises the challenge we faced during Covid, we are concerned about material elements of their proposals. We have reiterated the importance of a price control with appropriate resources and risk mitigations to deliver the NR23 plan, critical to the service customers require now and in the future, which NERL has proposed. The CAA's decision is expected later in summer 2023.
- For the scale of the regulatory allowances outstanding, we expect the CAA will require their recovery over 10-years from 2023, as we also proposed, to ensure affordable charges as the sector recovers after Covid. The outstanding regulatory allowances account for the significant difference between out results and our cash flows since Covid.
- We have financed accordingly with borrowings aligned with recovery of these allowances and to facilitate delivery of our NR23 plan. This year, we completed the refinancing which commenced during Covid with the issue of a further £145m of bonds repayable in 2033.

Operational highlights

- Flights recovered strongly after the lifting of travel restrictions last summer and stabilised at an average 87% of pre-pandemic levels for the year. Overall, we handled 2.24 million flights (2022: 1.29 million) in the year. During this recovery phase, traffic was not uniform across the network, regularly varying materially from filed flight schedules. This was operationally challenging. In spite of this, average delay at 10.0 seconds per flight was within the regulator's allowance.
- Our planning for recovery, whereby we retained critical skills and delivered simulation training, enabled us to support a safe regeneration and meet all of our safety targets. There were no risk-bearing airprox[3] attributed to our operation.
- Our focus on fuel-efficient flight profiles, along with continued sub-2019 traffic levels, meant we achieved a 3Di score[4] of 26.0 for calendar year 2022 (CY 2021: 22.8) against the regulator's allowance of 27.3. The increase in score on the prior year reflected the growth in flight volumes. Our 2035 net zero target was validated by the Science-based Target initiative.
- As part of our ongoing focus on airspace modernisation, we implemented Free Route Airspace over Southwest England and Wales, one of the busiest air intersections for international flights.
- 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.

[1] A number of alternative performance measures and explanatory notes are provided on page 180 of this report. Abbreviations used in this report are provided on page 179.

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Annual Report and Accounts 2023

Strategic report

Contents

Our business model

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

NATS (En Route) plc (NERL)

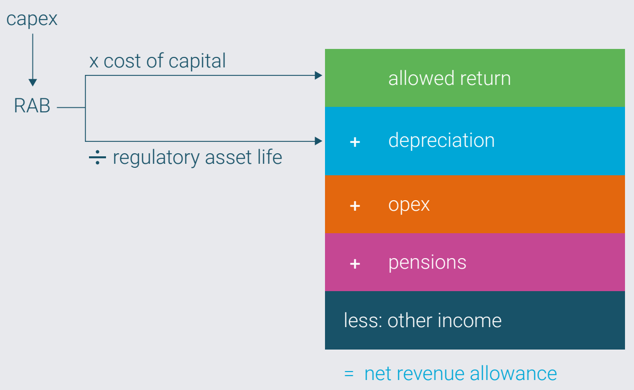
NERL is our core business and is the sole provider of ATC services for aircraft flying en route in UK airspace and the eastern part of the North Atlantic. It operates under a licence granted under the Transport Act 2000 as amended by the Air Traffic Management and Unmanned Aircraft Act 2021 and is economically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

For the three years (2020 to 2022) impacted by Covid, including this financial year, the CAA's approach to economic regulation is a retrospective reconciliation that will determine the shortfall between NERL's flight income and its efficient costs, which it will allow to be recovered. The CAA is also determining a new five-year price control for 2023 to 2027 (NR23) for decision later this summer.

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

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

The economic regulatory framework



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

NATS Services (NSL)

NSL operates in contestable markets and services UK and international customers. It currently earns c99% of its revenue in the UK and c81% from UK Airports.

The UK Airports service currently provides ATC to 14 major UK airports as well as engineering support and airport optimisation services. NSL provides ATC and related engineering services to the UK MOD mainly through the Project Marshall[5] contract that is delivered in partnership with Thales by our Aquila joint venture. Other UK business includes aeronautical information management, design and data services, digital tower services, consultancy and ATC training to airlines and airspace users.

Our International activities focus on providing the same range of services to the Asia Pacific and Middle East markets and is also targeted to specific international airports and ANSPs. We have offices in Delhi, Dubai, Hong Kong and Singapore.

Our strategy to 2040

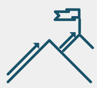
Our purpose

Advancing aviation, keeping the skies safe.

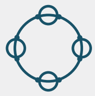
Our values

We are **safe**

We are **courageous**



We are **one team**



We are **respectful**

Our company in 2040

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

Our strategy to 2040

Our 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 proactive 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.

Chairman's statement

Supporting the safe return of traffic

We exist to ensure the skies are a safe and efficient environment for aviation. Our priority from the start of the year was to support the safe return of air traffic as Covid travel restrictions were lifted. This was achieved by ensuring we retained the skills, capability and capacity during Covid so that we would not impair the recovery of aviation post-pandemic and by careful planning and preparation. The Board has been pleased with the company's safety performance, which has been consistently good throughout the year. Our customers have acknowledged this, as indicated by the strong scores they gave for our safety and operational performance in a recent customer survey.

We continue to proactively work with airlines, airports and the European network manager on plans for this coming summer, ensuring the UK continues to play a successful part in the efficient and effective recovery of air traffic.

NR23

In October 2022, the CAA published its initial proposals for NERL's next five-year price control (NR23: January 2023 to December 2027) as well as its retrospective reconciliation for calendar years 2020 to 2022. The latter covers the recovery of the shortfall between flight income and costs for the Covid period, over an extended 10-year period, which is much longer than the past.

We responded to the CAA's consultation on those initial proposals alongside other industry stakeholders in December 2022. According to the CAA's latest timelines, we expect a final decision on our price control and the retrospective reconciliation by summer 2023. It is essential that this provides the resources necessary to support the sector's recovery and for sustainable investment in the UK's ATC infrastructure, together with appropriate recovery of the costs incurred to maintain the service and infrastructure during the Covid period.

Although we do not have the benefit of the CAA's final decision yet, we are continuing to consult with our airline and airport customers on our service delivery performance and the evolution of our capital investment programme.

Results, funding and dividends

Our obligation is to keep airspace open and to provide a continuous ATC service, irrespective of the level of flight volumes. This was the case through the Covid pandemic when flight volumes collapsed. We expect the CAA's decision to enable us to recover the necessary costs of providing that service, and to recognise that the actions we took ensured these were efficient in those extraordinary circumstances. It is on this basis that the shortfall between our flight income and costs has been reported in our results and financial position since the start of the Covid pandemic. However, to support more affordable charges for customers, both the NR23 plan we submitted and the CAA's Initial Proposals propose that we recover this amount over an extended ten-year period, rather than the two years specified in our current licence. That has meant that through the Covid period and beyond, we have to finance the significant cash outflows that were required to maintain our ATC service and the continuing investment in critical infrastructure, while ensuring we are resilient to a range of traffic recovery outcomes and able to fulfil our plans for NR23. To do this, in March 2023, we issued a further £145m of bonds to replace one of our short-term bank facilities. This completed the refinancing plan which was initiated as part of our response to the Covid pandemic.

We are reporting a £180.2m increase in revenue and regulatory allowances to £930.0m (2022: £749.8m). However, in spite of the positive recovery in traffic in the year, the operating cash flows we generated are still below pre-pandemic levels. Following the CAA's Initial Proposals, our revenue and regulatory allowances include our assessment of the income shortfall during the Covid period until December 2022, which we expect will only be fully recovered in cash after 10 years. This is contributing to lower cash generation than we would otherwise expect. Our assessment of the income shortfall and revenue charged since January 2023, in line with the initial proposals of the NR23 price control, contribute to an improvement in profit before tax to £148.5m (2022: £8.7m), alongside the materially lower finance costs as a result of refinancing (on account of which one-off costs of £41.7m were incurred in the prior period).

The Board did not recommend the payment of a dividend during the year in order to conserve cash and improve liquidity. The Board however remains mindful of the importance of returns to shareholders together with the support received from them during the Covid period. Now that the sector and wider global recovery from Covid appears stable, the opportunity to restore regular dividends will be assessed once the CAA's final decisions on the NR23 price control, including the recovery of the Covid income shortfall, are received and considered.

Chairman's statement

Strategy

In May 2022, the Board endorsed the Executive's strategy and long-term objectives to 2040. Since then, the Board has received regular updates on the progress being made to embed these into business plans and the targets for monitoring performance.

Corporate social responsibility

The Board strongly supports the group's sustainability, diversity and inclusion strategies. Our sustainability focus is on two fronts: firstly achieving a net zero estate by 2035 (with reduction targets validated by the Science Based Target initiative (SBTi)) and becoming carbon negative by 2040, and secondly contributing to the aviation sector's net zero 2050 target. On the latter, we have made good progress this year in enabling more fuel-efficient flight profiles through the implementation of free route airspace. In NR23, we are seeking to redesign the airspace network to maintain capacity to support traffic growth as well as the industry's net zero targets. There is a significant dependency on airports to agree and deliver their respective changes to lower airspace to achieve this. Synchronised airspace change of this scale requires the continued commitment of the DfT and the CAA, which have sponsored the Airspace Change Organising Group (ACOG), under the auspices of NATS, to coordinate this unprecedented programme of change.

The Board has been encouraged by the company's approach to developing a diverse and inclusive place to work and supports the target of a 50:50 gender split for all external recruitment. Our people play an essential role in everything we do. We want our employees to feel valued and able to fulfil their potential in a workplace where their contribution is recognised and rewarded. Success is critical for attracting future talent and achieving our ambition to be a Top 25 employer.

Our Board

There were several changes to our Board during the year. Richard Keys and Iain McNicoll CB CBE stepped down, each having served for nine years as non-executive directors appointed by the Crown shareholder. I would like to express my sincere thanks to them for their very significant contribution over this period in chairing the Audit and Safety Review committees respectively. Hugh McConnellogue also resigned from the Board.

Greg Bagwell CB CBE and David Smith were appointed as non-executive directors by the Crown shareholder in October. Bart Prudon was also appointed to replace Hugh McConnellogue as a representative of The Airline Group in March 2023. I was pleased to welcome them and anticipate their mix of very relevant experience will add positively to the Board.

Kathryn Leahy resigned from the Board in June 2023 and is leaving her role at Heathrow Airport in October to join the NATS Executive team as Chief Operations Officer. I wish her well in her new role.

Our people

I am grateful to all our employees for their continued dedication and commitment in maintaining a safe service for all our customers as the sector recovers from the after-effects of Covid.

Dr Paul Golby, CBE FREng
Chairman

Chief Executive's review

A safe but at times turbulent recovery

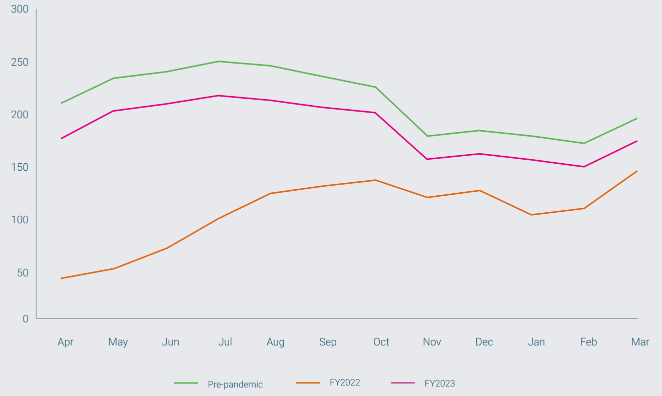
It was a welcome relief to see air traffic volumes recover strongly last summer following the lifting of Covid travel restrictions in March 2022. Over the course of the year, we handled 2.24m flights in the year or 87% of pre-pandemic levels (2022: 1.29m flights). It became clear early last summer that 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 air traffic. 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, traffic growth was not uniform across the airspace network and the daily flight schedule was much more volatile than expected. In peak periods and at certain times of day, volumes often exceeded 90% of pre-pandemic levels. Certain sectors of airspace were unexpectedly busier than others, varying materially from filed schedules, and at times our resources could not match unplanned hourly variations in those airline schedules. To ensure a safe service we consequently had to regulate traffic flows, resulting in some air traffic delay. The level of traffic volatility abated from mid-summer 2022, as airlines aligned their schedules with their abilities to meet demand alongside Heathrow and Gatwick airports' capacity restrictions to manage airline demand at their operations. With a more orderly network subsequently, our service performance improved to levels consistent with or better than 2019 and remained at a low level through the second half of the year.

UK air traffic volumes ('000s)



Outlook for air traffic volumes

Demand for air travel is generally linked to the strength of the economy. The challenging economic environment and cost of living pressures on consumers, alongside upward pressures on airline ticket prices from higher jet fuel costs remain headwinds for growth over the next few years.

UK 7-year traffic forecast (volume of flights)

Eurocontrol, Europe's network manager, recently published its March 2023 seven-year forecast together with a high and low case range which reflect assumptions on the strength of the UK's economy, to which air travel demand is generally linked. Its base case scenario assumes a contraction in UK GDP in 2023 and then for modest growth. Eurocontrol is projecting a continuation of the recovery in air traffic volumes we have seen this year with expectations of a return to pre-pandemic levels in 2025. However, this is followed by growth of just 1% per annum reflecting challenges such as inflation, pressure on oil prices and environmental concerns. In the low case, flight volume growth stagnates from 2024 onwards. In its high case, Eurocontrol project recovery in 2024, with average growth of 5% per annum thereafter.

Chief Executive's review

Outlook for air traffic volumes (continued)

Given the degree of uncertainty in the outlook, we will be looking to the CAA to ensure that its traffic forecast for NERL's NR23 price control reflects the most up to date developments, including on the macro economy when making its final decision. This is vital to ensure that resourcing and service performance outcomes are appropriately calibrated to projected traffic levels.

Regulatory developments

In the previous financial year, we consulted customers and submitted to the CAA a plan for the five-year NR23 period (2023-2027) which delivers a safe air traffic system under any recovery scenario, an efficient service performance level underpinned by operational and technical resilience and at cost effective prices to support the recovery of the aviation sector. The plan accommodates capacity increases to support 2027 traffic growth of up to 15% higher than 2019 volumes, enhanced environmental and fuel benefits consistent with achieving UK aviation's target of net zero carbon emissions by 2050 and meeting increased societal expectations of aviation, and the financial resilience against a possible slower recovery, which is essential for maintaining the critical national infrastructure we manage.

In October 2022, the CAA published its initial proposals for NERL's next price control as well as its views on the recovery of the income shortfall during Covid (years 2020 to 2022). In many ways, the CAA's initial proposals recognise the challenges that the company faced during Covid. While there are differences and issues to resolve across many elements of what has been proposed, many of these remain within the normal bounds of the regulatory discourse. However, we were concerned about the CAA's approach to pension costs and inflation, where we believe the balance has skewed well away from regulatory best practice and which present us with some fundamental challenges. These risk undermining much of the effort we made in mitigating the impact of Covid by placing new, unmanageable and unexpected burdens on the company. We are in no doubt that these would both significantly impede the delivery of our primary role, as well as run counter to the CAA's stated objectives for consumers. If left unaddressed, these cuts are of such severity that they would make our plan unworkable.

We currently expect the CAA's final decision later this summer. To achieve our plan's objectives we will require the appropriate resources and risk mitigations from the CAA's price control decisions to enable us to continue to develop and train the next generation of air traffic controllers to meet projected demand safely and provide further operational resilience, and to progress our technology transformation programme while sustaining our legacy technical equipment and advancing airspace modernisation to improve environmental performance and accommodate future traffic growth.

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 trades union colleagues is constructive as we work through areas of importance to both of us, including resourcing through NR23.

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 engineering 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 and changes to the airspace network. While we have sufficient resources today to meet our regulatory commitments, 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 with a key factor being the NR23 settlement providing an adequate financial envelope, robust to changes in inflation, and sufficient flexibility to respond to changing levels of traffic.

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, Executive colleagues and I 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.

Chief Executive's review

Employee relations (continued)

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.

Our role in a sustainable future

We are committed to a net zero estate by 2035 and last summer our greenhouse gas emissions (GHG) reduction targets were independently validated by the SBTi (see page 29) 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 plan for NR23 set an ambitious target to reduce carbon emissions from flights under our air traffic control by 4.4% between 2020 and 2035. This is in line with independent assessments of the contribution air traffic control can make to overall aviation emissions reduction, through measures such as optimising flight paths and airspace changes. This is represented in our plan by a sustainable reduction in the 3Di score in the face of traffic growth, which is enabled by airspace modernisation, the biggest contribution we can make to reducing the carbon footprint of flying.

Our airspace modernisation plan is a major component of the UK's overall Airspace Modernisation Strategy that will systemise UK terminal airspace, enhance the way we manage flows of traffic and deliver Free Route Airspace for flights in upper airspace (FRA enables pilots to choose their most direct flight path). The Airspace Change Organising Group (ACOG), which though under NATS' auspices is independent of NERL, leads the coordination of this programme. Synchronised airspace change on this scale requires the commitment of all industry stakeholders, the Department for Transport and the CAA.

As part of our ongoing focus on airspace, in March we modernised the airspace route network above 7,000 feet over South West England and Wales. This was one of the biggest and most complex changes we have made to UK airspace and includes some of the busiest air intersections for international flights. The change introduced a systemised route network from 7,000 feet to 24,500 feet as well as FRA above 24,500 feet, which should deliver an annual saving of over 12,000 tonnes of CO_2 emissions in UK airspace. FRA over Scotland was implemented in the prior year and is now aligned with Northern Europe, which will enable cross-border free routing in future as well as flexible and more efficient flight planning.

We also coordinated with Maastricht air traffic control on changes to airspace in the Humber region, which optimises flight trajectories across the North Sea and will enable annual savings of up to 18,000 tonnes of CO_2 across the UK and European network. Finally, we made changes to London City departure routes, enabling annual savings of 3,300 tonnes of CO_2.

Aside from changes to airspace structures, our tools such as Arrival Manager and Intelligent Approach have the potential to support lower emissions.

As operator of the UK's critical airspace infrastructure, 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, including as recently as last summer, but without leading to service disruption. This includes building higher tolerance levels into the specification of new assets, scenario testing the resilience of airport and en route surveillance systems and enhancing protection of our assets and service during extreme events.

Commercial developments

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.

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.

Other commercial contract successes in the period included a six-year extension of the contract to provide range air traffic control services to the MOD at Aberporth, West Freugh and the Outer Hebrides. Air traffic controllers ensure that fast jets and military drones operate in a safe and controlled environment.

Chief Executive's review

Commercial developments (continued)

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 CO_2 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 that 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.

Linking directly to our strategic objective of delivering services for all airspace users, we are playing an active role in the development of electronic and autonomous flight technologies under the government's "Future Flight Challenge" programme. One project aims to demonstrate the feasibility of a UK Advanced Air Mobility ecosystem using Electric Vertical Take-Off & Landing (eVTOL) aircraft; the other is to trial what will be the UK's first distribution network to use drones to transport essential medical supplies and clinical samples throughout Scotland. We will be developing solutions to address the airspace integration challenge – how to integrate safely new types of aircraft with those already there to create a sustainable, modernised, and integrated airspace that is fit for the future. This is an important commercial opportunity for the UK and we have a key role to play as the network operator. It is essential that the operating model set up enables this industry to develop and does not overly constrain it with regulation.

Executive team changes

Both Juliet Kennedy (Operations Director) and Rob Watkins (Technical Services Director) will be retiring during the next few months after many years of service with the company. They have both made fantastic contributions to NATS and I am very grateful for all they have achieved.

After a rigorous recruitment process, I am delighted that Kathryn Leahy, currently Director Team Heathrow and a former NATS Board member, will succeed Juliet in the role of Chief Operations Officer and that Kuldeep Gharatya, currently Head of Engineering, Major Projects Directorate at Transport for London, succeeds Rob. Both Kathryn and Kuldeep bring excellent experience and track records that will benefit NATS enormously. They are both committed to the objectives we have set and will bring their own determination and energy to seeing us succeed with our 2040 strategy.

Concluding remarks

Later this summer, after publication of this report, we expect the CAA to make its final decision on the NR23 price control. 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.

Martin Rolfe, FRAeS
Chief Executive

Business review

Delivering a safe, secure, efficient and resilient service

Service performance

Service performance: calendar year	2022 Target	2022 Actual	2021 Target	2021 Actual
C1: avg. en route delay all causes (seconds)	**19.2**	**14.9**	19.2	0.4
C2: NATS avg. delay per flight (seconds)	**15.0**	**10.2**	15.0	0.3
C3: delay impact (score)[6]	**2.0**	**21.8**	30.0	0.6
C4: delay variability (score)[6]	**1,800.0**	**343.7**	1,800.0	0.0
C3Di: 3Di metric (score)	**25.9-28.6**	**26.0**	25.9-28.6	22.8

C3 target is the C3 Upper modulated target, reflecting that the actual traffic for 2022 was significantly lower than the CAA's price control forecast (2021 C3 target reflects the unmodulated target). Actual scores are stated after modulation.

Our service performance was affected by the sector's response to pent-up demand last summer and the volatility of daily flight schedules, for reasons explained earlier in this report. Average delay per flight for the 2022 calendar year was 10.2 seconds (CY2021: 0.3 seconds, reflecting unprecedented low flight volumes), which was within the regulator's allowance. For the financial year, we accounted for an average delay per flight of 10.0 seconds which continues to represent a disproportionately low share of European air traffic delay.

As required by our licence, we asked customers for their feedback on: our safety performance, our UK en route and Oceanic service, sustainability and customer engagement. 33 airlines representing 68% of our flight volumes responded to our survey. Overall, we received an average delivery score of 89.3% for the provision of our core services. This was an improvement on a similar survey in 2021, despite the growth in air traffic and a more volatile daily flight schedule across the network last summer. Unsurprisingly, safety was the most important requirement our customers have, with sustainability now ranking second.

Safety management

The priorities of our safety management activities during the year were the mitigation of safety risk as air traffic volumes recovered after Covid travel restrictions lifted and ensuring that our air traffic Safety Management System aligns with existing and future business needs, remains compliant with the ever-changing regulatory framework and delivers continual improvement.

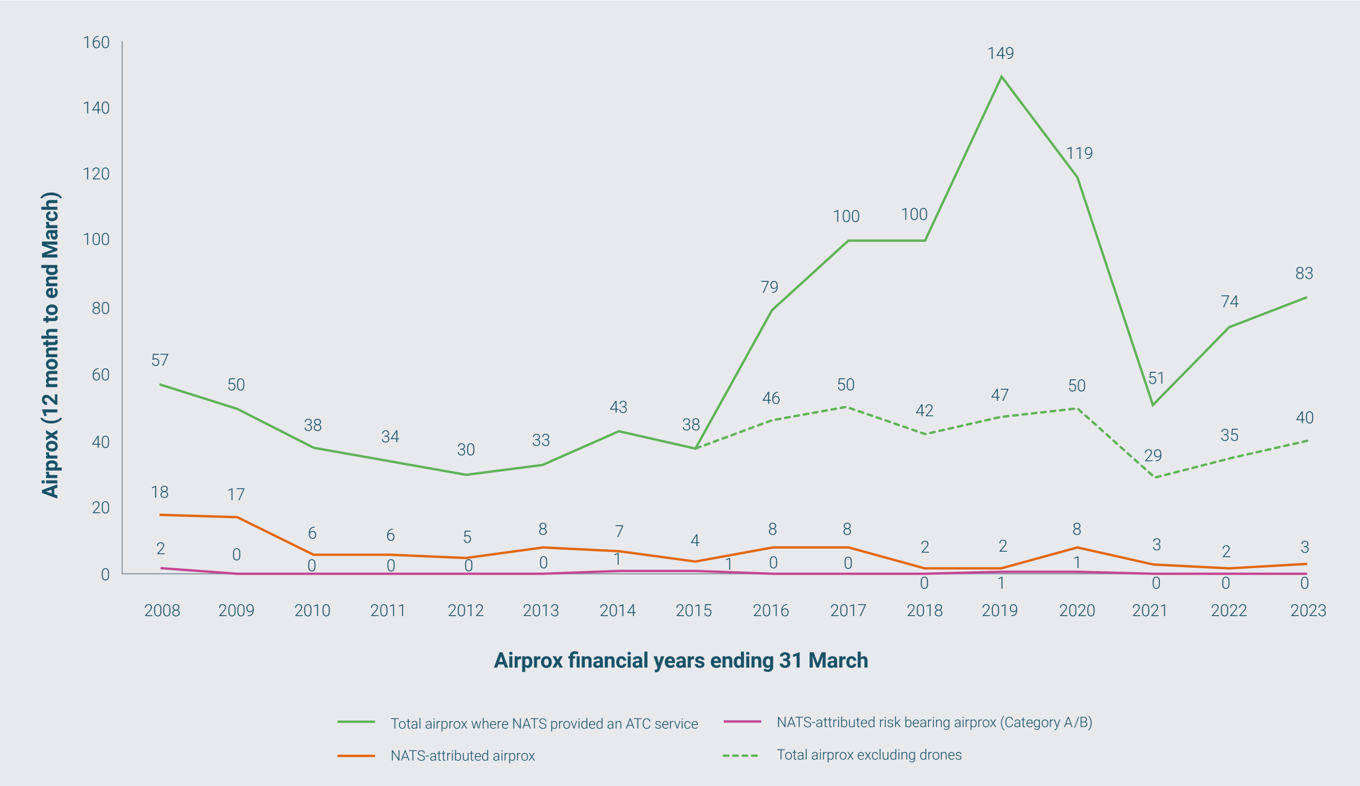
During Covid, the low volume of air traffic movements required continued heightened operational vigilance and situational awareness. We undertook comprehensive assessments of the risks associated with this environment and proactively reviewed the operational effectiveness of mitigating actions. In anticipation of the lifting of travel restrictions, the specially constituted Traffic Regeneration Board oversaw the safe regeneration of air traffic volumes across the network, with appropriate assurance measures in place to ensure the operation was well prepared. As reported below, we maintained a safe ATC service throughout the year and through the operationally challenging summer 2022 period.

Our Safety Management Manual (SMM) was subject to audit by the CAA's safety regulator (SARG: the Safety & Airspace Regulation Group), the first since Covid. SARG undertook a comprehensive review of compliance monitoring, safety risk management, safety assurance, safety policy and safety promotion. SARG noted seven minor findings, including a small number of late investigations and some process misalignments which are being resolved. Overall, SARG concluded that the SMM was well managed and controlled.

Having a strong Safety Culture is at the core of what we do. NATS works continuously to build and develop our Safety Culture, encouraging all employees to raise issues and learn lessons at every turn. We have recently completed our regular safety culture survey with an 83% response rate, demonstrating our whole organisation commitment to maintain a strong operational safety as well as broader health and safety practices. Our survey results show that we have a strong foundation while identifying areas that we can continue to improve. Alongside ensuring operational staff preparedness for the recovery in traffic volumes, we continue to focus strongly on employee wellbeing and performance.

Business review

Safety performance



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

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

There were no risk-bearing category A or B airprox attributable to NATS during the financial year (2022: none). Although the total number of airprox in NATS airspace remained well below the pre-pandemic peak when traffic volumes had been at historically high levels, there was an increase on the number reported in the prior year due to Remotely Piloted Aircraft System (RPAS or drone) related events. Recognising this, we are actively investigating ways to measure better the risks associated with encounters between crewed and uncrewed aircraft near airports, as well as collaborating with stakeholders to improve safety and influence UK drone policy. In 2021, we brought together the UK's leading commercial 'beyond visual line of sight' (BVLOS) RPAS operators, government and public body operations such as the MOD, police, Network Rail and Maritime & Coastguard Agency to facilitate collaborative development and understanding of the integration of these relatively new airspace users into current and future airspace structures.

The RAT point score is measured on a calendar year basis. For 2022, we recorded a total of 622 points (2021: 444), which is in line with our expectation following the increase in traffic volumes. The RAT events included one severity A and three severity B events against our target of less than 10 for both combined. For each of the events, a thorough investigation was performed and corrective actions have been taken. We met all of our internal safety performance targets for 2022.

Our specific additional safety priorities for NR23 include supporting the ongoing traffic recovery and investments in technology enhancements that will improve safety and help mitigate the effect of increasing traffic, such as electronic flight strips and airspace modernisation. In addition, we expect an increase in BVLOS drones and the emergence of other new airspace users during NR23, which will provide new challenges to UK airspace and to our operation. This will require that we review our procedures to manage airspace to integrate new airspace users safely into current systems. We have made provision in our plan to ensure the continued safety of conventional crewed aircraft as new airspace users increase.

Business review

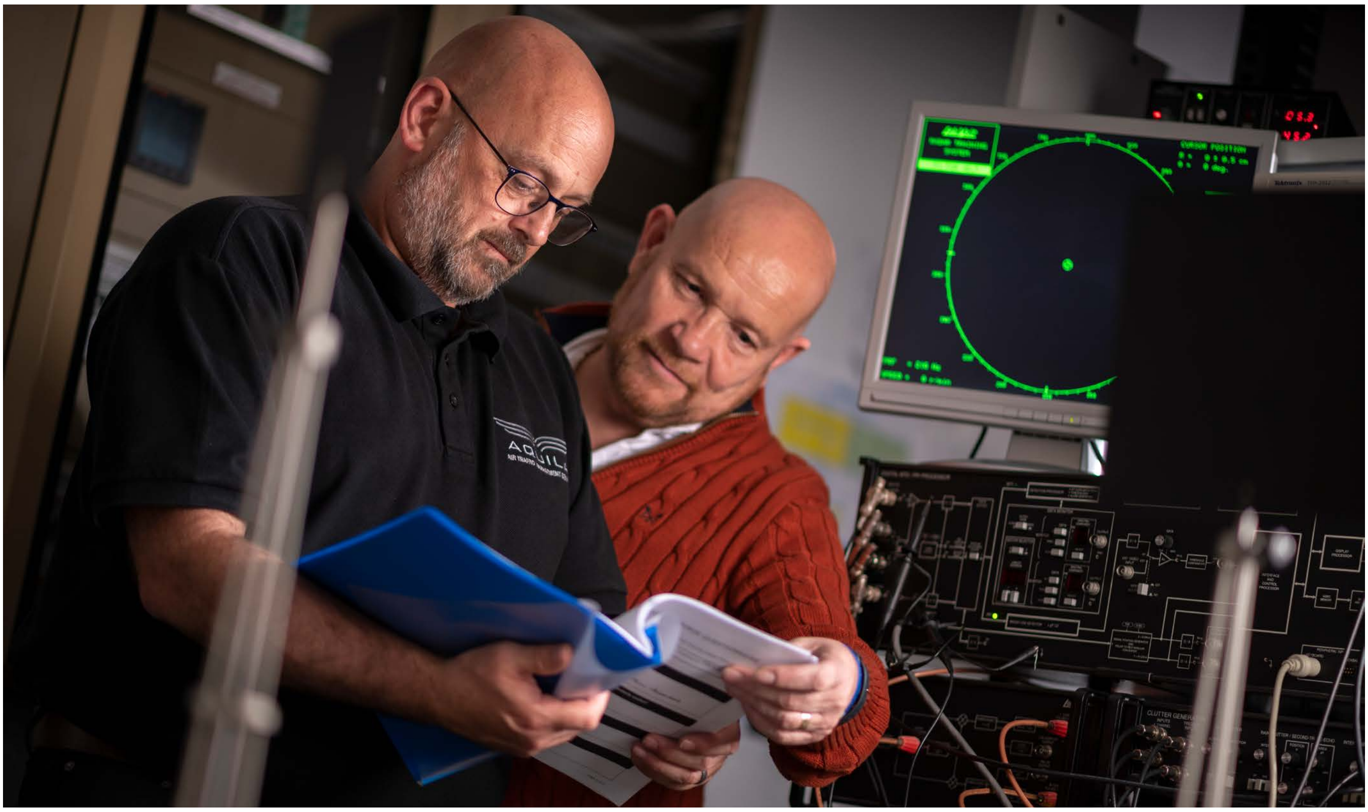
Technology transformation

The aims of our technology transformation are to introduce a common air traffic management platform for our centres on modern, resilient technology that will enable us to move away from ageing systems, deliver new capabilities into our operation and enable increasing volumes of traffic to be safely handled. Much of our new infrastructure is complete. We have designed, built and installed modern offsite data centres, high resilience networks and connectivity. All of the new applications are in the final stages of their build and integration phases and we are starting the critical step of testing and validation before we begin training and transition into live operation. We started to test our technology through live operational shadowing last year and we have successfully trialled our new voice systems. Our plans are to deploy those applications into live operation through a series of deployments over the next few years.

We have responded to a number of challenges in this period and consulted customers on our revised approach to adapt our plans for delivering our DP En Route and Voice platforms. Although the pandemic appears to be behind us, we have continued to deal with some of its after-effects. In particular, and for the reasons noted above, we have found it harder to recruit some of the key engineering skills we now require which, as well as supply chain challenges, have made scaling back up after the pause during the early stages of the pandemic more challenging. We have also learned a great deal from starting to use and integrate our new technology.

Our revised plan aims to de-risk the technical challenges by decoupling complex parts of the programme, allowing each to progress independently, while achieving customer benefits as early as possible. We are targeting the deployment of a new fallback voice system for the area control centre at Swanwick in summer 2023, which replaces legacy equipment and improves service resilience. In 2024, we are planning to deliver new controller tools and workstations onto our existing infrastructure platform at our Prestwick centre. Finally, we will subsequently complete the delivery of the new infrastructure platform and related applications.

We are continuing to invest in sustaining our existing assets during this transition period, such as modernising our surveillance system and supporting airspace changes like FRA across the Southwest, and cyber resilience.



Financial review

Results overview

	£m	£m
2022 profit before tax		**8.7**
Revenue and regulatory allowance changes		
Airspace	161.5	
Airports	18.7	
Defence	(5.4)	
Other (net)	5.4	
		180.2
Operating cost changes		
Salaries and pensions	(28.9)	
Employee share scheme	(9.8)	
Job retention scheme grant	(5.5)	
Capitalised internal labour	(4.8)	
Staff costs		**(49.0)**
Other non-staff costs net	(33.7)	
Depreciation and asset impairment	(18.8)	
		(52.5)
Goodwill impairment		**(2.9)**
Gain on re-measurement of previously held interest in joint venture		**(4.4)**
Finance cost changes		
Fair value movements	17.4	
Refinancing-related costs	40.9	
Other net finance costs	10.1	
		68.4
2023 profit before tax		**148.5**

The group reported a profit before tax of £148.5m (2022: £8.7m). This improvement mainly reflected:

> higher airspace revenue and regulatory allowances under the CAA's regulatory framework;

> costs of £41.7m in the prior year for refinancing the debt structure; and

> a lower fair value charge, mainly for derivatives reflecting the market's expectation of inflation.

These factors were partly offset by:

> higher staff and non-staff costs as the business scaled up to support the recovery in air traffic; and

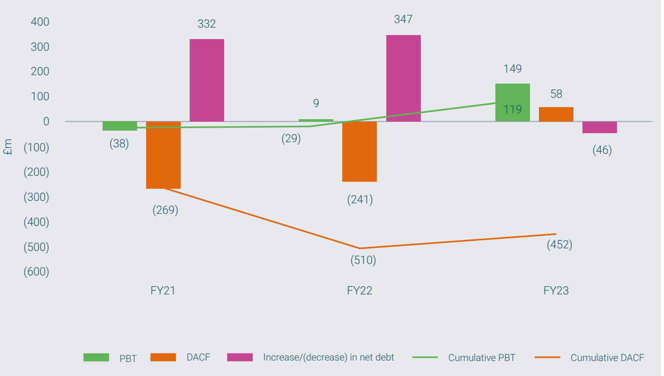
> a full year's depreciation of the technical infrastructure deployed in 2022.

The principal year-on-year movements explaining the result are summarised above.

After the tax charge, which is explained below, the group reported a profit of £116.2m (2022: £27.6m loss).

Putting profit, cash flows and financial position in context

Financial performance: three financial years ended 31 March



With stability returning to the aviation sector, the worst effects of Covid now appear to be behind us. However, as we expected and in line with what we have planned for, the impact of Covid on our financial position, notably our working capital in particular, will endure for another decade.

Our result this year reflects the start of the sector's recovery after the Covid pandemic but, as with the results of the last two years, it is not yet supported by the equivalent level of cash flow generation as the income shortfall we experienced is expected to be recovered over an extended 10-year period. Accordingly, we continue to utilise significantly increased, but manageable, levels of debt to support the recovery of the sector and deliver the NR23 plan. The path of net debt over time will be determined by the recovery of the Covid income shortfall, reintroduction of an appropriate dividend strategy and investments to support our business growth strategy.

The chart above and subsequent paragraphs consider our profit before tax (PBT), our debt-adjusted cash flows[2] (DACF) and net debt over the last three years.

Financial review

- The profit includes an assessment of the Covid income shortfall expected to be recovered over a 10-year period

Our profit before tax in each of the three years included our assessment of the regulatory allowances the CAA will provide to reflect the shortfall between the income we received from the flights we handled and the efficient costs we incurred in the period. While the final value of this compensation will only be confirmed later this summer by the CAA's final decision on their retrospective reconciliation of income and costs, the CAA's initial proposal for a regulatory allowance of £681m for the three-year period highlights the scale of the income and cash receipts shortfall. As we proposed, the CAA have indicated that they agree we should recover the amount over an extended 10-year period to 2032 through our charges to users, starting from January 2023.

- The net cash inflow in 2023 reflects improved income receipts as air traffic volumes started to recover

The scale of the shortfall in income receipts, particularly in 2021 and 2022, is also borne out by our debt-adjusted cash flows in this period. These represent the cash flows from our operations, our investing activities and our debt service costs but exclude the cash flows relating to our financing capital structure such as bond issues and bank loan repayments. A reconciliation of the debt-adjusted cash flows to the overall change in cash balances in each year is set out on page 181. Across the two years of 2021 and 2022, the group incurred debt-adjusted cash outflows of £510m, which reflected the income we lost when Covid travel restrictions significantly curtailed air travel and chargeable flight volumes. During the 2023 financial year, the recovery in flights volumes enabled a debt-adjusted cash inflow of £58m as income receipts exceeded our operating costs, capital investment and debt service costs. We expect our cash receipts to improve as traffic levels continue to recover towards pre-pandemic levels, and as we start to recover the income shortfall.

- The debt structure supports the recovery of the Covid income shortfall over a 10-year period, as well as delivery of the NR23 plan

Recognising the extended recovery period, and alongside the actions we took to reduce our cost base and temporarily pause our capital investment, we refinanced our business at a level which is robust to the potential for a slower recovery in air traffic volumes and enables us to deliver our NR23 plan. In June 2021, we refinanced (see below) to increase our available liquidity and enable repayment of more expensive legacy borrowings and in March 2023 we completed our refinancing.

During the three-year period, the shortfall in income relative to our outgoings meant that our net debt increased by £633m to £804m. Net debt did begin to reduce during 2023 as our cash receipts improved as traffic volumes recovered.

Refinancing

In the prior year, NERL secured £1.6bn of funding by issuing £750m of unsecured bonds and agreement of £850m of new unsecured bank facilities. The latter included a temporary £450m bridging facility providing the flexibility to assess the long-term efficient funding requirement following the CAA's price control review and when the outlook for air traffic volumes was more stable.

With the publication of the CAA's Initial Proposals in the year and following the sustained recovery in air traffic, we completed our refinancing with the issue of a further £145m of unsecured fixed rate bonds and removal of the bridging facility. The bonds were issued by way of a tap of the 1.75% £300m 2033 bonds and issued at a discount reflective of the prevailing market conditions, raising net proceeds of £104m.

This realignment of the term and structure of our debt better matches our expected cash flows to 2033 and provides efficient and stable funding over the extended period for recovering the Covid income shortfall and to deliver the NR23 plan.

Revenue and regulatory allowances

	2023 £m	2022 £m
Airspace	**754.7**	593.2
Airports	**132.6**	113.9
Defence	**15.6**	21.0
Other UK business	**14.5**	11.0
International	**12.6**	10.7
Total	**930.0**	749.8

Overall, revenue and regulatory allowances at £930.0m (2022: £749.8m) were £180.2m higher than last year. By service line, the significant developments were:

Airspace: £161.5m (27.2%) higher than last year. Revenue from contracts with customers and other revenue at £713.7m (2022: £391.2m), improved by £322.5m following the growth in air traffic volumes in the year. Regulatory allowances of £41.0m (2022: £202.0m) reflect the shortfall between the income we earned for the flights we actually handled and the costs we incurred to do so. This is the basis of CAA's retrospective reconciliation, which will ensure NERL is able to recover efficiently incurred costs for operating and maintaining the UK's airspace infrastructure through the Covid period. Our assessment of regulatory allowances had regard to the CAA's initial proposals.

Revenue for the North Atlantic en route ATC service increased by £17.0m to £43.7m (2022: £26.7m) reflecting the 59% increase in flights to 483,802 (2022: 304,643 flights).

Airports: revenue was £18.7m (16.4%) 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.

Financial review

Defence: at £15.6m was £5.4m lower (25.7%), reflecting the delivery schedule for the Project Marshall asset provision contract, which is expected to complete in 2024.

Other UK business: revenue increased by £3.5m (31.8%) with new contracts from developers to mitigate the impact of their proposed windfarms on ATC radar data.

International: revenue was £1.9m higher (17.8%) mainly reflecting a full year's performance from Searidge Technologies, which became a group subsidiary in December 2021.

Operating costs

Operating costs increased by £104.4m or 16.0% as we scaled up our activities following Covid to support the recovery in air travel.

	2023 £m	2022 £m
Staff costs	**(485.9)**	(436.9)
Non-staff costs	**(166.4)**	(132.9)
Depreciation and amortisation, net of grants	**(103.7)**	(84.9)
(Loss)/profit on disposal of assets	**(0.2)**	0.4
Other operating income	**3.2**	2.8
Operating costs before goodwill impairment	**(753.0)**	(651.5)
Goodwill impairment charge	**(2.9)**	-
Total operating costs	**(755.9)**	(651.5)

Staff costs were £49.0m higher at £485.9m (2022: £436.9m). This included a pay award, operational overtime to support last summer's traffic recovery and additional headcount as we lifted the freeze on recruiting trainee air traffic controllers, as well as engineers, to support the technology transformation programme. Less internal labour was capitalised during the year while we revised our planned approach to deliver customer benefits as early as possible (see Technology transformation). The cost of employee shares increased in the year following an independent valuation. These factors were partly offset by lower defined benefit pension costs, explained below.

The number of employees in post at 31 March 2023 at 4,323 was an increase of 224 on the prior year.

Non-staff costs increased by £33.5m to £166.4m (2022: £132.9m). This included the costs of delivering the engineering projects, satellite surveillance charges supporting more North Atlantic flights, data hosting charges relating to the technical infrastructure and higher utility costs reflecting market energy prices. Prior year costs were also net of a larger write-back by £4.6m in expected credit loss provisions.

Depreciation and amortisation (net of grants) increased by £18.8m to £103.7m (2022: £84.9m), following a full year's charge for the technical infrastructure deployed in November 2021 and a higher asset impairment charge.

Goodwill arising on the acquisition of Searidge was impaired by £2.6m (2022: £nil) following a review of its latest business plan and outlook.

Net finance costs and fair value movements on financial instruments

In the prior year, one-off refinancing costs of £41.7m were incurred for NERL's debt refinancing transaction. Excluding these costs, net finance costs of £1.8m (2022: £9.8m) were £8.0m lower than the prior year, mainly reflecting the discount rate effect on the regulatory allowance relating to the Covid income shortfall to be recovered in NR23 and NR28.

A fair value charge of £27.1m (2022: £44.5m) was recognised this year. This included a lower charge for the change in market valuation of RPI swaps, reflecting the market's expectation of lower long-term inflation. This was partly offset by an increase in the fair value charge in relation to the group's equity investment in Aireon[8], based on projections of slower revenue growth.

Taxation

The tax charge of £32.3m (2022: £36.3m) represents an effective rate of tax of 21.8%. This is higher than the headline rate of 19%, mainly due to the impact of deferred tax balances expected to be realised after April 2023, when the headline rate increases to 25%.

The tax charge consists of a current tax charge of £12.1m and a net deferred tax charge of £20.2m. The deferred tax charge arises mainly from the deferred tax liabilities on capital expenditure, the defined benefit pension surplus and the use of the previous year's tax losses.

NATS' taxes generally arise in the UK, though it undertakes business in other countries. Wherever we operate, we organise our operations to pay the correct and appropriate amount of tax at the right time, according to relevant national laws, and ensure compliance with the group's tax policies and guidelines. Our Country-by-country reporting (CbCr) table is set out within the explanatory notes on page 183.

The group also pays other taxes such as employer's national insurance contributions (£46.5m), business rates (£5.3m) and the apprenticeship levy (£1.8m), which are significant operating costs. The group's tax strategy can be viewed at www.nats.aero.

Regulatory return

NERL's regulatory return for calendar year 2022 was a pre-tax real profit of 2.34% (2021 calendar year: 0.27%) compared with the expected regulatory return of 3.48% in the CMA's RP3 price control decision. This mainly reflects our assessment of the outcome of the regulatory mechanism put in place to deal with Covid, with the CAA undertaking a retrospective reconciliation of cost and revenue over the 2020 to 2022 period to determine the revenue shortfall.

Financial review

Balance sheet

	2023 £m	2022 £m
Goodwill	**42.7**	45.7
Tangible and intangible fixed assets	**1,114.5**	1,099.7
Right-of-use assets	**37.7**	42.9
Investments	**29.7**	40.3
Pension scheme surplus	**58.7**	341.9
Regulatory allowances recoverable	**731.2**	724.6
Regulatory allowances payable	**(141.6)**	(169.1)
Cash and cash equivalents	**160.2**	148.0
Derivatives (net)	**(80.1)**	(77.0)
Borrowings	**(911.4)**	(938.9)
Lease liabilities	**(52.4)**	(58.6)
Deferred tax liability	**(197.9)**	(245.2)
Other net balances	**(42.6)**	(94.0)
Net assets	**748.7**	860.3

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

Overall net assets reduced in the year, following a reduction in the IAS 19 funding surplus of the defined benefit pension scheme to £58.7m (2022: £341.9m - see below), partly offset by the profit after tax for the year.

Capital investment

	2023 £m	2022 £m
SESAR deployment	**47.9**	56.5
Airspace modernisation	**7.8**	8.1
Infrastructure	**9.8**	7.1
Operational systems	**29.5**	18.5
Other	**7.7**	1.3
Regulatory capex	**102.7**	91.5
Military systems	**-**	0.3
Other non-regulatory capex	**11.0**	8.3
Capital investment	**113.7**	100.1

The group invested £13.6m more in the year as the capital investment programme continued to remobilise. It had been paused during the Covid pandemic to protect liquidity and to enable plans to be reviewed against the revised priorities of our customers and the regulator.

Defined benefit pensions

The group operates a final salary defined benefit pension scheme with 1,550 employee members at 31 March 2023 (2022: 1,591). The scheme was closed to new entrants in 2009 and a defined contribution scheme was put in place which now has 2,108 members (2022: 1,821) - the costs of this scheme increased by £5.1m in the year reflecting the growth in members. More information on our pension arrangements is provided in note 32 to the financial statements.

a. IAS 19 charge and funding position

The cost of defined benefit pensions at £69.9m (2022: £81.6m) reflected a lower accrual rate of 44.9% (2022: 60.6%) of pensionable pay, as a result of higher real interest rates at the start of the financial year relative to those at the start of the prior year.

IAS 19 pension surplus	£m
At 1 April 2022 (restated, see note 2)	341.9
Charge to income statement*	(69.9)
Actuarial gains/(losses):	
- on scheme assets	(1,849.1)
- on scheme liabilities	1,546.2
Employer contributions*	89.6
At 31 March 2023	**58.7**
Represented by:	
Scheme assets	3,544.7
Scheme liabilities	(3,486.0)
Surplus	**58.7**

*including salary sacrifice

At 31 March 2023, the scheme's assets exceeded its liabilities by £58.7m (2022: £341.9m) as measured under International Accounting Standards (IAS 19) using best estimate assumptions.

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.

Financial review

Defined benefit pensions (continued)

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 £240m reflected the impact of actual inflation on pensioner and deferred member liabilities. Overall, the scheme's pension liabilities (under IAS 19) reduced by £1,471.7m over the year.

The fair value of the scheme's assets reduced by £1,754.9m, 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 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 group means changes in financial market conditions can have relatively large impacts on the results and financial position.

b. Trustee valuation and funding obligations

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

The Trustees completed their last formal valuation at 31 December 2020, which reported a funding deficit of £171.9m (equivalent to a funding level of 97%). The scheme's actuary also determined that the cost of employee benefits accruing in future should be 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 of £27.2m during calendar year 2023, increasing annually by 2.37%.

Under the schedule of contributions agreed following the 2020 valuation, during the financial year the company paid deficit contributions of £24.5m and normal contributions at a rate of 41.7% of pensionable pay until December 2022 and then at 66.2%.

The Trustees will undertake their next formal valuation as at 31 December 2023.

Net debt, liquidity and cash flows

	Cash and cash equivalents £m	Borrowings (including lease liabilities) £m	Net debt £m
Balance at 31 March 2022	148.0	(997.5)	(849.5)
Cash flow	12.0	38.1	50.1
Non-cash movements	0.2	(4.4)	(4.2)
Balance at 31 March 2023	**160.2**	**(963.8)**	**(803.6)**

At 31 March 2023, the group's net debt was £803.6m (2022: £849.5m). It comprised £852.5m in bonds and £65.0m of drawings under bank facilities, less unamortised costs and fees, and £52.4m of lease liabilities recognised under IFRS 16. These were partly offset by £160.2m of cash and cash equivalents.

As noted above, net debt reduced during the year as cash receipts improved with the recovery in traffic volumes. For the first year since the onset of the Covid pandemic, this cash generation provided operating cash flows which funded capital investment and debt service costs.

At 29 June 2023, the group had available liquidity of around £491m. Our cash flow forecasts show that the group should be able to operate within the level of its bank facilities and within its financial covenant for a period of at least twelve months from the date of issue of this report, including under plausible stress scenarios, where appropriate mitigating actions would also be undertaken.

Alistair Borthwick
Chief Financial Officer

Going concern and viability statements

Going concern

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

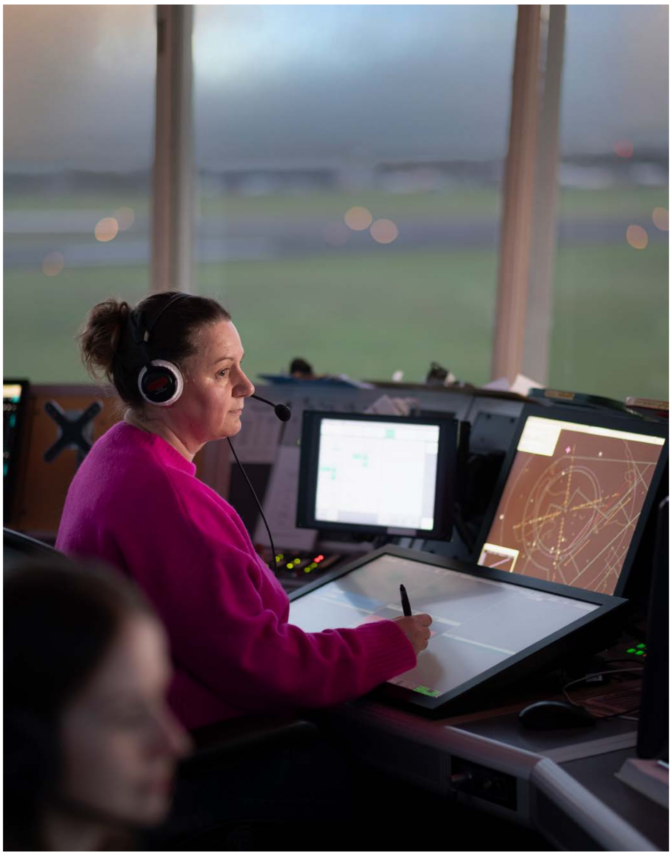
As explained in the Financial Review, during the year the group raised £104m (net of costs) from the issue of a £145m unsecured bond and cancelled its £450m unsecured bridging facility. At 31 March 2023, the group had access to liquidity of £495m comprising cash of £160.2m and undrawn committed bank facilities of £335.0m. At 29 June 2023, the group had access to cash and undrawn bank facilities of around £491m.

When considering the appropriateness of the going concern basis of preparation of the financial statements, the directors have reviewed the cash flow forecasts prepared by management covering a period to 30 June 2024, being at least 12 months from the date of approval of these financial statements. The directors have had regard to reasonably plausible changes in trading performance as well as severe traffic volume scenarios individually and in combination and the principal risks discussed on pages 24 to 26.

The severe traffic volume scenarios modelled were: an up to 65% reduction in air traffic volumes for a 12-month period, as a proxy for a traffic shock such as a further wave of Covid and related travel restrictions, being the most severe traffic scenario; Eurocontrol's March 2023 pessimistic case (see page 10), which assumed a slower recovery in air traffic volumes in light of the continuing challenging economic and geopolitical situation; a 15% loss of airport contract income, in the event of airport closures; adverse impacts of higher than planned inflation of our operating costs and capital expenditure programme; and higher cash outflows simulating the risk of unremunerated committed costs following the NR23 price control decision. Finally, a combination scenario was also performed of lower air traffic volumes and higher operating costs. Under the most severe scenario, the group maintains adequate liquidity (of £234m) and headroom (NERL gearing at 58%) to meet its debt covenant (NERL gearing at 85%), prior to mitigating actions (such as other cost saving measures and deferring capital investment).

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

Accordingly, the directors have formed the judgement that, taking into account the financial resources available, the range of reasonably plausible future traffic volume scenarios and potential mitigating actions that could be taken, together with the duties of the CAA and Secretary of State for Transport referred to in the Viability statement, the group and company have adequate resources to continue to operate for a period of at least twelve months from the date of approval of the financial statements, and have therefore adopted the going concern basis in the preparation of the financial statements.



Going concern and viability statements

Viability statement

The directors have assessed the viability of the group based on its current position and future prospects, its business strategy and available financial resources. The directors have also assessed the potential financial and operational impacts in plausible downside scenarios of the principal risks and uncertainties facing the business, set out on pages 24 to 26, and the effectiveness of currently available mitigating actions.

In particular, the directors assessed the solvency and liquidity risks arising from a traffic shock (such as that caused by Covid) alongside a combination of other risk factors materialising, which the Board considered represented a reasonable worst-case scenario, as well as a reverse stress test. On the basis of this assessment, the directors have a reasonable expectation that the group will be able to continue in operation and meet its liabilities falling due over the three-year period to June 2026.

The Board considers that there is greater certainty around forecasting assumptions over a three-year period than a longer period, taking into account the rate and extent of recovery in air traffic volumes and its endurance in light of the macroeconomic outlook and the CAA's ongoing consultation on the redetermination of the new price control for NR23, which the Board expects will be completed during the summer of 2023, after approval of this annual report.

Specific consideration has been given to:

- The risk of a traffic shock: the consequences for the group's en route and airport ATC income of a severe reduction in air traffic volumes, such as a further wave of the Covid pandemic on the aviation sector, and the reasonably possible mitigating actions available to the group to manage its financial resources;
- The CAA's regulatory commitment (CAP 2394) to the recovery of the Covid-related revenue shortfall and the redetermination of a new five-year price control from 2023, taking into account the general duties of the CAA and the Secretary of State for Transport under the Transport Act 2000, to exercise their functions in the manner they think best calculated to secure that NERL will not find it unduly difficult to finance its licenced activities;
- The term of NERL's bank facilities: the directors have a reasonable expectation that NERL will meet the conditions of its banking covenant and be able to raise funds in the bank or debt capital markets as required;
- Defined benefit pensions: the trustee's formal valuation at 31 December 2020 and the agreed schedule of contributions. The directors consider that NERL's contributions will be recovered through the new price control starting 2023, and future reference periods, including any additional contributions required arising from unforeseen changes in financial market conditions during NR23. This is further supported by the CAA's issuance of a Pension Regulatory Policy Statement in April 2021. Contributions from NATS Services will be met from operating cash flows.

Principal risks and uncertainties

Enterprise risk framework

The system for the identification, evaluation and management of emerging and principal risks is embedded within the group's management, business planning and reporting processes, accords with the Code, and is aligned with the ISO 31000 risk management standard. Detailed risk identification, assessment, and control mapping is carried out at business unit, departmental, and Executive levels and is recorded and measured in a structured and controlled enterprise-wide database. NATS' risks are mapped against risk appetite and tolerance statements which have been agreed by the Board. Risk update reports are submitted to the NATS Executive team on a monthly basis which address changes in risk, risk appetite and tolerance, internal controls and the progress of actions associated with NATS' risks.

The Board takes the management of risk very seriously, paying particular attention to key risk areas. Regular reviews are also carried out by the Audit, Safety and Transformation Review Committees in accordance with their remits, as reported in later sections.

Taking into account the work of the Committees, the Board formally reviews emerging and principal risks 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 group focuses on mitigating these risks, although many remain outside of our control – for example changes in regulation, security threats, environmental factors and the impact of longevity and financial markets on pension funding.

These risks are reflected in and have been considered in assessing viability and going concern on pages 22 to 23. A summary of risk management and internal control processes is on page 54.

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

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

As a provider of a safety-critical service, safety is the company's highest priority. NATS targets compliance with all targets set out in the regulatory price control. The group maintains an explicit Safety Management System (SMS), 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 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: 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 in response to Covid, the conflict in the 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.

NERL's regulatory allowances are recovered through charges based on the CAA's forecast of air traffic volumes and inflation during a price control period. The regulatory framework includes a traffic risk mechanism which enables NERL to recover shortfalls of income through future charges, as well as an adjustment for inflation. A general duty on the CAA and Secretary of State to ensure that NERL does not find it unduly difficult to finance its licensed activities provides mitigation against severe traffic shocks, as has been the case with Covid, resulting in a redetermination of the price control. NATS Services contracts for the provision of ATC services to airport operators are at fixed underlying prices for a contract term, with annual uplifts for inflation (which is capped for some contracts). The financial strength of airport operators is monitored for the impact of reductions in air travel demand.

Principal risks and uncertainties

Strategy: regulatory settlement

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

The CMA's review of the CAA's RP3 price control decision was overtaken by the financial impact of Covid on the aviation sector. For this reason, the CAA was required to reset the price control from the start of 2023 through the NR23 price control decision. This decision will also reconcile costs and revenues for the period between January 2020 and December 2022 on the basis of estimates of efficient costs and seek to allow the recovery of revenue consistent with supporting NERL's financeability.

As outlined on page 11, the CAA has not yet reached a final NR23 price control decision, and therefore the potential impact remains unknown.

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

Strategy: sustainable aviation

NATS 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 group from climate change, and these are outlined, along with how we managed these risks in our risk management system, within our Task force for Climate Related Financial Disclosures (TCFD) section on page 30.

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 ATC operations and our ability to resume a safe service to an acceptable performance level within a pre-defined period. A resilience plan, setting out NERL's approach to resilience and how we meet our service obligations to our customers, is required to be submitted every two years to the CAA by NERL's licence. The framework underpinning the disclosures in the resilience plan has been expanded to cover all NATS operations.

Resilience is considered for people, operational technical systems and facilities using NATS incident management processes to assess timely and effective responses. The NATS resilience programme assesses, documents and tests resilience capability in order to mitigate the impact of such disruptions to customers.

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 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 NR23 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 more quickly.

Principal risks and uncertainties

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 group'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. We strive for constructive relationships with our trades unions, 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.

Transformation: portfolio delivery

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

Financial: defined benefit pension scheme

Adverse movements in the value of scheme assets and liabilities arising from factors such as lower investment returns, lower real interest rates and improving life expectancy may increase the size of the funding deficit and result in significant contributions to fund pension benefits. The Trustees completed a formal valuation as at 31 December 2020, which reported a funding deficit of £172m reflecting market conditions at that date. 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. Also, subject to regulatory review, NERL is able to recover increases in contributions from changes in unforeseen financial market conditions. NATS Services maintains adequate cash reserves to meet its share of pension contributions.

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

Financial: availability of funding and other risks

The main financial risk to the group relates to the availability of funds to meet business needs (including meeting obligations to the pension scheme). In June 2021, NERL instigated a full refinancing of its debt structure in response to Covid. This was completed in March 2023 with a further £145m of bonds to replace one of its bank facilities. These actions ensure it is well placed for a range of air traffic recovery outcomes and taking account of the extended period for settlement of the Covid income shortfall.

Other financial risks include default by counterparties to financial transactions, and fluctuations in interest and foreign exchange rates. A detailed description of each of these risks and specific mitigations are set out in note 21 to the financial statements.

Responsible business statement

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

Scope of non-financial information statement

This statement focuses on employee and environmental matters which are the material non-financial matters that have an indirect financial impact on our business. Our gender and ethnicity pay report[9] and a slavery and human trafficking statement[10] are published on our website.

Governance

The NATS Board is responsible for non-financial policy and performance. The Board has reviewed how it has applied the principles of the UK Corporate Governance Code 2018 in each of the main areas of culture, diversity, employees, stakeholders, remuneration and succession. The Board receives regular updates throughout the year on these topics and formally reviews the approach annually.

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

Strategy

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

- Our corporate strategy includes a target to operate a carbon negative estate by 2040 and to be a Top 25 company to work for;
- Developing and monitoring appropriate policies, codes, management systems and targets, including a Responsible business policy[11] which can be viewed at www.nats.aero, and net zero emission targets;
- Embedding environmental KPIs within our debt finance to enable sustainability linked finance;
- Monitoring performance and practices across our business and our supply chain;
- Undertaking internal and external audits;
- Raising awareness of responsibilities among employees and developing training;
- Supporting a range of employee networks (ethnic and cultural minority, disability, faith, LGBTQ+, women's and young professionals) to promote a diverse and inclusive culture;
- Managing relevant enterprise risks and monitoring trends;
- Transparently reporting non-financial performance information to our customers, key stakeholders and the public each year; and
- Monitoring levels of support provided through our employee assistance programme.

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

The Audit Committee oversees all verification and assurance activity.

a. Employee policies and outcome

Our people make a critical difference to our success. Their skills and professionalism are at the heart of what we do. Our investment in them protects and strengthens our safety and business culture. We operate a strong Safety culture which encourages employees to raise safety related matters.

We are committed to promoting diversity and inclusion, to ensure our employees feel that they can bring their true selves to work and that our working environment creates a safe space in which our people are respected and valued for their differences. Our Diversity and Inclusion Steering Group has set new goals to drive meaningful action towards creating an inclusive culture. These targets will monitor the proportion of women, people from minority backgrounds and those with disabilities across our recruitment, talent and succession plans. Our continued experience of low staff turnover, which itself is a separate positive, does impact our hiring rate and acts to limit the rate of progress we hope to make.

b. Environment policies and outcome

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

During the year we were awarded a 'B' rating for our environmental stewardship by CDP (formerly known as the Carbon Disclosure Project) for our 2022 financial year disclosure. While this exceeds the average score of 'C' for companies within our benchmarked industrial support services sector, our aim is to achieve and maintain a leadership score of at least 'A-' to reflect our commitment to measuring, managing and disclosing our environmental impacts.

For the third year running we were recognised as one of Europe's Climate Leaders, in the 2022 listing compiled by the Financial Times and Statista. This report names just 400 European companies that have achieved the greatest reduction in their Scope 1 and 2 (market-based) GHG emissions between 2015 and 2020.

Responsible business statement

Strategy (continued)

We seek to reduce the impact of our operation on CO_2 emissions, noise and other environmental impacts as much as possible, through how we run our business. We undertake this by the design and management of air traffic, developing innovative solutions in partnership with our key suppliers and airport and airline customers for mutual benefit. As an example, we supported a number of industry groups and initiatives to improve sustainability performance, including trials to avoid contrail induced cirrus (non-CO_2 impacts). We co-chair and participate in European and global groups to set standards and produce guidelines for ANSPs to reduce their environment impact and engage with customers on future tools and airspace changes. We have been successful in our bid to support the Single European Sky ATM Research project investigating contrail avoidance trials over the North Atlantic.

We are also working across the industry, including the Airspace Change Organising Group (ACOG) to set out a plan for airspace modernisation to reduce the industry's CO_2 emissions, while we wait for changes to fleet and fuels to take effect in future.

We support the commitment by the aviation industry in the UK and Europe to reach net zero by 2050. Our ambition goes further in adopting a net zero target for greenhouse gas emissions from running our business by 2035 and to be a carbon negative company by 2040.

We have implemented an environmental management system across our UK operations, externally certified to the international standard ISO 14001 at 22 of our sites, to identify and manage risks and opportunities, ensure legal compliance and continual improvement of our environmental performance.

Concerns about sustainability, particularly climate change, have increasingly been driving societal and political action, with intensified pressure on the industry to increase its ambition and advance its plans to decarbonise. Through the year we have supported the UK Sustainable Aviation coalition in updating its decarbonisation roadmap, setting out how aviation can achieve net zero. Improving the sustainability of our business is key to achieving this and it can also reduce costs as we consume fewer resources and work in more efficient ways.

Finally, we are deploying new technology that supports the government's goal to accelerate the development of 50GW of renewable energy from wind power. With our partner, Indra, we deployed the Lowther Hill radar which enables windfarms to be operated safely without interfering with radar signals used for air traffic control.

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

Risk management

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

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

Metrics and targets

a. Employee matters

Gender pay reporting has established benchmarks against which we will monitor the impact of our actions to address gender imbalance over the longer term. This year, for the first time, we published a combined pay gap report for both gender and ethnicity, to provide a broader picture and enable a consistent approach to tackling disparities. We continued to see small improvements in median gender pay this year. We recognise it takes time to create sustainable change, but we can see examples of our positive change, such as an increase in women in our upper pay quartile, a higher percentage of ethnic minority joiners than leavers and a diverse intake in this year's early careers programme.

We are developing a diverse and inclusive place to work and targeting a 50:50 gender split for external recruitment (while also supporting diversity along LGBTQ+, race and ethnicity and disability lines). Our objective remains to bring the best diverse talent into our organisation and support individuals to reach their full potential.

b. Environment

Our environmental performance continues to improve, in terms of the environmental impact from running our business and from our management of air traffic at airfields and in airspace we are responsible for. We are set annual targets by the CAA on airspace efficiency, as measured by a metric known as the three-dimensional inefficiency score (3Di), in each price control period. The price control for RP3 has been overtaken by Covid and as explained elsewhere in this report. For the 2022 calendar year, we achieved a 3Di score of 26.0 against a par value target set by the CAA of 27.3.

Responsible business statement

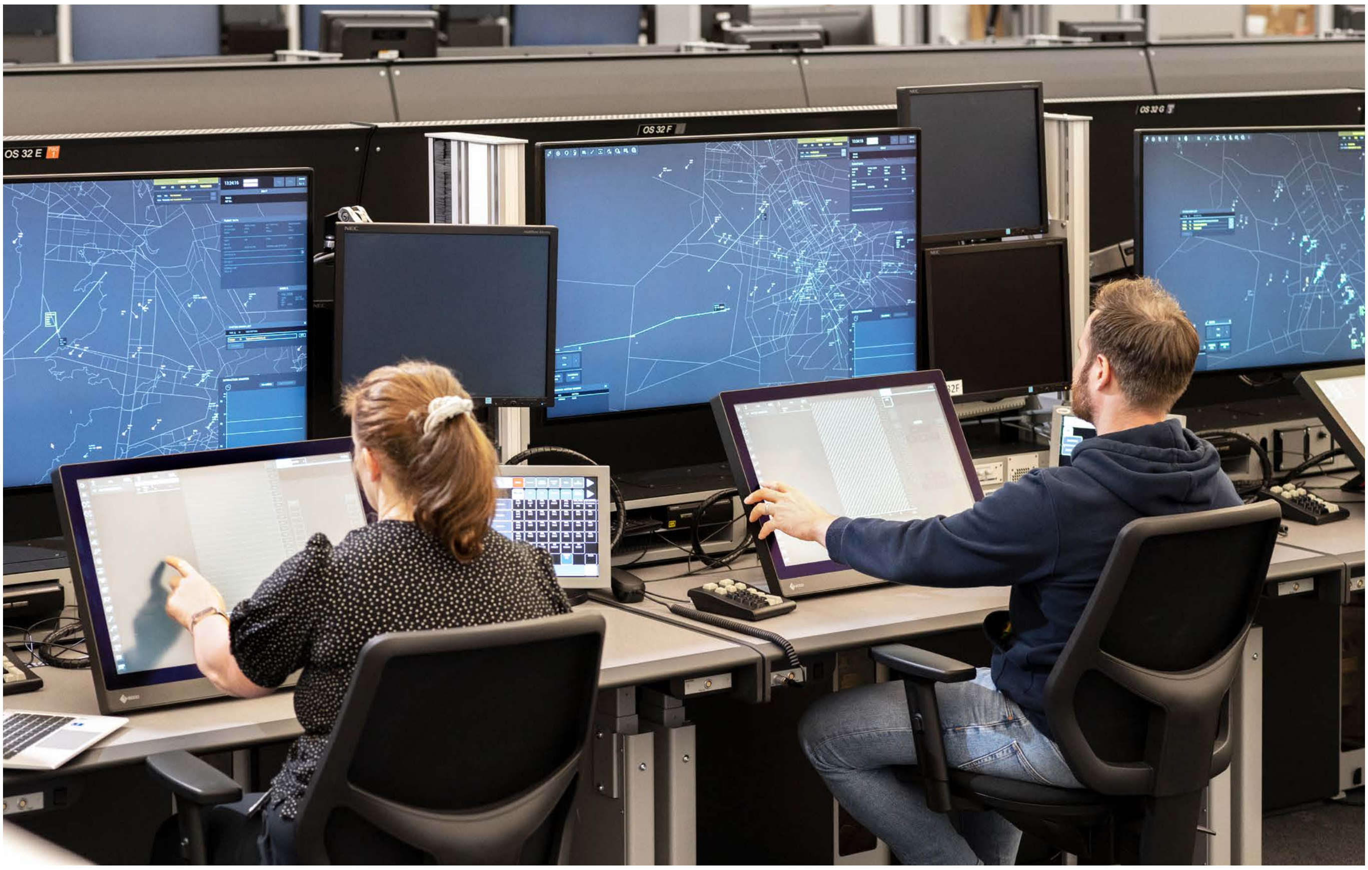
Metrics and targets (continued)

As a result of strategic airspace improvements we enabled reductions of 56,317 tonnes of CO_2 emissions in the year. This was achieved from initiatives in both domestic and Oceanic airspace to improve aircraft flight profiles to reduce fuel burn. We estimate that the redesign of the airspace network above 7,000ft over Southwest England and Wales and Free Route Airspace will enable emission reductions of 12,000t CO_2 per annum. Also, assessments of the impact of space-based satellite navigation in Oceanic airspace have demonstrated emission reductions of over 77,000t CO_2 per annum. Overall, cumulative emission reductions per annum since 2006 have averaged 111,000 tonnes.

We have established a near-term science-based target to reduce the emissions from running our business by 41% by 31 March 2026 against a 2019 baseline, which the Science Based Targets initiative (SBTi) has validated and awarded NATS 'Business Ambition' status – the highest achievement possible. This demonstrates NATS emissions targets exceed requirements to help prevent the most damaging effects of climate change, and consistent with the goals of the Paris Agreement. Annual sustainability linked finance targets align with our science-based target reduction profile, with the aim this year to achieve a 24% reduction in scope 1, 2 and limited scope 3 emissions (categories 1,3,4,6,7) against 2019 levels.

The aggregated total of GHG emissions from our estate has reduced by 39% compared to a 2019 baseline, resulting from energy efficiency and emissions reduction measures, site consolidation and lower occupancy levels. This included within the last year the installation of adiabatic dry air coolers at our Swanwick site, numerous LED lighting upgrades, uninterrupted power supply changes and new heating, ventilation and cooling systems deployed at sites across the UK. Projects to install large scale photovoltaic arrays at Swanwick and Prestwick continue to be developed, and within the year a further 15 sites have been added for consideration. We also commissioned the installation of 100 electric vehicle charging points across our main sites to support lower transportation emissions. We procure 99% of our electricity from green electricity and 100% of NATS direct gas procurement is low carbon biogas.

We continue to work closely with the Department for Transport, the CAA, airport operators and the wider industry to minimise the impact of aircraft noise on communities.



Task force on Climate-related Financial Disclosures progress

While every sector and industry could experience financial impacts from climate-related risks and opportunities, the TCFD identified the aviation sector as potentially one which is more affected by climate change on the ground and in the air as well as from the transition to a low-carbon economy.

As the provider of the UK's critical national airspace infrastructure, we are preparing for climate change trends from warmer, wetter winters and hotter drier summers alongside an increase in frequency and intensity of extreme weather events, as well as sea level rise and storm surges. We also understand the contribution that air traffic control can make to overall aviation emissions reduction through measures including optimising flight paths to reduce aircraft fuel burn and CO_2 emissions and delivering airspace modernisation.

This year we are making a number of voluntary disclosures broadly aligned with TCFD ahead of full compliance in our 2024 annual report.

Governance

1) Describe the Board's oversight of climate-related risks and opportunities

2) Describe management's role in assessing and managing climate-related risks and opportunities

BOARD and its Committees

EXECUTIVE

ENVIRONMENTAL STRATEGY STEERING GROUP

DECARBONISATION IMPLEMENTATION STEERING GROUP

Our Board is responsible for our climate-related strategy and has oversight of climate-related risks and opportunities impacting the group (risk governance is explained on page 24). Following its strategy review in the year, the business has an objective to be carbon negative by 2040, which goes further than the previous target to achieve net zero emissions across our estate by 2035, and deliver our part of the aviation industry's 2050 plans to decarbonise its operations.

The Board delegates responsibility to various committees (see pages 51 to 78). During the year, the remit of its committees was reviewed to ensure alignment with climate change risks and opportunities and monitoring progress against decarbonisation targets.

Our Board members bring a variety of skills and experience, from their own qualifications as well as other external Board appointments. These include an understanding of ESG and climate change matters.

The CEO has overall accountability for the group's decarbonisation target and for ensuring business resilience to climate change.
The Board receives periodic updates on matters discussed at the Environmental Strategy Steering Group (ESSG), including progress against the company's near-term 1.5°C aligned science-based target, our sustainable-finance linked targets and commitments to achieve net zero by 2035 (see Metrics and targets). These updates enable the Board to understand the drivers of emissions performance and to assess investments and resources to achieve net zero as well as actions for mitigating climate risks.

The ESSG is the executive committee that ensures environmental policy objectives are being appropriately delivered. Its scope covers environmental impacts from airspace users of our air traffic control service and our estate-based impacts from delivering our business, as well as climate-related risks and opportunities faced by the group. The ESSG meets bi-monthly.

The ESSG is chaired by the Safety and Sustainability Director with other Executive members being the CFO, Operations Director, Technical Services Director and the Communications Director. Other members include the Director of Sustainability, the Director of En Route Operations and the Director of Supply Chain and Facilities Management.

The ESSG sets the direction and focus of the Decarbonisation Implementation Steering Group whose primary objective is to manage our net zero[14] and carbon negative deliverables. These goals include overseeing ATM activities that contribute to reducing aviation emissions such as more fuel-efficient flight profiles and airspace change as well as activities which reduce scope 1 and 2 emissions from NATS estate and selected scope 3 emissions.

Task force on Climate-related Financial Disclosures progress

Strategy

3) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term

4) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

5) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Since the introduction of the adaptation reporting power for DEFRA under the Climate Change Act 2008 we have produced two reports for DEFRA on the progress we are making in identifying and assessing climate-related risks and opportunities. The latest of our periodic reports was published in 2021 and set out the main priority physical and transition climate change risks and opportunities. This report is available on www.nats.aero.

In assessing physical climate risks (see table on page 33), we adopted a bottom-up approach that applied desktop GIS using the most recent UK Climate Projections (UKCP18) covering the locations of 236 assets across the UK and Gibraltar, which represented the critical air traffic control and engineering assets providing services for civil and military customers. A high emission reasonable worst-case scenario (RCP 8.5 ~ >4°C global warming) was used to assess the impacts on airspace and on NATS estate and its assets over a long-term horizon of 2050-2100. A medium case (RCP 4.5) was also applied to NATS estate and assets. The analysis was supplemented with details of past extreme weather events (such as Storm Ciara and Storm Dennis in February 2020).

In recent years we have experienced weather extremes which we have been able to mitigate with limited operational service disruption. For example: high winds from Storm Dennis in 2020 caused damage to a surface movement radar at Stansted Airport; Storm Arwen in 2021 resulting in the loss of communications and surveillance from a radar following a generator failure; and in summer 2022 cooling systems failed at Swanwick due to extreme heat. Aside from impacts to assets and our service, the safety of our employees is a priority during such events. These events reflect our exposure to short-term (1-2 year) physical risks and provide a baseline for post event reviews of our resilience and asset maintenance, spares management and replacement decisions. We mitigate the risk to our infrastructure and operational service through a planned and preventive maintenance regime and using a weather watch process when extreme events are forecast by the Met Office following which we proactively protect our assets and operational service. Alongside system resilience, asset design and restoration management minimises engineering related delay impacting our operational service. Long-term planning of service, system and asset replacements are informed by asset health reviews, historic performance data and ongoing supportability. Design criteria for replacements utilise industry best practice standards, climate projections and expected future capacity requirements to ensure resilience.

To date we have considered the risks of transition (see table on page 34) to a low carbon economy on a qualitative top-down basis. Some of these are direct impacts such as access to renewable electricity while others are indirect for example arising from policies which seek to reduce the demand for air travel or public perception of the impact of aviation emissions on climate change. There are opportunities, particularly market-based ones, for NATS to consider and pursue which may partially offset some of the increased costs from transition impacts.

Our priorities for 2024 are to assess physical risks over medium timescales (to 2030) using the UKCP18 data above and to develop a higher resolution analysis to identify the vulnerabilities of specific assets over short, medium and long-term timescales. We also plan to conduct fine resolution flood risk modelling under different climate scenarios for key sites. For transition risks, we propose to consider the implications under both an orderly and disorderly transition to a low carbon economy. The outputs from this further analysis will enable climate risks and opportunities to be embedded into our business planning and investment decision processes. This insight will also enhance our understanding of likelihood and financial impact. We are also looking to include carbon metrics and pricing in our investment decisions to support delivery of emissions reduction targets. As well as preparing for the impacts of climate change on our business, we are committed to transitioning to a business model that is consistent with the objectives of the Paris Agreement and this is reflected in our strategic objective of reducing our Scope 1, 2 and selected Scope 3 emissions to net zero by 2035 (which has been independently validated by the Science Based Targets initiative) and being carbon negative by 2040.

Our strategy also meets the UK government's Jet Zero strategy to achieve net zero aviation emissions by 2050 and broader international aviation commitments. Our plan for NR23 set an ambitious target to improve the efficiency of flights under our air traffic control by 4.4% between 2020 and 2035. This is represented by a sustainable reduction in the 3Di score in the face of traffic growth, which is enabled by airspace modernisation as the biggest contribution we can make to reducing the carbon footprint of flying.

Our initial view of the principal physical and transition risks and opportunities are described in the table below.

Task force on Climate-related Financial Disclosures progress

Risk management

6) Describe the organisation's processes for identifying and assessing climate-related risks

7) Describe the organisation's processes for managing climate-related risks

8) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

Sustainability and climate change is a principal risk to our business and is fully embedded within our overall Enterprise Risk Management framework (ERM). The process for identifying, assessing, and managing climate-related risks is the same as for all other risks, as described on page 24.

Our targets validated by SBTi

To reduce absolute scope 1, 2 and 3 GHG emissions by 41% by 31 March 2026 against a 2019 financial year baseline.

Note: scope 3 emissions covers purchased goods and services, fuel and energy related activities, upstream transportation and distribution, business travel and employee commuting.

To commit that 50% of our suppliers by spend, covering capital goods, will have science-based targets by 31 March 2026.

The ERM sets out the categories of risk we face which, alongside the work we are doing to assess site level physical risks, forms a tool for business areas to identify the risks they face, assess each risk based on the potential impact and the probability of occurrence and compare that to the risk appetite and tolerance statements agreed by the Board. Three specific categories relate to sustainability and climate change:

a. **Physical impacts of climate change:** Risks to our assets and operations arising from global warming, including the impact of extreme weather events.

b. **Transitional impacts of climate change:** Risks associated with the transition to a low carbon economy, including changes in regulation and consumer behaviour.

c. **Decarbonising aviation:** Transition risks associated with our carbon negative ambitions and our ability to support decarbonisation across the sector.

The specific risks identified in our framework currently are summarised in the table below, and the most material of these are escalated to the Executive team, and included in Audit Committee and Board oversight of risk management as appropriate.

Metrics and targets

9) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process

10) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks

11) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Our metrics and targets allow us to measure our impact on the environment and monitor our performance towards meeting our strategic objectives. The key metrics relating to our GHG emissions are set out on page 35.

Our target for this financial year was to have reduced our estate GHG emissions by 24% against the 2019 baseline, and we have achieved 39% (2022: target 18%, achieved 37%).

Further detail on our decarbonisation plan and report on the year's performance is detailed within the Responsible business section and NATS Greenhouse Gas report on www.nats.aero.

As we develop our understanding of the physical and transition climate risks we will develop metrics and targets that provide the information the business and our stakeholders need to effectively monitor our performance and demonstrate our progress.

We maintain a range of certified ISO (or equivalent) management systems, which are externally assessed by DNV GL, including ISO 31000 (risk management) and ISO 14001 (environment management). The Audit Committee oversees all verification and assurance activity.

Task force on Climate-related Financial Disclosures progress

Risk or opportunity	Time horizon	Potential impact	How it is managed
Physical risks			
Flooding at en route centres and airports where NATS provides a service	Medium and long-term	Restricted access to sites and damage to equipment impacting operational service	Ongoing analysis of flood risk for key sites. Longer-term maintenance to improve drainage capacity and build flood defences
Storms (precipitation and lightning) at remote sites	Short, medium and long-term	Costs of damage to communications, radar and navigation assets and disruption to operational service	Planned remedial action, geographical separation of assets, layers of redundancy and back-up for critical systems
Wind speed and gusts at remote sites	Short, medium and long-term	Cost of damage to or loss of a radar. Simultaneous loss of multiple assets leading to reduced operational service	
Summer extreme temperature at en route centres, airports and affecting infrastructure assets	Short, medium and long-term	Damage to cooling systems and equipment components leading to reduced operational service	
Thunderstorms and clear air turbulence	Short, medium and long-term	Disruption to ATC service performance, air traffic delay and aircraft re-routing	Operational regulations to limit capacity and ensure safe service provision
Physical opportunity			
Supporting customers with the specification and installation of airport engineering equipment	Medium and long-term	Additional revenue from engineering project services	Ongoing assessment of physical risks to customer sites

Task force on Climate-related Financial Disclosures progress

Risk or opportunity	Time horizon	Potential impact	How it is managed
Transition risks			
Policy measures seeking to constrain air travel demand such as air passenger duty, aviation fuel taxes and carbon charging	Medium and long-term	Lower air traffic volumes and revenue than assumed by the price control	Traffic volume risk sharing mitigates revenue losses ahead of a new price control
Public perception of the aviation sector's impact on climate change	Medium and long-term	Loss of revenue as consumers reduce air travel or opt for lower carbon transport, employee retention risk and recruitment of new talent	
Public opposition to airspace modernisation (e.g. for changing noise patterns)	Short and medium-term	Reduction and/or delays in ATC contribution to aviation emission reductions	Extensive consultation with the public, industry and regulator
Supply-demand of renewable energy and reliance on electricity grid (power and heat)	Short, medium and long-term	Access to clean energy alternatives drives higher cost of energy and risk of grid power outages	Energy avoidance and conservation measures, photovoltaic arrays at main sites reducing scope 2 emissions and minimising exposure to electricity price fluctuations, supply prioritisation
Supply-demand of carbon sequestering and offsetting	Medium and long-term	Potential increase in cost to achieve net zero and carbon negative strategic objectives	Taking early actions in service of meeting decarbonisation targets. Stakeholder engagement on regulatory framework
Transition opportunity			
NATS ATC solutions offer resilience and support emission reductions	Short, medium and long-term	Increased revenue from tools which improve landing rates in strong headwinds (eTBS), reduce airborne holding (XMAN) or climate impacts to airport infrastructure (digital towers)	Targeted commercial activities

The time horizons we have used to assess climate-related risks and opportunities are short: one to two years, medium: to 2030 and long-term: from 2030 to 2050.

Task force on Climate-related Financial Disclosures progress

Supporting information

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

Environmental performance and greenhouse gas emissions

Description[12]	**FY 2022/23 (or CY 2022)**	FY 2021/22 (or CY 2021)
Service performance and resilience		
3Di (calendar year)	**26.0**	22.8
Environmental performance^		
Scope 1 emissions (location-based tonnes CO_2e)	**2,895”**	2,708”
Scope 1 emissions (market-based tonnes CO_2e)	**2”**	2”
Scope 2 emissions (location-based tonnes CO_2e)	**10,587”**	11,774”
Scope 2 emissions (market-based tonnes CO_2e)	**114”**	718”
Scope 3 categories 1, 3, 4, 6 and 7 emissions (tonnes CO_2e)	**11,287”**	10,754”
Total scope 1, 2 and 3 categories 1, 3, 4, 6, 7 (tonnes CO_2e) – location based	**24,769”**	25,236”
Scope 3 category 11 emissions (tonnes CO_2)	**23,365,760”**	13,920,072”
Avoided / modelled enabled ATM-related CO_2 reductions in tonnes[13]	**56,317”**	7,972”
Water supply and treatment (m^3)	**34,142”**	27,508”
Energy consumption (gas + electricity) MWh	**64,243”**	66,520”
Transportation: owned and leased vehicle fuel consumption (as reported within scope 1) KWh	**528,895**	Not measured
Transportation: business travel (scope 3) from employee-owned vehicles and hire cars KWh	**1,066,645**	Not measured
CO_2e intensity metrics		
Total scope 1 + 2 emissions (location-based tonnes CO_2e)	**13,482”**	14,482”
Total scope 1 + 2 emissions (market-based tonnes CO_2e)	**116”**	720”
Total scope 1 + 2 intensity metric (location-based tonnes CO_2e per £m of revenue)	**14.4”**	19.3”
Total scope 1 + 2 intensity metric (market-based tonnes CO_2e per £m of revenue)	**0.1”**	1.0”
Net zero metrics towards validated science-based target		
Percent reduction of CO_2e against 2018-19 baseline (scope 1, 2 and 3 categories 1, 3, 4, 6, 7)**	**Target: -24% Actual: -39%”**	Target: -18% Actual: -39%”
Percent change in CO_2e against 2018-19 baseline (scope 1 and 2 emissions)**	**-35%”**	-30%”
Percent reduction of CO_2e against 2018-19 baseline (scope 3 categories 1, 3, 4, 6, 7)**	**-43%”**	-45%”

^restated due to inclusion of additional information, improvements to modelling accuracy and data quality.
”verified to ISO 14064. Certificates, GHG emission methodologies and boundaries are outlined in detail in our GHG report, available at www.nats.aero/environment/library
** Our near-term net zero target applies to total combined scope 1 and 2 and scope 3 (categories 1, 3, 4, 6, 7) CO_2e location-based emissions by 2025/26, using a 2018-19 baseline. Scope 3 categories 1, 3, 4, 6, 7 describe GHG emissions covering purchased goods and services, fuel and energy related activities, upstream transportation and distribution, business travel and employee commuting (including homeworking).

Engaging with our stakeholders

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 the ATC network, our staffing and capital investment. We operate a joint & integrated civil military operation with the MOD and support Project Marshall.	We consult airspace users, airports and the public on their priorities and our plans for our regulated activities for each price control period. We reflect on their feedback and update our plans accordingly before review by the CAA. We discuss with both airspace users and airports our service performance, our charges, cost efficiency and our capital investment plans. When bidding for airport and other contracts we tender our cost effective and innovative solutions. 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 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 collectively seeks 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 we conducted an employee opinion survey (b-Heard), as a baseline for our 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.
Regulators	Our regulators ensure we provide our service and develop our infrastructure in accordance with our ATC licence and international safety standards. Ensuring we fulfil our licence obligations and develop the business for the long-term ensures the success of the company for all our stakeholders.	As economic regulator, the CAA is consulting stakeholders on our plan for NR23 ahead of determining the charges, safety, service performance and capital investment targets and incentives. We are engaging with them on our plan and provided feedback to their initial proposals on the balance of service targets and incentives, risk mechanisms and financial resources they propose. The CAA's safety regulator oversees the safety integrity of our training, operational processes and technical systems and we receive recommendations on improvements, which we implement to ensure safety standards are met. The CAA approves changes to airspace design over the UK by reference to legal requirements including safety, environment and user need. This year the CAA approved changes in the Humber region and to airspace above 7,000 feet over Southwest England and Wales.
Government	The government sets UK Aviation Strategy which provides a long-term vision for the industry and a framework for future ATC provision.	The CEO maintains a regular dialogue with the Department for Transport. The government engages on aviation policy that affects NATS, including the recovery in air travel after Covid restrictions were lifted and preparations for summer 2023.
Shareholders	Our shareholders provide equity investment which finances our activities and enables us to invest in our ATC service and infrastructure, for which they expect a return. An employee share trust owns 5% of the company which enables employees to share in the company's long-term success.	The Board Chair, CEO and CFO met informally with shareholders and discussed the Board's strategy review and alignment with shareholder interest, the recovery in air travel demand and the NR23 price control. The Strategic Partnership Agreement enables shareholders to appoint representatives to the Board. Shareholders wish to see remuneration policies which drive executive management to deliver strong sustainable performance aligned with the interests of key stakeholders.

Engaging with our stakeholders

Our stakeholders	Why are they important to us?	How we engage and have regard to their views in our decisions?
Communities and environment	Local communities around airports expect the aviation sector to pay attention to aircraft noise, fuel and CO_2 emissions and local air quality. Our ATC service can help mitigate some environmental impacts. Society expects improvements in sustainability, and we are committed to net zero greenhouse gas emissions from our estate by 2035, 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.
Lenders	Lenders provide debt finance that we repay over time and compensate by way of a commercial return. Access to debt finance is necessary to fund our business activities efficiently.	We meet lenders at least annually to discuss our performance, business plan and capital investment. Lenders wish to understand the company's financial strength over the long-term and the principal risks it faces. The importance of these relationships was demonstrated by NERL's June 2021 refinancing which secured funding of £1.6bn and the further £145m bond issued in March 2023.
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 ISO 44001 accredited and hold CIPS Platinum standard of assurance.

S172 statement

Having regard to our stakeholders in Board decision-making

Section 172 (1) statement

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

The Board takes account of the views and interests of a wide range of stakeholders, when making its decisions, and balances different stakeholder perspectives (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 40 to 78.

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 employees in its decision-making

NATS has 4,323 employees and 119 contract staff. It is fundamentally a people-based organisation which relies on highly trained professionals to deliver a safe, resilient service to customers and the public day to day. The Board's Safety committee oversees occupational health and employee wellbeing, in addition to the safe provision of air traffic services and security, enabling the Board to engage with, and have regard to, employee matters. Further detail on employee matters is provided within the Responsible business statement on page 27.

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 explained in the Chief Executive's review. This year we 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, we published our 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 7) and annual business plan alignment: adopted by the Board in the year, the group'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 group's budget for 2024 and its three-year business plan, aligned to the strategy.

NR23 price control (see page 11): the Board's sub-committee oversaw the response to the CAA's initial proposals for NR23. Its members were Paul Golby, Martin Rolfe, Alistair Borthwick, Harry Bush, Mike Campbell and Richard Keys (and subsequently David Smith following Richard's retirement from the Board), who met regularly during the financial year. They were briefed on the CAA's initial proposals and input to the company's response to the challenges presented by the proposals and its balance of operational and financial resources, airspace user demand and service performance delivery, airspace change and technology implementation having regard to the interests of members, employees, airspace users, passengers and wider society.

S172 statement

Summer 2022 traffic regeneration (see page 10): The Board's priority was the safe regeneration of traffic last summer. In 2020, supported by airspace users and other key stakeholders, the group 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 12): 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.

Refinancing (see page 18): the Board completed NERL's refinancing to mitigate refinancing risk in NR23 in the interests of members and wider stakeholders by tapping existing bondholders after considering alternative approaches and assessing liquidity requirements in light of CAA's NR23 initial proposals and traffic scenarios.

De-risking technology transformation (see page 16): responding to challenges faced since Covid and following consultation with airspace users and key suppliers, the Board agreed a revised plan for delivering DP En Route and Voice platforms to deliver customer benefit as early as possible.

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

Annual Report and Accounts 2023

Governance report

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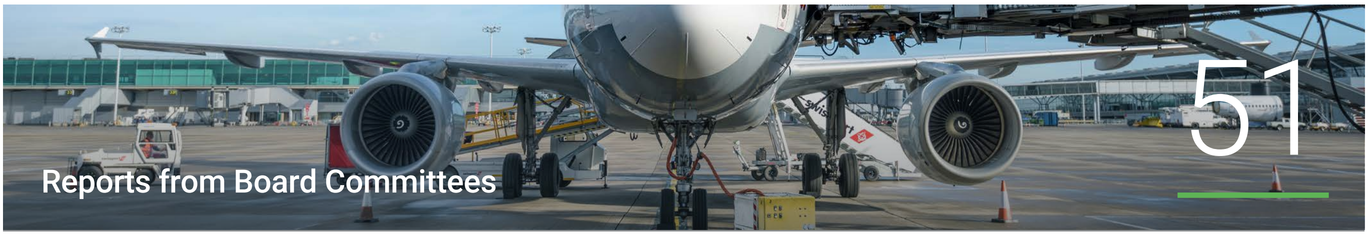
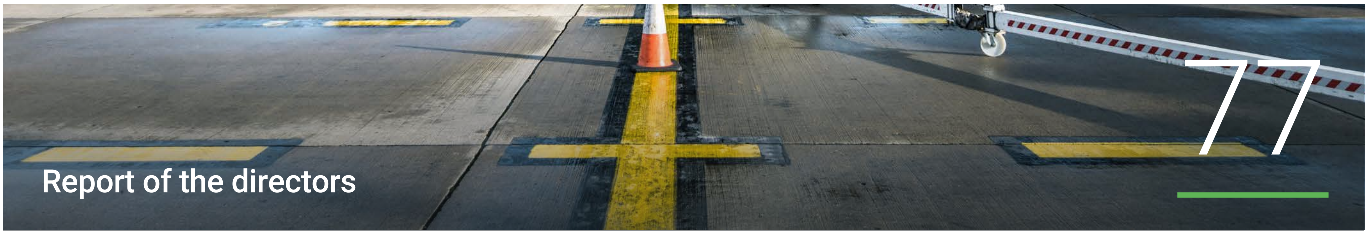



Directors of NATS Holdings

Director's biographies

Chairman

Dr Paul Golby CBE FREng

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

Executive Directors

Martin Rolfe, Chief Executive Officer

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

Alistair Borthwick, Chief Financial Officer

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

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

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

Directors of NATS Holdings

Director's biographies

Non-Executive Directors

Maria Antoniou

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

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

Greg Bagwell CB CBE

Greg served for 36 years in the Royal Air Force, retiring in 2016 as Deputy Commander with overall responsibility for all aspects of safety for all personnel and equipment and, as an independent member of four MOD Boards, helped shape policy on Safety, Information, Logistics and Infrastructure.

He began his distinguished military career as a pilot for more than 20 years, with more than 4,000 flying hours on Tornado and CF-18 Hornet aircraft, and as a Commander. He became Chief of Military Plans at UK Joint HQ, Air Officer Commanding No 1 Group RAF and Director Joint Warfare, Joint Forces Command.

For the past five years, Greg has worked in the private sector with Cobham Ltd, AirTanker Ltd and is currently an Executive Director with Cobham Ltd. Greg is President of the UK's Air & Space Power association, a Fellow of the Royal Aeronautical Society and a Distinguished Fellow of the Royal United Services Institute. He is also a chair for senior programmes at the Windsor Leadership Trust, and a trustee of "Flying for Freedom", which enables wounded, injured and sick service personnel to go solo in microlights. Greg is chair of the Safety Review Committee and a member of the Transformation Review Committee.

Dr Harry Bush CB

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

Directors of NATS Holdings



Director's biographies

Non-Executive Directors

Mike Campbell

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

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

Kathryn Leahy

Kathryn resigned from the Board in June 2023 and will be joining NATS as Chief Operations Officer in October 2023. Kathryn is currently Director of Operations at Heathrow Airport, where she holds functional responsibility for airside and airfield operations, as well as umbrella responsibility for the day-to-day management and operations of the Airport Operations Centre, resilience and emergency planning. Kathryn sits on the Risk and Assurance Committee and chairs the Airspace Governance Board for Heathrow and is a Trustee for the Heathrow Multi-Faith Chaplaincy Charity. She joined Heathrow Airport in 2010 as Risk and Safety Director and has held a number of senior operational roles.

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

Gavin Merchant

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

Directors of NATS Holdings

Director's biographies

Non-Executive Directors

Bart Prudon

Captain Bart Prudon is easyJet's Director of Flight Operations, responsible for one of Europe's busiest and largest airline operation with 330 aircraft over 1,000 routes across 34 countries. Bart also holds the position of Nominated Person Flight-Operations, responsible for safety and compliance of easyJet's UK Air Operation Certificate (AOC) towards the Civil Aviation Authorities.

Previously Bart held the Position of Chief Pilot providing leadership to the group AOC Nominated Persons for Flight Operations and ensured consistency across 3 AOC's post Brexit. Bart's role includes transforming IT within Flight Operations to deliver a true paperless cockpit and maximising the use of connectivity to deliver an even more efficient and sustainable operation.

Bart started his career in 1996 flying a range of turbo-prop aircraft before joining easyJet in 2004. He has flown over 14,000 hours and joined management as Flight-Operations Manager in Germany before joining the central leadership team. Bart is a director of AG and a member of the Safety Review Committee.

David Smith

David has nearly 40 years' blue-chip experience in the highly competitive global automotive, aerospace and defence industries, including Ford, Jaguar Land Rover and Rolls-Royce. He retired in late 2021 after four years as Group CFO and Board member at QinetiQ.

David worked for Ford for more than 25 years, in a variety of finance and treasury roles including CFO of Ford Otosan (Turkey), CFO of Land Rover and CFO and Strategy Director of JLR. In 2008 he became CEO of JLR during the transition to Tata ownership. Following two years as CEO of JLR he took up two more CFO roles, first at Edwards Group and then at Rolls-Royce before joining QinetiQ.

David was also a Board member of Motability plc for ten years and is a Fellow of the Royal Society of Arts. David chairs the Audit Committee and is a member of the Transformation Review Committee.

Louise Street

Having completed a degree in Japanese and Business Management at Durham University, Louise joined British Airways on the graduate intake scheme in 1998. Her first 8 years were in the commercial organisation specifically in Sales and Revenue Management. She then moved to the operational side of the business and has undertaken a number of senior management roles in Customer Service and Operations. In July 2021, Louise was appointed into her current role as Head of Worldwide Airports, with responsibility for British Airways' operation and customer service at all British Airways served airports outside of London. Louise is a director of AG and a member of the Audit Committee.

Directors of NATS Holdings

Director's biographies

Officer

Richard Churchill-Coleman, General Counsel

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

NATS governance framework

Introduction

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

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

The Board and Directors

Ultimate responsibility for the governance of NATS rests with the Board of NATS Holdings, which provides strategic direction and leadership and is responsible for ensuring that the NATS group is run safely, efficiently, effectively and legally, with appropriate internal controls to safeguard shareholders' investment and group assets, ensuring it delivers value to shareholders and fulfils its wider role as a provider of critical national infrastructure.

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

> the highest governance and ethical standards reflecting the aspirations of the PPP;

> a prominent safety culture through 'Just Culture' reflecting the company's purpose of advancing aviation and keeping the skies safe;

> consultation with customers on service performance, capital investment and plans for NR23;

> a cost efficient, service oriented and commercially smart organisation, requiring best in class performance of its employees and partners; and

> diversity and inclusion and fair treatment of its employees, valuing the contributions of all employees.

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

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

Executive Directors

> Chief Executive Officer (CEO); and

> Chief Financial Officer (CFO).

Non-Executive Directors

> a Chair, appointed by AG, subject to the prior approval of the Crown Shareholder;

> Five directors appointed by AG;

> Three Partnership directors, appointed by the Crown Shareholder; and

> One director appointed by LHRA.

Changes to the Directors

From 1 April 2022 to the date of approval of the accounts, there were the following changes to directors: Richard Keys and Iain McNicoll resigned on 30 September 2022 and were replaced by David Smith and Greg Bagwell on 1 October 2022; Hugh McConnellogue resigned on 23 December 2022 and was replaced by Bart Prudon 30 March 2023. Kathryn Leahy resigned on 4 June 2023.

The roles of the Chair, Chief Executive and executive management

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

> CEO;

> CFO;

> Operations Director;

> Safety and Sustainability Director;

> Managing Director, NATS Services;

> Human Resources Director;

> Technical Services Director;

> Communications Director; and

> General Counsel.

NATS governance framework

The responsibilities of the Board

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

Partnership and AG directors

- Adoption of the business plan;
- Entry into significant debts, charges or contingent liabilities;
- Major agreements outside the ordinary course of business;
- Significant litigation proceedings; and
- External investments, and acquisition and disposal of material assets.

LHRA director

- Acquisition or disposal of any asset representing more than 10% of the total assets of the business;
- Any aspects of the business plan which could adversely affect NERL's service to UK airports; and
- Disposal of NATS Services shares by NATS.

Access to legal and professional advice

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

Board meetings

The Board routinely meets seven times per year in January, March, May, June, July, September and November and supplements these scheduled meetings with additional meetings as business priorities require. This year, the Board met seven times with each member (who served as a director during the year) as set out in the table below.

The non-executive directors meet with the Chair, but without the executive directors present, after each Board meeting. Reports and papers are circulated to Board members in a timely manner in preparation for meetings, and this information is supplemented by any information specifically requested by directors from time to time. The directors also receive monthly management reports and information to enable them to review the group's performance.

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

NATS governance framework

The Board's performance

Board effectiveness review

The Board is committed to continuous improvement and a performance evaluation of the Board, its committees, and the Chair is conducted each year. This year, the Board Effectiveness Review was undertaken internally. The results were assessed by the Board at its 30th March 2023 meeting and appropriate actions agreed.

Director induction

Following their appointment, the Company Secretary consults with new directors on the scope of induction to NATS which they require and a personalised induction programme is developed. This year inductions were undertaken for David Smith and Greg Bagwell and the induction process started for Bart Prudon.

The Board's Committees

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

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

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

	Number of meetings attended / Number of eligible meetings					
	Board	Audit	Nomination	Remuneration	Safety Review	Transformation Review
Paul Golby	7/7	6/6	6/6	-	-	-
Martin Rolfe	7/7	5/6	6/6	4/4	4/4	12/12
Alistair Borthwick	7/7	6/6	-	-	-	-
Maria Antoniou	7/7	-	6/6	4/4	-	-
Greg Bagwell	4/4	-	-	-	3/3	8/8
Harry Bush	7/7	6/6	-	-	-	-
Mike Campbell	7/7	-	6/6	4/4	-	12/12
Richard Keys	4/4	2/2	1/1	-	-	4/4
Kathryn Leahy	7/7	-	-	-	4/4	-
Gavin Merchant	7/7	-	-	3/4	-	-
Hugh McConnellogue	5/5	-	-	-	3/3	-
Iain McNicoll	4/4	-	-	-	2/2	4/4
David Smith	4/4	5/5	-	-	-	8/8
Louise Street	7/7	5/6	-	-	-	-

NATS governance framework

The Board's Committees (continued)

The terms of reference for the Board and its committees are available to all employees and shareholders and can be made available externally with the agreement of the General Counsel. Reports from each of the standing committees are set out on pages 51 to 78. However, in addition to the standing committees, from time to time the Board may form committees on an ad hoc basis to deal with specific business issues. During the year the Board continued with the NR23 sub-committee comprising the Chair, Martin Rolfe, Alistair Borthwick, Harry Bush, Richard Keys (who was replaced by David Smith from October 2022) and Mike Campbell, to consider the NR23 plan.

Meetings with shareholders

There were no formal shareholders meeting held in the year but the Chair, CEO and CFO met informally with shareholders throughout the year.

Compliance with the UK Corporate Governance Code

NATS is committed to maintaining the highest standards of corporate governance. The SPA requires the group and the directors to adhere to the UK Corporate Governance Code so far as reasonably practicable and save to the extent inconsistent with the other provisions of the SPA. The company 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 NATS did not comply are summarised below.

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

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

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

Provision 19: Chair nine-year period
The Chair has served for nine years. His contract was due to expire on the 31 August 2023 but was extended for a further year. This extension was put in place to provide continuity ahead of the CAA final decision on NR23 and was supported by the Secretary of State for Transport.

Provision 39: Notice or contract periods for non-executive directors
As noted in the Remuneration Committee report, the AG nominee directors and Partnership directors do not have service contracts with NATS. The Partnership directors are typically engaged on three-year fixed-term contracts and have letters of appointment from the DfT. Currently David Smith and Greg Bagwell have letters of appointment to 30 September 2025 and Maria Antoniou to 31 May 2024. The Chair has a service contract with NATS, details of which are set out in the Remuneration Committee report.

Provision 18: Re-election of directors
The non-executive directors are appointed by the shareholding groups and are therefore subject to the relevant shareholding groups' selection processes, rather than those included in the provisions of the Code. They are therefore not subject to annual re-election as stipulated by Provision 18, although Partnership directors are appointed by the Government on three-year fixed-term contracts. The tenure of non-executive directors at 31 March 2023 was as follows:

Name	Date of appointment	Years of service to 31/3/22
Paul Golby	1/9/14	8 years 7 months
Maria Antoniou	1/8/16	6 years 8 months
Greg Bagwell	1/10/22	6 months
Harry Bush	27/5/14	8 years 10 months
Mike Campbell	26/5/17	5 years 10 months
Kathryn Leahy	31/5/18	4 years 10 months
Gavin Merchant	20/3/14	9 years
Bart Prudon	30/3/23	0 months
David Smith	1/10/22	6 months
Louise Street	29/11/18	4 years 4 months

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

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

Reports from Board Committees

Audit Committee report

The role of the Audit Committee

Of these meetings, four were held to consider routine business and two to provide Board continuing oversight of NERL's debt financing (see below). In September 2022 Richard Keys resigned from the NATS Board and was replaced by David Smith who now chairs the Committee. Louise Street and Harry Bush are the remaining two members of the Committee. The Committee members all have wide-ranging commercial and management experience and David Smith, former CFO of QinetiQ has recent, relevant financial and audit experience. The Committee members maintain their competence in the sector and on company specific issues (such as pensions) through targeted training and briefing at Committee meetings.

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

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

The main duties of the Committee include:

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

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

Main activities of the Committee during the year

a. Financial reporting

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

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

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

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

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

Impact of Covid

The Committee considered the financial reporting implications of Covid and the CAA's proposals for the redetermination of NERL's price control and the recoverability of the shortfall between flight income and costs incurred over calendar years 2020 to 2022. In relation to these, the Committee reviewed and challenged the significant judgements, sources of estimation uncertainty and other assumptions made in the preparation of the financial statements and the adequacy of disclosures. In particular, the Committee considered: the recognition of NERL's revenue and the recoverability of its revenue allowances (see below); the carrying values of tangible and intangible fixed assets and goodwill (see below); the carrying values of the group's investments, including in Aireon and Searidge; and the recoverability of other assets.

Going concern and viability

The Committee also reviewed the evidence supporting the assessments of going concern and viability (see pages 22 to 23), including the impacts of the March 2023 bond issue and removal of the bridging credit facility on projected liquidity, the company's March 2023 business plan, the significant judgements and assumptions in the company's forecasts of the recovery in air traffic volumes and the recovery of the shortfall in regulatory revenue allowances arising due to Covid, together with plausible downside scenarios and reverse stress tests. Following its review, the committee concluded it was satisfied with the approach being taken and the reasonableness of the judgements made together with the relevant disclosures, in particular the disclosures made in the going concern and viability statements and in note 3 to the financial statements.

Reports from Board Committees

Audit Committee report (continued)

Revenue recognition

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

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

The Committee reviewed management's assessment of the nature, value and basis of the regulatory adjustments, having regard to the reduction in air traffic volumes due to the impact of Covid and CAA's approach to the retrospective reconciliation of actual revenue and costs to determine the Covid revenue shortfall. The Committee also has regard to the impact of there being an extended period for the recovery of those allowances (with CAA indicating that NERL would be kept whole in present value terms) and consideration of management's judgement that it was highly probable that a subsequent reversal of the amounts recognised would not occur of the total revenue and regulatory allowances of £930m for the year ended 31 March 2023.

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

The carrying value of goodwill

The Committee continued its focus on this recognising both the materiality of the group's carrying value of goodwill, the impact of impairment on the group's result and the inherent subjectivity of judgements made in assessing recoverable value and the associated impairment testing. Goodwill comprises the remaining balance arising from the public private partnership transaction (PPP) in 2001 and the goodwill on acquisition of the controlling interest in Searidge Technologies Inc. in December 2021, which was impaired in the year.

The key judgements in relation to the PPP balance relate to: the assumptions underlying the calculation of value in use, including the extent to which cash flow projections are achievable taking account of the CMA's price control for 2020 to 2022 and the CAA's forthcoming redetermination of the price control from 2023, including its review of the reconciliation of actual costs incurred in the period 2020 to 2022 to take account of the impact of Covid; and assessing fair value less costs of disposal, including the extent of any premium which may be realised in excess of the value of regulatory assets.

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

With respect to goodwill arising on acquisition of Searidge the key judgements related to the calculation of value in use, including the extent to which its business plan revenue growth and cash flow projections are achievable and the appropriateness of the discount rate.

The Committee also considered appropriate sensitivities. Following its review, the Committee was satisfied with the explanations and disclosures provided in notes 2, 3 and 12 to the accounts.

Reports from Board Committees

Audit Committee report (continued)

Retirement benefits

The pension funding position determined under international accounting standards requires a number of actuarial assumptions to be made in assessing the value of liabilities, including judgements in relation to long-term interest rates, inflation, longevity and salary growth. The Committee reviewed the basis for determining these assumptions.

The final calculations in respect of the defined benefit pension scheme are performed by a qualified actuary, independent of the scheme. Note 3 to the accounts summarises critical judgements and key sources of estimation uncertainty and note 32 sets out the main actuarial assumptions used, including sensitivity analysis. The Committee considered the assets of the pension scheme and the approach to their valuation, in particular having regard to categorisation of assets according to the fair value hierarchy. The Committee noted the prior year adjustment and disclosure.

The Committee also considered the adequacy of the explanations for the different basis of valuation for the Trustees funding assessment of a deficit of £172m at 31 December 2020 and for the balance sheet position under international accounting standards of a surplus of £58.7m at 31 March 2023, and recognition of the surplus under IFRIC 14. The Committee was satisfied that the approach being taken and related disclosures were appropriate.

Carrying value of investment in Aireon

Since its acquisition the group's equity investment in Aireon has been accounted for at fair value through profit and loss. The Committee reviewed and challenged the valuation which used present value techniques based on the anticipated dividend and tax cash flows underlying Aireon's own long-term operating plan, with management risk adjustments to Aireon's revenue growth assumptions, and a discount rate of 14.3%.

Debt financing

On behalf of the Board the Committee continued to review NERL's financing structure and liquidity since the debt refinancing of June 2021. This included the decision to raise £145m on the bond market, cancelling the £450m bridging facility and extending the term by one year of the £400m revolving credit facility (see note 18 to the financial statements) pending the CAA's final decision on the NR23 price control and retrospective reconciliation.

Other matters

Other matters considered by the Committee included the progress being made towards compliance with TCFD for the financial year ending 31 March 2024 (see page 30) and the voluntary disclosures to be made for 2023.

During the year the Committee reviewed the half year financial statements for the period to 30 September 2022 issued to shareholders under the terms of the SPA.

b. Internal audit

The group's Internal Audit department conducts a programme of work to review and examine the controls in place to mitigate NATS' business risks, which encompasses internal financial control and risk management. In order to access the specialist skills required to perform assessments across the wide range of areas in which NATS operates, since the 2022 financial year the Internal Audit function has been operated under a fully outsourced model provided by PwC. This approach will be subject to ongoing review and is being continued for the current financial year.

The results of internal audits and agreed actions are reported as appropriate to relevant directors, executives and managers and reported on regularly to the Committee. Internal Audit monitors the satisfactory completion of actions by management to address their findings and reports on this to the Committee to assist its oversight. The Committee oversees the performance of Internal Audit through the receipt of a report on its work presented to each Committee meeting and agrees the annual work plan in the context of the group's assurance map and key risks. Work is continuing to develop the assurance map in articulating more broadly the assurance needs of the group across its business, leveraging the work of risk management, 2^{nd} line of defence functions and Internal Audit to provide an integrated approach. Through its process of regular review of Internal Audit's work, the Committee is able to ensure that assurance resource is appropriately directed to meet specific needs, for example in response to exceptional circumstances. The Committee also considers the ongoing independence of internal audit.

c. External audit

BDO LLP was re-appointed as external auditor on 30 June 2022. The Committee reviewed the performance and the continuing independence of BDO periodically during the year and at its June 2023 meeting and recommended to the Board that BDO be re-appointed. Accordingly, a resolution recommending their re-appointment will be considered by shareholders.

BDO will have served for 10 years following the audit of the financial statements for the financial year ending 31 March 2024. In line with the requirements of the Code, the Committee will lead a tender for the audit service during the financial year ending 31 March 2024.

Reports from Board Committees

Audit Committee report (continued)

d. Risk management

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

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

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

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

e. Internal control

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

NATS' system of internal control is designed to ensure that the significant financial, operational, safety, legal, compliance and business risks faced by the group are identified, evaluated and managed to acceptable levels. Work continues to improve the group's assurance map, with the aim of increasing the clarity around the key control frameworks in the business, the risks they mitigate and the internal and external sources of assurance available. Further, as explained above, the Committee receives regular reports from internal audit concerning the results of their work and agrees their annual programme of work, as well as regular reports from risk management.

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

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

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

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

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

David Smith
Chair of the Audit Committee

Reports from Board Committees

Nomination Committee report

The role of the Nomination Committee

The Nomination Committee is chaired by Paul Golby and, during the year, comprised three further non-executive directors: Mike Campbell, Maria Antoniou and Richard Keys (until his retirement in September 2022). The Committee meets when considered necessary by its members and may invite executives and advisors to attend meetings as appropriate.

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

During the year the DfT completed the recruitment of two Partnership Directors to replace Richard Keys and Iain McNicoll who completed their 9-year terms on 30 September 2022. David Smith and Greg Bagwell were appointed on 1 October 2022 for an initial 3-year term.

The Chair's contract was due to expire on the 31 August 2023 and has been extended for a further year to provide continuity ahead of the CAA final decision on NR23.

Main activities of the Committee during the year

During the year, the Committee met six times. In addition to advising shareholders on Board appointments, the meetings considered Executive succession, including the recruitment of a Chief Operations Officer and Technical Services Director, and reviewed the talent pipeline.

The Committee also reviewed the proposal for replacement of the Chair ahead of the decision to extend the Chair's contract. The Chair was absent for these discussions, which were chaired by Mike Campbell.

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

Paul Golby
Chair of the Nomination Committee

Reports from Board Committees

Remuneration Committee report

Dear Shareholders,

I am pleased to present the directors' remuneration report for the year ended 31 March 2023.

Our remuneration policy's primary objective is to ensure that we are able to attract, retain and motivate key executives to deliver strong sustainable business performance which is aligned with both the long-term success of the company and with the interests of our key stakeholders.

This year, NATS published a new strategy to 2040 with a clear vision about our organisational and business goals. The foundation of the strategy is built upon what stakeholders and shareholders care about – a safe and efficient service, an inclusive and diverse culture where all colleagues can thrive, a carbon-negative future and a sustainable, growing and profitable business.

The Remuneration Committee have considered the new strategy in the decisions taken this year, and as an example, incorporated new target areas into incentive plans such as ESG measures. We also have safety overrides within our variable pay schemes to ensure that no additional reward is delivered to our executives if a safe and reliable service is not delivered.

This report highlights the remuneration decisions made by the Committee over the course of the year, including refinement of how the NR23 long-term incentive plan (LTIP) will operate over the regulatory period from 1 January 2023 to 31 December 2027.

Key Remuneration decisions for 2022/23

Remuneration decisions made during the 2022/23 financial year generally reflected a return to normality following several years of disruption.

Throughout the pandemic, the Remuneration Committee and the Board were acutely cognisant of the impacts of Covid on the company and the wider aviation sector. Salaries for the Executive and management team remained at 2019 levels until May 2022. In addition, as highlighted in last year's report, there were no active incentive schemes during the 2020/21 performance year and in 2021/22 the only incentive scheme in operation was a reduced annual incentive in respect of the second half of the financial year, which was awarded once more sustained sector recovery activity had been evident.

This year the Committee has continued to adopt a prudent focus on reward, recognising the careful balance needed to preserve cash during the recovery phase whilst also being mindful of the experience of employees in a high inflationary environment and acknowledging the return to more normal remuneration levels being seen generally in the market.

- As stated in last year's report, the Committee agreed a base salary increase of 3% for the CEO, CFO and Executive team, in line with the increases applied to the wider management team and workforce. As an exception to normal practice, the increases were backdated to 1 January 2022 (in line with the offer made to the wider workforce), rather than 1 April 2022, to recognise that there had been no salary increases since 2019. Backdated values were paid in May 2022.
- The 2022/23 Annual Management Performance Related Pay Scheme (AMPRPS) incentive was awarded at the normal opportunity levels under the policy with a revised set of targets to reflect our strategic priorities (see page 65).
- Performance outcomes under the Transitional LTIP scheme were approved (as detailed on page 66).
- Payment of the first instalment of the CFO's retention and incentive arrangement in July 2022.
- Reviewed and finalised performance measures and targets for the NR23 LTIP (further detail on page 71).

Remuneration for 2023/24

For the 2023/24 financial year, the Committee will operate the remuneration policy as set out over the following pages. The highlights include:

- A return (following a period of pay award restraint during Covid) to operating the management pay review cycle for 1 April 2023, taking into consideration the level of pay increases seen externally, individual performance and end of year ratings.
- A revised set of targets for the 2023/24 AMPRPS incentive plan which incorporate measures linked directly to supporting the new company strategy.
- Grants of the new LTIP plan for executives aligned with the NR23 regulatory period, which will include both financial and ESG related performance conditions.
- Payment of the second and final instalment of the CFO retention and incentive arrangement.
- Vesting of the first tranche of the Transitional LTIP, which was awarded in 2021/22.

Conclusion

As we continue to ensure that our policy delivers a robust link between reward and performance, we have focused on ensuring that our actions and decisions taken this year appropriately reflect the challenging external environment our customers are still facing and the pace at which the UK and aviation industry is recovering from the impact of Covid. We continually review emerging practice across our industry and more broadly the UK and strive to ensure equity in remuneration approach across the entire workforce. Looking ahead we will continue to monitor our remuneration policy to ensure that we continue to motivate and incentivise our Executive and management teams during this post-Covid recovery phase with a focus on our new corporate strategy and futureproofing the sustainability of the business.

Reports from Board Committees

Remuneration Committee report (continued)

Purpose and responsibilities of the Committee

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

- on behalf of the Board, the arrangements for determining the remuneration, benefits in kind and other terms of employment for the Chairman and executive directors and the company's Personal Contract Group (around 400 senior managers);
- company incentive targets for executive directors and other members of the wider Executive team;
- a statement of remuneration policy;
- details of the remuneration of each executive director for inclusion in the Annual Report and Accounts;
- reward arrangements for all executive directors and other members of the wider Executive team;
- exit arrangements for executive directors and other members of the wider Executive team; and
- the appointment of independent advisors to the Committee taking into consideration any potential conflicts with the company.

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

Activities in the year

During the 2022/23 financial year, the Committee met four times and its main activities were to:

- review and approve the Executive team salary increases effective 1 April 2023 and the budget to apply for the wider management team pay review;
- agree the treatment of the outstanding tranches of the Cycle 6 and Cycle 7 LTIPs following the restart of HMRC approved valuations for the first time since Covid;
- review and approve the 2022/23 AMPRPS incentive arrangements (payouts due in June 2023);
- review and approve the 2023/24 AMPRPS targets for executive directors, the Executive team and Personal Contract Group;
- review and approve the vesting of the first tranche of the Transitional LTIP;
- review and approve the design of the new LTIP grant for executives to cover the period of NR23.

Membership

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

Advisers and other attendees

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

Wholly independent advice on executive remuneration is received from the Executive Compensation practice of PwC UK. PwC were selected by the Committee following a full tender exercise in December 2020; their performance is regularly reviewed, and the Committee are satisfied with the services rendered. PwC fees for advice to the Committee in 2022/23 were £60,750.

Directors' Remuneration Policy

It is the company's policy to establish and maintain competitive pay rates that take full account of the different pay markets relevant to its operations. In return, employees are expected to perform to the required standards and to provide the quality and efficiency of service expected by our customers and in line with the NATS' values and behaviours. In fulfilling this policy, the company adheres where possible to the principles and provisions of the UK Corporate Governance Code on directors' remuneration as outlined below.

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

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

The tables on pages 59 to 61 describe the key components of each element of the remuneration arrangements for the executive directors, and the company's policy in this respect. Earnings and benefits are set out in the table of directors' remuneration on page 63.

Reports from Board Committees

Remuneration Committee report (continued)

Discretions retained by the Committee in operating the variable pay schemes

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

- determining who may participate in the plan;
- determining the timing of grants of awards and/or payments under the plans;
- determining the quantum of awards and/or payments (within the limits set out in the remuneration policy table);
- determining the performance measures and targets applicable to an award (in accordance with the remuneration policy table);
- where a participant ceases to be employed by the company, determining whether 'good leaver' status applies;
- determining the extent of vesting of an award based on assessment of the performance conditions, including discretion as to the basis on which performance is to be measured if an award vests in advance of the normal timetable (on cessation of employment as a 'good leaver' or on the occurrence of corporate events);
- whether recovery and/or withholding shall be applied to any award and, if so, the extent to which they shall apply; and
- making appropriate adjustments to awards on account of certain events, such as major changes to the constitution of the company.

Approach to recruitment remuneration

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

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

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

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

Reports from Board Committees

Remuneration Committee report (continued)

Remuneration policy table

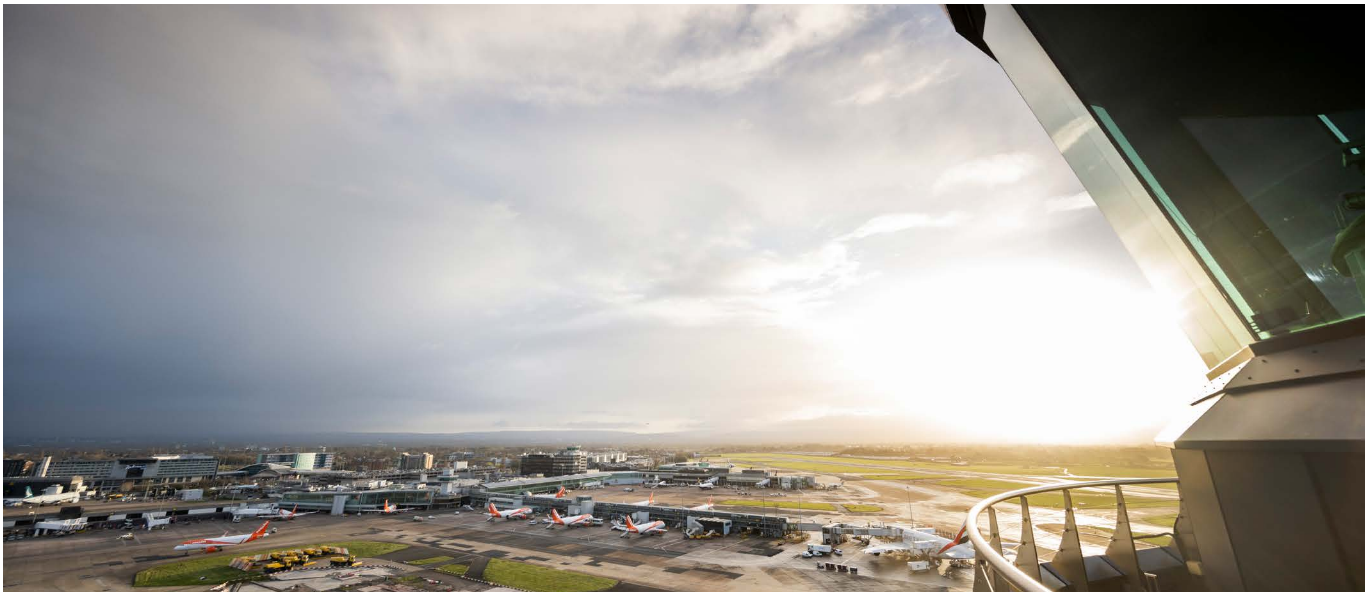
Component	Link to strategy	Operation	Maximum opportunity	Framework to assess performance	Recovery and withholding
Base salary	To provide fixed remuneration for each role which reflects the size and scope of executive directors' responsibilities and their individual skills and experience	Executive directors' salaries are normally reviewed annually and fixed for the 12 months commencing on 1 April. The Committee takes into consideration: > role, experience and performance of the individual; > internal and external relative positioning for total reward; and > the average budgeted increase in base salaries elsewhere in the group.		Not applicable	Not applicable
Benefits	To provide flexible, market aligned benefits on a cost-effective basis	May include private health cover for the executive and their family, life insurance cover of up to eight times annual base salary, income protection and a car allowance. Relocation support and any associated costs or benefits may also be provided if considered by the Committee to be appropriate and reasonable to meet the requirements of the business. Other benefits may be offered from time to time broadly in line with market practice. Executive directors may participate in all-employee share plan which may be operated by the company on the same terms as other employees.	The overall value of benefits will depend on the individual's circumstances and therefore there is no formal maximum. Participation in the all-employee share plan will be subject to the scheme's rules and in line with any relevant statutory limits.	Not applicable	Not applicable
Pensions	To provide cost-effective and competitive post-retirement benefits	Executive directors' pensions and life assurance are based on salary only, with performance-related incentive payments and other discretionary benefits excluded. For the period until 31 January 2023, the principal method of securing pensions for executive directors was auto-enrolment into the NATS Defined Contribution Pension Scheme (DC). From 1 February 2023 onwards, this is now via the Mercer Master Trust Defined Contribution Pension Scheme. NATS also offers a company-wide pension cash alternative in lieu of employer pension contributions for those with total pension savings close to the Lifetime Allowance, which is also available to eligible executive directors.	Maximum employer contributions are: > 18% for members of the DC; or > 15% of base salary as a pension cash alternative in lieu of employer contributions to the DC; or > for legacy members of the defined benefit pension scheme (DB) who have transferred out of that scheme, 25% of base salary as a pension cash alternative in lieu of employer contributions to the DB. The contribution levels offered to Executives are consistent with those for other NATS' employees.	Not applicable	Not applicable

Reports from Board Committees

Remuneration Committee report (continued)

Remuneration policy table

Component	Link to strategy	Operation	Maximum opportunity	Framework to assess performance	Recovery and withholding
Annual incentive	To reward and incentivise the achievement of annual financial and strategic goals which are selected to align to the strategy of the business.	An Annual Management Performance Related Pay Scheme (AMPRPS) is in place for the Executive team and all employees in the Personal Contract Group. The AMPRPS is paid entirely in cash. As per the rules of the scheme, the Committee may determine that vesting should not be applied for any participant(s) should the Committee consider that individual performance or other circumstances makes this an appropriate outcome. This power would only be exercised in circumstances when the Committee decides that there has been or could be significant damage to the reputation of the company either during the performance years or as a result of the award. In these cases, the decision would be referred to the non-executive directors of the Board for ratification.	Maximum opportunity is capped at 70% of base salary. The AMPRPS starts accruing from threshold levels of performance as follows: Threshold: 20% or 40% (target dependant) Target: 50% or 75% (target dependant) Stretch: 100% The current maximum potential for each executive director is set out in the annual report on remuneration and will achieve a maximum of 70% of base salary.	Targets are set annually and are a mix of corporate and personal performance. They are determined by the Remuneration Committee each year taking into account the group's key strategic priorities and the approved budget for the year and are set out in the Annual report on remuneration. The Committee may apply discretion as appropriate.	The rules of the annual incentive include a recovery provision whereby individuals are liable to repay or forfeit some or all of their AMPRPS if there is a material misstatement of the results.

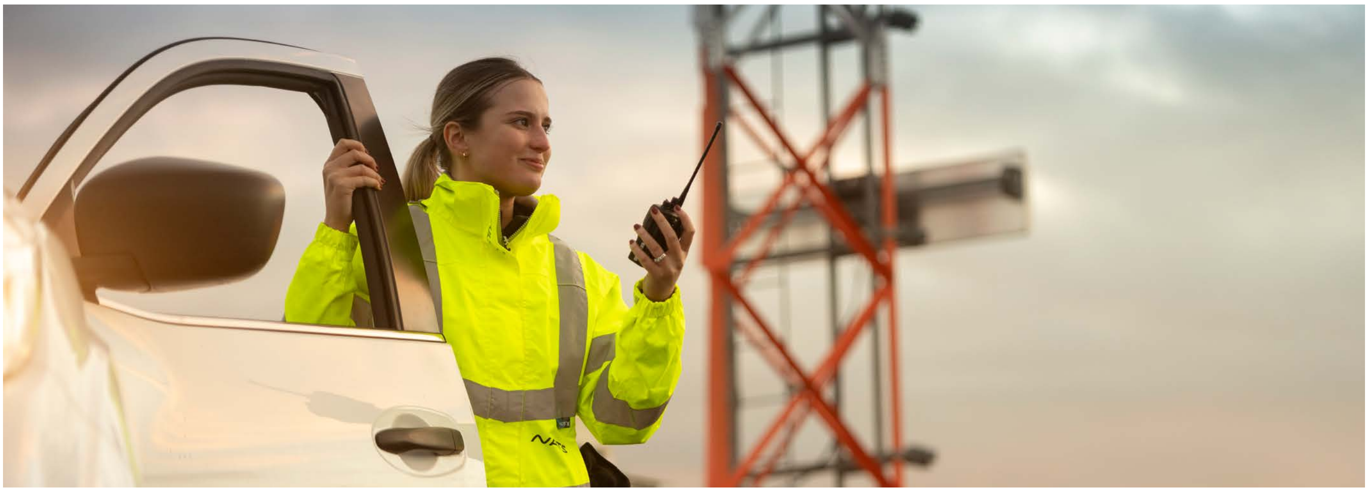


Reports from Board Committees

Remuneration Committee report (continued)

Remuneration policy table

Component	Link to strategy	Operation	Maximum opportunity	Framework to assess performance	Recovery and withholding
Long-term incentive (Transitional LTIP and the NR23 LTIP)	To incentivise executives to achieve the company's long-term strategy and enhance shareholder value.	Cash awards based on the achievement of long-term, financial and strategic targets over the relevant regulatory price control period. The Transitional LTIP was implemented to replace the previously agreed RP3 plan, with a reduced performance period of two years. The plan is based on five strategic priorities for the specified period which a focus on the ongoing recovery of NATS for the period 1 April 2021 to 31 March 2023, with the first tranche of the award vesting in June 2023 subject to performance against the agreed targets. The second tranche will vest in June 2024. The NR23 LTIP award, which will cover the new five-year regulatory period from 1 January 2023 to 31 December 2027, will follow a similar structure as the previously agreed RP3 LTIP which was never granted due to Covid. The performance conditions have been approved by the Committee and are based 85% on financial measures and 15% on the Company's ESG climate goals.	The current maximum potential for each executive director is set out in the annual report on remuneration and will achieve a maximum of 110% of base salary per annum.	Awards vest based on performance-measuring the return against a set of agreed targets as approved by the Committee for each respective plan. LTIP awards granted prior to 2020 also contained a link to the Company's independent share valuation and awards vest based on the share valuation at the time of vesting. Current in-flight and future LTIP awards are no longer linked to this share valuation.	The rules of the current LTIP include provisions for recovery and withholding to apply if the Committee concludes that: > the performance on variable pay awards, that have been made or vested, was materially misstated or should have been assessed materially differently; > the assessment of any performance condition was based on an error, or inaccurate or mis-leading information or assumptions; > the relevant individual has committed serious misconduct; or > there is a major safety or operational incident resulting in serious consequences for the organisation, its customers or air passengers. Recovery and withholding may be applied for up to the third anniversary of the end of the LTIP award's performance period.



Reports from Board Committees

Remuneration Committee report (continued)

Service contracts

Executive Directors

The employment contracts of the CEO and CFO provide for 12 months' notice in the event of termination by the company or 6 months' notice from the executive director.

Exit payment policy

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

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

Non-Executive Directors

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

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

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

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

Consideration of the views of stakeholders in setting the Remuneration Policy

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

Exit payment policy table

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

Reports from Board Committees

Annual Report on Remuneration

Directors' remuneration for the year ended 31 March 2023

This part of the directors' remuneration report summarises the emoluments of executive and non-executive directors for the 2022/23 financial year.

Remuneration earned by directors for the year ended 31 March 2023 (audited)

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

Audited information - Director's Remuneration

Emoluments of the Chairman and directors were as follows:

		Salary or fees*		Benefits*		Pension Cash Alternative*		**Total fixed pay***		Annual incentive*		Other awards*		Long-term incentive plan*		**Total variable pay***		**Total remuneration***	
	Notes	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000
Chairman																			
Dr Paul Golby CBE	1	**171**	166	**13**	8	**-**	-	**184**	174	**-**	-	**-**	-	-	-	**-**	-	**184**	174
Executive directors																			
Martin Rolfe	2, 3, 4	**477**	467	**14**	14	**72**	70	**563**	551	**281**	162	**-**	-	**555**	-	**836**	162	**1,399**	713
Alistair Borthwick	4, 5	**340**	302	**28**	16	**51**	45	**419**	363	**167**	83	**150**	87	-	-	**317**	170	**736**	533
Non-executive directors																			
Maria Antoniou		**47**	45	**-**	-	**-**	-	**47**	45	**-**	-	**-**	-	**-**	-	**-**	-	**47**	45
Richard Keys		**24**	45	**2**	-	**-**	-	**26**	45	**-**	-	**-**	-	**-**	-	**-**	-	**26**	45
Iain McNicoll CB CBE		**24**	45	**-**	-	**-**	-	**24**	45	**-**	-	**-**	-	**-**	-	**-**	-	**24**	45
Greg Bagwell		**23**	-	**-**	-	**-**	-	**23**	-	**-**	-	**-**	-	**-**	-	**-**	-	**23**	-
David Smith		**23**	-	**-**	-	**-**	-	**23**	-	**-**	-	**-**	-	**-**	-	**-**	-	**23**	-
Michael Campbell	6	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Dr Harry Bush CB	6	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Gavin Merchant	6	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Hugh McConnellogue	6	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Bart Prudon	6	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Louise Street	6	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Kathryn Leahy	7	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
		1,129	1,070	**57**	38	**123**	115	**1,309**	1,223	**448**	245	**150**	87	**555**	-	**1,153**	332	**2,462**	1,555

*For year, or from date of appointment or up to date of resignation.

Notes to the table of directors' emoluments:

1. Benefits paid to the Chairman represent the reimbursement of travel costs.
2. Martin Rolfe's salary for 2022 included £3,476 for the exceptional backdating of the 2022 pay award to 1 January, rather than 1 April. His benefits include a car allowance, medical and dental benefits.
3. Martin Rolfe is a member of the defined contribution pension scheme in order to make employee contributions only and in 2022 sacrificed £4,000 of his salary under the company's salary sacrifice arrangements. These contributions are reported in his salary above. He did not sacrifice any salary in 2023. The company did not make any employer contributions.
4. Martin Rolfe and Alistair Borthwick were eligible for the pension cash alternative payment scheme in lieu of employer pension contributions. Under the pension cash alternative payment scheme, Martin Rolfe received £72,132 for the year (2022: £70,046), Alistair Borthwick received £51,300 for the year (2022: £45,338).
5. Alistair Borthwick's salary for 2022 included £2,250 for the exceptional backdating of the 2022 pay award to 1 January rather than 1 April. Included within other awards for 2022 is a partial compensation for performance related remuneration that he forfeited on leaving his previous employer. His contractual entitlement of £261,063 was payable in three equal annual instalments, with the final instalment reported in 2022. In 2022, the Remuneration Committee approved a retention incentive arrangement for Alistair Borthwick, given the critical nature of his role in securing an appropriate NR23 outcome and completing NERL's refinancing. An amount of £150,000 was paid in the financial year in this respect and is included in Other awards. A further amount will be paid based on Alistair remaining in service, which will be included in the table value for the year ending 31 March 2024. His benefits include a car allowance, medical and dental benefits and reimbursement of work-related travel from Prestwick to London and Hampshire.
6. These directors are appointed by The Airline Group (AG) which charged NATS a total of £221,505 (2022: £217,280) for the services of the directors.
7. Kathryn Leahy is appointed by LHRA and received no fees from NATS for her services.

Reports from Board Committees

Directors' remuneration for the year ended 31 March 2023 (continued)

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

	Annual base salary		
	Year ended 31 March 2022 (before backdated pay award)	Year ended 31 March 2023	% change
Martin Rolfe	£463,500	£477,405	3%
Alistair Borthwick	£300,000	£350,000	17%
Partnership directors:			
Base fee	£36,900	£38,000	3%
Fee for chairs of Board sub-committees	£8,200	£8,450	3%
Chairman	£165,120	£170,074	3%

As discussed in last year's report, a base salary increase of 3% was implemented in May 2022 to executives and, as a one-off exception, the increase was backdated to 1 January 2022. In normal circumstances, executive salary increases are effective from 1 April. The Committee agreed to backdate payments in recognition of the fact that there had been no salary increases since 2019 as a result of Covid. This was in line with the approach taken for the wider workforce.

The same situation applied for non-executives, including the Chairman, who also received a 3% increase in May 2022, backdated to 1 January 2022.

Alistair Borthwick received a further increase in basic salary to £350,000 in July 2022 in order to more closely align his remuneration package with that of our agreed comparator group and also in recognition of his development in role and the consistent contribution he has made to the business since his appointment. In addition, the salary increase recognises that his responsibilities expanded during the period to include Supply Chain, Facilities Management and Analytics.

Airline Group (AG) appointed directors

AG Directors receive no remuneration for their services to the NATS Board. However, a payment of £221,505 for 2022/23 (£217,280 for 2021/22) was made to AG in lieu of remuneration for these directors. This sum is used to fund the activities of AG.

LHR Airports (LHRA) appointed director

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

CFO Retention Incentive

As discussed in last year's report, the Remuneration Committee approved a retention and incentive arrangement for the CFO for the two-year period through to 2023, given the critical nature of his role in securing an appropriate NR23 outcome and completing NERL's refinancing over this period. In July 2022, Alistair Borthwick received the first instalment (£150,000) of his retention and incentive award. The final instalment is payable in June 2023 and will be disclosed when earned in the 2023/24 report.

Reports from Board Committees

Directors' remuneration for the year ended 31 March 2023 (continued)

Annual Management Performance Related Pay Scheme (AMPRPS) incentive for the year ended 31 March 2023 (audited)

The maximum potential award under the AMPRPS for 2022/23 for executive directors (and wider management population) returned to normal following disruption during the pandemic. The CEO was therefore eligible to receive an award of up to 70% of salary and 55% of salary for the CFO. AMPRPS awards are determined based on company performance and personal performance. For the 2022/23 scheme, an underpin was also applied to ensure that no payments could be made under the scheme unless the re-financing activity was completed. The re-financing activity was completed during the year and the final financial, customer focus and strategic performance resulted in an AMPRPS outturn of 61.1% out of an available 75.0% of the award for executive directors (see table below). Personal performance was assessed against objectives that covered areas including, but not limited to, the re-financing activity, the NR23 business plan and the delivery of strategic operational and technology milestones. Measurement is based on the NATS Personal Performance Rating System and the outturn for executive directors ranged between 22.5% and 27.5 % (out of an available 25.0%).

Financial measures	Weighting %	Outcome £m	Threshold (40%)	Target (75%)	Stretch (100%)	Payable %
NERL Underlying Controllable Operating Costs	24%	469.9	494	485	460	21.63%
NSL EBITDA	6%	13.0	9.2	10.1	13.8	5.67%
Customer Focused measures	**Weighting %**	**Outcome (seconds)**	**Threshold (20%)**	**Target (50%)**	**Stretch (100%)**	**Payable %**
NERL Average seconds of delay per flight (en route)	10%	10.2	5.8	5.0	4.4	0%
NSL Average seconds of staffing and engineering delay per arrival (UK airports)	5%	1.7	2.0	1.8	1.6	3.75%

Strategic measures	Weighting %	Target date	Outcome	Payable %
Submit a CAA compliant Western Airspace Change Proposal	6%	July 2022	Complete	6%
DP En route – Core Infrastructure ready for use	6%	October 2022	Complete	6%
Achieve successful Gatwick transition	9%	October 2022	Complete	9%
Obtain board approval for the submission of the NR23 plan to the CAA	9%	December 2022	Complete	9%

NERL's underlying operating costs were neutral to pension rates, exceptional items (redundancy, relocation, restructuring costs, share scheme costs), costs arising out of any change in capital structure and/or ownership, foreign exchange gains/losses, fixed asset sales, changes in accounting treatment for above the line tax credits and CAAPS costs charged directly to NATS. The metric also excludes bad debt, furlough and bonus scheme costs.

NSL's EBITDA was neutral to pension rates, exceptional items (redundancy, relocation, restructuring costs, share scheme costs, employee furlough and bonus scheme costs), costs arising out of any change in capital structure and/or ownership, foreign exchange gains/losses, fixed asset sales, changes in accounting treatment for above the line tax credits and CAAPS costs charged directly to NATS. The metric includes the share of joint venture profits but excludes Aireon results including fair value adjustments. The targets were adjusted if a price discount was provided to airports to secure an extension to current contracts.

Reports from Board Committees

Directors' remuneration for the year ended 31 March 2023 (continued)

Annual Management Performance Related Pay Scheme (AMPRPS) incentive for the year ended 31 March 2023 (audited) (continued)

Director	Company performance element % payable	Personal performance element % payable	Total AMPRPS payable June 2023 (£)
Martin Rolfe	61.1% out of 75%	22.5% out of 25%	281,243
Alistair Borthwick	61.1% out of 75%	27.5% out of 25%[1]	166,562

[1] Alistair Borthwick was awarded a higher personal performance rating (110%) given his exceptional performance in the year.

Long-term incentive payments

LTIP arrangements are established for executive directors and other members of the NATS Executive team in order to incentivise long-term performance, align performance with shareholders' interests, and reward exceptional performance. Performance conditions are generally established for LTIPs for periods of three years; however, awards may also mirror any five-year period aligned to regulatory periods in future. Payments under LTIP arrangements are made according to a predetermined vesting schedule; vesting will typically occur in tranches over at least a three-year period. Payments are subject to eligibility criteria under scheme rules. These require participants to be employed at the vesting date or to be good leavers under the scheme rules.

Transitional LTIP (audited)

Performance under the Transitional LTIP award (performance period 1 April 2021 to 31 March 2023) was assessed against five strategic priorities as shown in the table below. No increase was made to the maximum annual grant values for participants (110% per annum for the CEO and 90% per annum for the CFO). The performance conditions are:

Target	Weighting (%)	Performance outcome	Payable (%)
Successfully conclude phases 1 and 2 of the refinancing (March 23) and extend the duration of the bridge arrangements by June 2022 in an efficient manner with a clear path to sustainable solution identified	35%	Complete	35%
Negotiate and agree a triennial valuation outcome	15%	Complete	15%
Successfully agree an NR23 plan that balances the needs of our key stakeholders, customers and the company	20%	*Partially complete*[1]	*10%*
Gain a NERL licence extension from 10 - 15 years	15%	Complete	15%
Successful Gatwick transition by October 2022, with 5 months of successful operation	15%	Complete	15%

[1] This is an interim assessment of the performance outcome on this target that will apply for the vesting amounts in June 2023. The Committee was satisfied that 50% of this target was complete and the remaining 50% will be assessed once the outcome of the CAA's final determination on the NR23 plan is known. Any adjustment required will be trued up in the final vesting amounts in June 2024.

Since the two vesting dates for this LTIP are in June 2023 and June 2024, the equivalent vesting amounts will be included in the single figure table in the 2023/24 and 2024/25 director's remuneration reports respectively; this is in line with the Company's decision to move to reporting LTIP figures on a Schedule 5 basis going forward (discussed further on page 71).

Reports from Board Committees

Directors' remuneration for the year ended 31 March 2023 (continued)

Outstanding LTIP Cycles (audited)

LTIP schemes (Cycles 6 and 7) awarded up to April 2017 were based on awards of notional shares made annually with performance conditions measured over a period of three years. The final performance outturn for the Cycle 6 and Cycle 7 awards was 46.4% and 71.7% of target respectively, as determined in previous years.

Amounts paid under LTIP Cycles 6 and 7 are based on the value of notional shares at each vesting date, which is linked to the price of an employee share and the total shareholder return since the award date. The value of vesting payments under these LTIP cycles is determined at the relevant vesting dates and are reported in the directors' emoluments table when vested (or paid to a good leaver). In last year's report, the values of the outstanding Cycle 6 and 7 tranches vesting from July 2020 onwards were undetermined, as they were dependent on an HMRC approved employee share price at the vesting date.

Vesting under all tranches on or after July 2020 had been deferred due to Covid and were not capable of being determined following suspension of the employee share scheme. The operation of the share scheme recommenced during this financial year and HMRC approved a valuation of £3.70 per share, which applies for the period 1 January 2023 to 30 June 2023. Therefore, for the outstanding LTIP cycles, this meant that the Total Shareholder Return values to be used in the Cycle 6 and Cycle 7 vesting calculations could be calculated and were £5.17 for Cycle 6 and £5.00 for Cycle 7. The table below details the vesting values in respect of the CEO.

Director	Cycle	Date of award	% of salary awarded	TSR value	Value of Notional Shares Awarded (£)
Martin Rolfe	Cycle 6	April 2016	110%	£5.17	125,656
	Cycle 7	April 2017	110%	£5.00	429,292

Payments to past directors

As disclosed in the Remuneration Committee's report for the 2020/21 annual report and accounts, Nigel Fotherby (former Finance Director) was granted awards of 90% of salary under LTIP Cycles 6 and 7 during his period of service. Upon his retirement he was deemed a good leaver and eligible to receive payments based on a final vesting outturn of 46.4% and 71.7% for Cycles 6 and 7 respectively, noting that Nigel's Cycle 7 award was pro-rated to reflect the proportion of the performance period he was in role. As noted earlier in this report, for the first time since the onset of the Covid-19 pandemic, the Company obtained an HMRC approved employee share price during the financial year and hence Nigel received a payment of £74,978 in relation to his outstanding Cycle 6 awards. Outstanding payments due to Nigel under the Cycle 7 LTIP scheme will be disclosed in the financial year in which they are paid.

Ratio of the Chief Executive's pay to UK employees

Although the requirement to disclose the pay ratio is not a statutory requirement for NATS, the Committee considered it appropriate to include the relevant disclosures on an entirely voluntary basis as it helps to demonstrate the link between the Chief Executive's pay and the remuneration of the wider workforce. The table below shows the pay ratios over the past five years. The movement in ratios since 2019 is primarily due to the timing of vesting of the CEO's LTIP in that the ratio reduced in the last two years as there were no LTIPs vesting but increased this year due to vesting of Cycle 6 and 7 LTIPs as outlined above.

Date	Method of calculation adopted	25th percentile pay ratio (Chief Executive: UK employees)	Median pay ratio (Chief Executive: UK employees)	75th percentile pay ratio (Chief Executive: UK employees)
April 2019	Option B	18:1	13:1	10:1
April 2020	Option A	35:1	23:1	17:1
April 2021	Option A	9:1	6:1	4:1
April 2022	Option A	10:1	8:1	5:1
April 2023	Option A	19:1	14:1	9:1

Reports from Board Committees

Directors' remuneration for the year ended 31 March 2023 (continued)

Ratio of the Chief Executive's pay to UK employees (continued)

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

Percentile	Base salary (£'000)	Total Remuneration (£'000)	Ratio of CEO total remuneration to percentile
25th	62	**72**	**19**
50th	83	**102**	**14**
75th	91	**149**	**9**
CEO	477	**1,399**	**1**

The median, 25th percentile and 75th percentile figures used to determine the ratio in 2019 were calculated by reference to option B, which uses the most recent pay information available from the NATS' gender pay report data to allow us to make best estimates on the 25/50/75th centile pay data for comparison. From 2020, the Committee changed the calculation methodology to Option A, as it was considered more statistically accurate, and data became available to use this method. The Committee considers that the median pay ratio disclosed above is consistent with the pay, reward and progression policies for the company's UK employees taken as a whole. The employees used in the calculations are considered to be reasonably representative of the 25th, 50th and 75th percentiles of the company's remuneration for the relevant financial year.

Five-year history of Chief Executive remuneration

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

Financial years ended 31 March	2019	2020		2021	2022	2023
Earned for the year (£'000s)	1,103	2,047		535	713	1,399
AMPRPS (% of maximum entitlement)	89.8%	86.0%		0%	50%	81.4%
LTIP (% of maximum entitlement)	Cycle 6 46.4%	Cycle 7 71.7%	RP2 100%	n/a	n/a	90%[1]

[1] As discussed on page 66, the Committee agreed an interim assessment of the performance outcome that will apply for the first vesting amounts of the Transitional LTIP in June 2023, subject to the final outcome relating to the NR23 related target.

Reports from Board Committees

Directors' remuneration for the year ended 31 March 2023 (continued)

Statement of directors' interest in shares

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

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

The share plan was temporarily suspended in March 2020 given the impact of Covid however this has now recommenced and HMRC approved a valuation of £3.70 per share which applies for the period 1 January 2023 to 30 June 2023.

Details of the shares held by directors during the year are set out in the table below.

		Indicative share value	
Director	**Total holding (number of shares)**	**At 31 March 2023 (at £3.70 per share)**	**At 31 March 2022 (estimated at £2.41 per share)**
Martin Rolfe	1,024	3,789	2,468

There were no dividend payments or awards of employee shares made during the 2022/23 financial year.

Reports from Board Committees

Implementation of the remuneration policy for the year ending 31 March 2024

This part of the directors' remuneration report sets out how the remuneration policy will be applied for the financial year ending 31 March 2024.

Executive directors

Base salaries

	Annual base salary (2023/24 salaries effective from 1 April 2023)		
	2022/23	**2023/24**	**% change**
Martin Rolfe, CEO	£477,405	**£508,436**	6.5%
Alistair Borthwick, CFO	£350,000	**£372,750**	6.5%

Base salaries for both Martin Rolfe and Alistair Borthwick have increased by 6.5% effective from 1 April 2023. Increases were agreed by the Committee taking into consideration our annual benchmarking exercise, as well as individual performance and alignment with the salary increases for the broader workforce.

Pension and benefits

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

Annual incentive scheme

An AMPRPS award will be in place for 2023/24, with the following opportunity levels:

> CEO – 70% of base salary.

> CFO – 55% of base salary.

Performance measures will be aligned to the new Company strategy and will include financial, service performance and ESG related measures (combined weighting of 75%), as well as personal performance measures (25% weighting).

Reports from Board Committees

Implementation of the remuneration policy for the year ending 31 March 2024 (continued)

Long-term incentive plan (LTIP)

A new LTIP award (the NR23 LTIP) has been approved by the Remuneration Committee aligned to the new 5-year regulatory period beginning 1 January 2023.

No increase was made to the maximum annual grant values for participants. As such, the opportunity levels for the NR23 LTIP are as follows:

- CEO – 550% of salary (110% of base salary per annum).
- CFO – 450% of salary (90% of base salary per annum).

The performance conditions incorporate financial and ESG related metrics as shown in the table below, and the award will vest based on the performance outcome with five equal payment opportunities starting in 2025 through to 2029.

Financial Performance Conditions	Threshold (20% Vesting of Payment Opportunity)		Stretch (100% Vesting of Payment Opportunity)	Weighting (% of maximum of Payment Opportunity)
NERL Regulatory Return	2.81%		3.37%	60%
NSL Profitable Revenue Growth	£257 million		£303 million	25%
Environmental, Social and Governance (“ESG”) Performance Conditions	**Threshold (40% Vesting of Payment Opportunity)**	**Target (75% Vesting of Payment Opportunity)**	**Stretch (100% Vesting of Payment Opportunity)**	**Weighting (% of maximum of Payment Opportunity)**
SBTi Validated Estate CO_2 reductions (scope 1 and 2)	Reduction of 41% - 46.9%	Reduction of 47% - 52.9%	Reduction of 53% or more	10%
CDP Score – Climate Change	To achieve and maintain an A- rating throughout the Performance Period			5%

Note: the final target definition and values may require updating once the outcome of the CAA's Final Determination on the NR23 plan is known.

NATS will disclose LTIP payments for the NR23 scheme in line with Schedule 5 of SI 2008/410 of the 2006 Companies Act. In this way, the disclosure of earnings under this plan will reflect the point in time at which the participant becomes unconditionally entitled to receive a payment (i.e. at the vesting date) rather than the date when performance is tested. This disclosure approach is considered appropriate given that the listed company regulations (Schedule 8) are more appropriate for a share-based incentive plan, which the new LTIP is not, it is a cash-based incentive. In most other regards, however, NATS will continue to follow the disclosure requirements for listed companies set out in Schedule 8 in the spirit of adherence to best-practice governance and disclosure.

Reports from Board Committees

Implementation of the remuneration policy for the year ending 31 March 2024 (continued)

Non-executive directors

The company's approach to setting the fees for non-executive directors is by reference to those paid by similar companies. Fees are reviewed annually by the NATS CEO and HR Director.

Chairman

The Chairman's contract has been extended for a further year until 31 August 2024. The Remuneration Committee approved a salary increase of 6.2%, taking the Chairman's base fee to £180,618 with effect from 1 April 2023.

Partnership directors

Fees with effect from 1 April	2022	2023	% change
Base fee	**£38,000**	£40,363	6.2%
Fee for chairs of Board sub-committees *	**£8,450**	£8,970	6.2%

*Remuneration Committee, Audit Committee and Safety Review Committee.

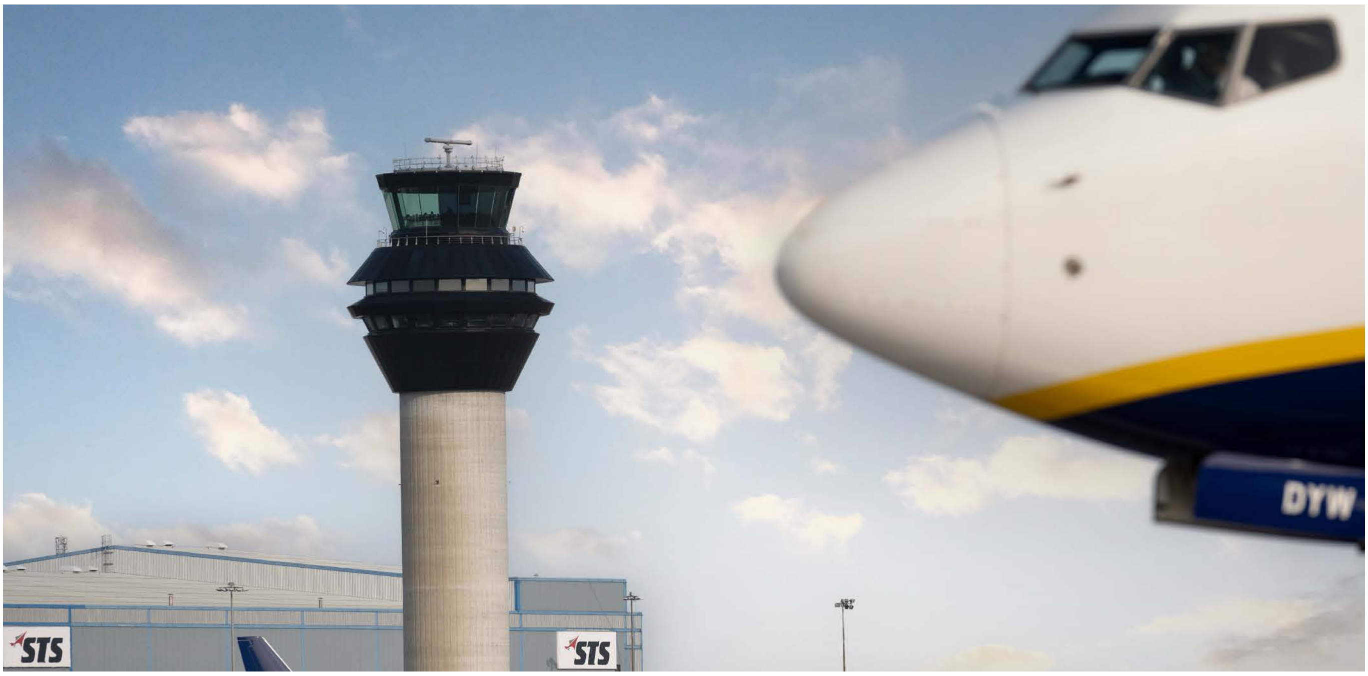
Airline Group (AG) appointed directors

AG appointed directors receive no remuneration for their services to the NATS Board. However, a fee is paid to AG in lieu of remuneration for these directors. This fee is reviewed on an annual basis by the NATS CEO and HR Director. It was agreed that the annual fee from 1 April 2023 would increase to £233,596.

LHR Airports (LHRA) appointed director

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

Maria Antoniou
Chair of the Remuneration Committee



Reports from Board Committees

Safety Review Committee report

The role of the Safety Review Committee

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

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

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

> review the group's safety performance;

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

> monitor the implementation of safety enhancement programmes; and

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

A change of the Chair of the committee occurred during 2022 with Iain McNicoll handing over responsibility to Greg Bagwell in October. There were two other non-executive director members in the period of this report: Kathryn Leahy and Hugh McConnellogue. In addition, the NATS Board Chair attends the Committee.

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

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

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

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

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

The CAA's Head of Airspace, ATM and Aerodromes has an annual invitation to meet and brief the Committee. Emphasis this year was on assessing and managing the industry risk presented by uncrewed air systems including drones, infringements and NATS' Transition Programme for the current technical systems.

> Safety performance

The SRC carefully monitors the group's safety performance and progress towards its targets. During 2022, the regulatory targets which had been set for RP3 were suspended due to Covid impact. New targets have been developed and agreed to commence in 2023 in line with the new NR23 reporting period (2023 to 2027). During the interim period, the NATS group continued to use, and to meet, the RP2 targets. NATS' safety performance during 2022 has remained strong through a period of increasing traffic levels. A safety review took place during 2022 to identify what factors have driven this sound performance and identifying activities to carry forward into 2023 and beyond to continue to support positive safety performance.

> Safety risk management

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

As the pandemic effect on traffic levels receded during 2022, the SRC remained focused on how NATS was safely managing the increase in traffic numbers and the recommencement of ATCO training. Focus topics discussed were: licensing, currency and competence; infringements of military areas; and airspace infringements. In each topic, current progress with the issues and future plans for improvements were studied and challenged.

In addition to the focus on regeneration and established causal factors, the committee is proactively focused on the emerging risks associated with uncrewed traffic, including drones, as there is significant identifiable growth in this sector into the future.

The Committee has also focused on Health & Safety/Wellbeing and now review these topics as a standing agenda item at quarterly meetings.

> Safety workshops

A safety workshop in 2022 provided the SRC with an update on the NATS' Infringement Strategy and to provide an insight into the implications of the industry risk and how NATS are planning collaborative activities to support managing the risk.

Reports from Board Committees

Safety Review Committee report (continued)

> NATS Safety Strategy

The NATS Safety Strategy sets out the vision for how safety will evolve in NATS out to 2030. Work has commenced, during 2022, to assess alignment with the new Corporate Strategy 2040. It is intended to relaunch a revised Safety Strategy in 2023 on completion of the alignment analysis.

> Physical and Personnel Security

External Threat and Incident Management: NATS security teams continued to work with the National Protective Security Authority, Department for Transport and relevant local constabularies to assess threats and maintain appropriate protective measures and vigilance. Potential strike action by Border Force staff was evident throughout the year. There was good engagement with the authorities and mitigations were in place where possible. The potential impact of Border Force strikes was being monitored and contingency planning for the impact is in place.

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

2022 had seen heightened influence in the geopolitical environment and subsequently an increased overall security risk. The SRC were briefed on measures that NATS were taking, aligned to activities in cyber and information security. NATS maintained a watching brief on group memberships and associations and made employees aware of their obligations and necessary measures to safeguard services.

Greg Bagwell, CB CBE
Chair of the Safety Review Committee

Reports from Board Committees

Transformation Review Committee report

The role of the Committee

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

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

The Committee is chaired by Mike Campbell with two other non-executive directors as members: Greg Bagwell CB CBE and David Smith. The NATS Chair, Paul Golby, also attends. The CEO is invited to attend the TRC by standing invitation and the following executive directors are invited to attend as appropriate:

- Technical Services Director;
- Operations Director;
- Managing Director, NATS Services;
- Legal Director; and
- Human Resources Director.

Main activities of the Committee during the year

As part of its governance and oversight, the Committee receives regular in-depth reports and briefings on the existing and planned transformation agenda and organisational risk profiles. During the 2023 financial year, the following have been the key areas of focus by the Committee:

DSESAR

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

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

The TRC maintained oversight of all aspects of this programme including programme sustainability, investment governance and programme delivery.

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

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

Since our re-phasing of the DP En Route and Voice programme into workstreams, we continued to make progress on our revised plan and achieved a number of key milestones. We have completed testing of our Second Voice System, which replaces legacy equipment and improves service resilience, in advance of deployment later this year. In 2024, we are planning to deliver new controller tools and workstations onto our existing infrastructure platform at our Prestwick centre. During the last year, the latest iTEC build was delivered, enabling the critical step of testing and validation before we begin training and transition into live operation. We also achieved a major ready for use milestone of the new infrastructure platform and the first phase of performance testing our core infrastructure network and related applications completed.

Airspace Change

Modernising airspace remains a top investment priority. Our airspace design work is aligned to the UK's Airspace Modernisation Strategy and we have already delivered significant efficiency benefits and carbon savings through changes implemented. West Airspace Deployment was successfully delivered in March 2023. This airspace change systemised the air traffic services route network from 7,000ft to 24,500ft over Wales and South West England, enabling more efficient flight profiles, and deployed free route airspace above 24,500ft enabling airlines to plan their own routes improving airspace capacity. This is the largest airspace change undertaken to date in the UK and will deliver improved performance to our customers by simplifying the way aircraft can navigate congested airspace in more sustainable ways and increase capacity for future growth.

Three Operational Service Enhancement Project (OSEP) deployments were implemented during 2022. OSEP delivers smaller scale operational improvements and structural changes in UK airspace forming a crucial part of the wider industry effort to decarbonise in response to the net zero requirements of aviation in the UK by 2050.

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

Reports from Board Committees

Transformation Review Committee report (continued)

Resilience

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

Cyber Security

The TRC continues to play a key role in providing Board oversight of cyber security and receives updates from the Chief Security Officer on all aspects of cyber security assurance, including technical compliance, monitoring and reporting on events as well as people and cultural aspects designed to improve capability and competency and reduce risk. Changes in the external threat environment continue to be monitored and the effectiveness of key controls within the organisation are assessed, considering the highest risks to operational and corporate systems.

ATC Training

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

Impact of transformation on our employees

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

Programme Governance

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

Mike Campbell
Chair of the Transformation Review Committee

Report of the directors

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

The Governance report is set out on pages 40 to 78 and forms part of this report. A review of the group's key business developments in the year and an indication of likely future developments, as well as information regarding greenhouse gas emissions, energy consumption and actions to increase energy efficiency, are included within the Strategic report.

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

Dividends

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

Directors and their interests

The directors of the company at the date of this report are set out on pages 42 to 46. Changes in the Board during the year and to the date of this report as explained on page 47.

The interests of the directors in the share capital of the parent company, through their participation in the All-Employee Share Ownership Plan, are set out on page 69.

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

Directors' indemnities

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

Employee engagement

The directors are committed to the involvement of employees in the decision-making process through effective leadership at all levels in the organisation, including engagement with the Board through a designated non-executive director. Employees are frequently involved through direct discussions with their managers, cross company working groups and local committees. Regular employee consultations cover a range of topics affecting them, including such matters as corporate performance and business plans. The directors encourage the involvement of employees in the company's performance through the All-Employee Share Ownership Plan.

The directors have regard to the safety, health and well-being of employees (and contract staff). The NATS CEO maintains high visibility with employees through visits to NATS sites, or through virtual engagements where more appropriate, where he talks to them about current business issues and takes questions in an open and straightforward manner. The NATS CEO and the Executive team provided regular updates to employees through the company's internal media. Such actions enable employees to achieve a common awareness of those factors affecting the performance of the company. 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 group pay policy is explained in the Remuneration Committee's report. The group is an equal opportunities employer. Its policy is designed to ensure that no applicant or employee receives less favourable treatment than any other on the grounds of sex, age, disability, marital status, colour, race, ethnic origin, religious belief or sexual orientation, nor is disadvantaged by conditions or requirements applied to any post which cannot be shown to be fair and reasonable under relevant employment law or codes of practice.

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

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

Business relationships

We explain on pages 36 to 37 how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and other stakeholders, and the effect of that regard, including on principal decisions taken during the financial year.

Going concern and viability statements

The directors' assessment of going concern and their viability statement are set out on pages 22 to 23.

Report of the directors

Directors' responsibilities

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

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

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

> present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

> provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

> make an assessment of the group's ability to continue as a going concern.

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

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

> so far as the director is aware, there is no relevant audit information of which the group's auditors are unaware; and

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

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

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

We confirm that to the best of our knowledge:

> the financial statements, prepared in accordance with UK adopted International Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the group;

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

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

Auditor

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

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

Richard Churchill-Coleman
Secretary
29 June 2023

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

Registered in England and Wales
Company No. 04138218

Annual Report and Accounts 2023

Financial statements

Contents

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

Opinion on the Financial Statements

In our opinion:

> the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2023 and of the Group's profit for the year then ended;

> the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;

> the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and

> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of NATS Holdings Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2023 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheets, the Consolidated and Company statement of changes in equity, the Consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

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

In our opinion the Group financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRSs as issued by the IASB.

Basis for opinion

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

Independence

Following the recommendation of the audit committee, we were appointed by the Directors at the Annual General Meeting on 31 July 2014 to audit the financial statements for the year ended 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 9 years, covering the years ended 31 March 2015 to 31 March 2023. We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

Conclusions relating to going concern

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

> Reviewing the Directors' going concern assessment, forecasts and covenant compliance for the Group for a period of at least 12 months from the date of approval of the financial statements. This included checking that the forecasts were consistent with the latest Board approved budgets.

> Detailed enquiries and challenge of the Board and management on reasonableness of the assumptions made in the preparation of these forecasts. This included making comparisons to actual results achieved in the year.

> Reviewing Directors' reverse stress testing on forecasts and consideration of the downside scenarios that would result in a breach of the net debt to Regulatory Asset Base ("RAB") covenant. We considered the Directors' assessment of the likelihood of such circumstances arising in determining their conclusion related to going concern.

> Assessing the accuracy of the Directors' financial model by testing the mechanical integrity of forecasts, assessing the historical forecasting accuracy and future air traffic assumptions by comparing these to third party forecasts from June 2023 through to at least June 2024.

> Reviewing the terms of the Group's facility agreements and other key documents for significant matters that could impact the going concern assessment.

> Considering the adequacy of the disclosures in the financial statements against the requirements of the accounting standards and consistency of the disclosure against the forecasts and reverse stress test assessment.

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

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

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

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

Overview

Coverage[1]

> 99% (2022: 99%) of Group profit before tax
> 99% (2022: 99%) of Group revenue
> 99% (2022: 99%) of Group total assets

Key audit matters

	2023	2022
Recognition of licence fee revenue and amounts recoverable under regulatory agreement	Yes	Yes
Impairment of assets in the course of construction	Yes	Yes
Valuation of pension scheme liabilities	Yes	Yes
Valuation of certain pension scheme assets	Yes	Yes
Carrying value of goodwill	No	Yes

The Carrying value of goodwill is no longer considered to be a key audit matter primarily as a result of the reduced level of uncertainty due to the travel industry recovery following the COVID-19 pandemic and the level of headroom in the recoverable amount.

Impairment of assets in the course of construction was previously included within the Capital investment programme key audit matter. The remainder of the Capital investment programme is no longer considered a key audit matter as the risk of impairment has reduced following the travel industry recovery from the COVID-19 pandemic.

Materiality

Group financial statements as a whole

£6.8m (2022: £5.0m) based on 0.9% of operating costs (2022: 0.8% of operating costs).

An overview of the scope of our audit

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

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

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

Key audit matters

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

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

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

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

Recognition of licence fee revenue and amounts recoverable under regulatory agreement

Total revenue and regulatory allowances in the year is £930.0m (2022: £749.8m), of which regulatory allowances under-recovered is £41.0m (2022: £202.0m).

The accounting policies for 'revenue recognition' and for 'Amounts recoverable or payable under regulatory agreement' are included in note 2.

Note 4 includes details of total revenue and regulatory allowances. Notes 17 and 22 include details of the amounts recoverable and payable under regulatory agreement.

Note 3 sets out the significant estimation uncertainty in respect of the recognition of the shortfall in revenue and regulatory allowances.

All licence fee revenue and amounts recoverable under regulatory agreement are recognised in NATS (En Route) plc ("NERL")

As a result of the significant impact of COVID-19 on flight volumes and the CAA opening a price control review, the recognition of licence fee revenue and regulatory allowances under recovered is subject to significant estimation uncertainty.

This estimation includes management judgement in respect of the outcome of the CAA price control review, the basis for their assessment of efficient costs and the period over which any amounts recoverable under regulatory agreement will be recovered.

As a result of the above, the recognition of licence fee revenue and amounts recoverable under regulatory agreement and the related disclosures were considered an area of audit focus.

Our procedures included:

- Understanding the regulatory framework in respect of licence fee revenue and regulatory allowances under recovered and assessing that these have been appropriately accounted for in accordance with the applicable accounting standards.
- Completing a test in total on the NERL revenue, corroborating each of the underlying revenue streams to supporting contract documentation, to check that the revenue is appropriately recognised.
- Checking that airspace revenue is being accounted for in line with the provisions of the air traffic services licence, the regulatory charging mechanisms for the reference period and the basis for the on-going price control review being conducted by the CAA.
- Reviewing publicly available information, including CAP2394 published in October 2022 which set out the CAA's initial proposals for the next price control review (NR23), in comparison to Management's approach to determining licence fee entitlement.
- Challenging management's judgement as to whether it is highly probable their assessment of the costs the CAA will determine to be recoverable, will not give rise to a significant risk of revenue reversal. This included challenging management's assessment of:
  - the period over which any regulatory allowances under-recovered would be recovered by reviewing the relevant CAP documents and consideration of alternative recovery periods; and
  - the determination of an efficient cost base by reviewing the appropriateness of the costs included.
- Confirming the appropriateness of the discount rate used by management to determine the present value of the regulatory allowances under-recovered by comparing to external market data.
- Challenging management's basis for spreading the recognition of the annual licence fee revenue and regulatory allowance entitlement throughout the year by considering the appropriateness of alternative input and output based recognition bases.
- Reviewing the disclosures presented in respect of the above within the financial statements and checking compliance with the requirements of the accounting standards.

Key observations

As a result of performing the procedures above, we consider the judgements made in the recognition of licence fee revenue and amounts recoverable under regulatory agreement were reasonable, and the related disclosures were acceptable.

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

Key audit matter	How the scope of our audit addressed the key audit matter
Impairment of assets in the course of construction The carrying value of assets in the course of construction within other intangible assets is £420.6m (2022: £383.2m) and within property, plant and equipment is £181.8m (2022: £162.3m). The accounting policy for these is included in note 2. Notes 13 and 14 set out details of amounts invested. The group invests significant sums in the sustainment and development of air traffic control infrastructure. A substantial proportion of the costs incurred are the amounts charged by staff employed by the group that are capitalised to specific projects. Management makes judgements around the useful economic lives of currently deployed systems, in assessing indicators of impairment and considering the feasibility of individual projects. Due to the two judgements noted above, the carrying value of assets in the course of construction and the related disclosures were considered an area of focus for our audit.	**Our procedures included:** > Reviewing management's assessment of any indicators of impairment for a sample of current capital projects carried forward as either tangible or intangible assets and checking the appropriateness of their conclusions through challenge of the project managers, outside of the group finance team, to gain an understanding of the capital projects. > Testing a sample of capitalised projects that included verifying the appropriateness of the labour rates being used and the amount of labour time being capitalised per project to supporting payroll information. > In considering the feasibility of individual projects we challenged the project managers and reviewed the performance to date against the expected performance. > Testing the operating effectiveness of the control relating to the review and documentation which takes place on a project-by-project basis. > Reviewing the related disclosures within the financial statements and checking that they complied with the requirements of the accounting standards. **Key observations** We consider that the impairment of assets under the course of construction is appropriately treated and the related disclosures to be acceptable.

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

Key audit matter	How the scope of our audit addressed the key audit matter
Valuation of pension scheme liabilities As disclosed in note 32, the Group has recorded a gross defined benefit obligation of £3,486.0m (2022: £4,957.7m) in the valuation of the net defined benefit pension asset recorded on the Group balance sheet. Note 32 also includes details of the Group's assessment of the sensitivity of the present value of the scheme obligation to changes in actuarial assumptions. The quantum of the Group's plan liabilities recorded in the net defined benefit asset on the Group's balance sheet is significant and the valuation is subjective. The determination of the gross defined benefit obligation is subject to a significant level of estimation uncertainty, based on the use of actuarial assumptions. When making these assumptions, the Directors take independent actuarial advice relating to their appropriateness. As a result of the above the valuation of pension scheme liabilities and the related disclosures were considered an area of focus for our audit.	**Our procedures included:** > With the assistance of our actuarial experts, challenging the appropriateness of the actuarial assumptions used by the Group in calculating the gross defined benefit pension obligation. This included benchmarking certain assumptions such as the discount rate, RPI and CPI against those used for similar schemes and considering whether each of these assumptions sit within an acceptable range of possible outcomes. > Assessing the competence and objectivity of management's expert. > Agreeing member number information to source data to check the accuracy thereof. > Assessing the adequacy of the disclosures within note 32 to the financial statements to check these are in line with the applicable accounting standards. **Key observations** As a result of performing the procedures above, we found that valuation of the gross defined benefit pension scheme obligations and the related disclosures to be appropriate.

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

Key audit matter	How the scope of our audit addressed the key audit matter
Valuation of certain pension scheme assets As disclosed in note 32, the Group had £3,544.7m (2022: £5,299.6m) of plan assets that are included in the valuation of the net defined benefit asset recorded on the Group balance sheet. Those assets include investments in hedge funds and private equity funds which make up £362.4m (2022: £391.4m) of plan assets. The quantum of the Group's plan assets recorded in the net defined benefit asset on the Group's balance sheet is significant in the context of the financial statements. Some of the asset valuations, which are determined with the assistance of the investment fund managers, are highly subjective. As a result of the above the valuation of hedge fund and private equity fund scheme assets were considered an area of focus for our audit.	**Our procedures included:** > Comparing the values of investments held at the balance sheet date to external investment manager asset confirmations and statements to confirm the accuracy of the underlying valuation. > Assessing the competence of the investment fund managers and, where different, the valuers, by obtaining and reviewing relevant controls reports to understand the controls they have in place over valuation and to identify any control findings which might impact the reliability of the valuations. > Where control reports or bridging letters were not available, confirming the reasonableness of asset valuations and movements to corroborating evidence such as audited accounts. > Reviewing, with the assistance of our own internal valuation experts, management's assessment of the existence of any significant valuation movements between the date of the most recent audited financial statements of the private equity funds and the balance sheet date, with reference to any available relevant market data. **Key observations** As a result of performing the procedures above, we found that the valuation of hedge fund and private equity fund plan assets to be appropriate.

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

Our application of materiality

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

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

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

	Group financial statements		**Parent company financial statements**	
	2023	**2022**	**2023**	**2022**
Materiality	£6.8m	£5m	£2.8m	£2.8m
Basis for determining materiality	0.9% of operating costs	0.8% of operating costs	2% of total assets	2% of total assets
Rationale for the benchmark applied	The level of uncertainty in respect of the COVID-19 pandemic reduced during the year with the resulting increase in air traffic. Given that costs incurred will form the basis on which the licence fee for the period will be set by the CAA, we considered that operating costs continue to provide the most appropriate measure on which to base materiality.	Due to the COVID-19 pandemic, the group had experienced significantly lower flight traffic levels and as a result incurred a loss for the year. As a result and given that costs incurred will form the basis on which the licence fee for the period will be set by the CAA, we considered that operating costs provide the most appropriate measure on which to base materiality.	This was considered the most appropriate bench-mark as the Parent Company does not trade.	
Performance materiality	£5.1m	£3.8m	£2.1m	£2.1m
Basis for determining performance materiality	75%	75%	75%	75%
Rationale for the percentage applied for performance materiality	We set our performance materiality at 75% of overall materiality. In setting the level of performance materiality, we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.			

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

Our application of materiality (continued)

Component materiality

For the purposes of our Group audit opinion, we set materiality for each significant component of the Group, apart from the Parent Company whose materiality is set out above, based on a percentage of between 29% and 86% (2022: 28% and 94%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £1.7m to £5.4m (2022: £1.4m to £4.7m). In the audit of each component, we further applied performance materiality levels of 75% (2022:75%) of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £136,000 (2022: £100,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

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

We have nothing to report in this regard.

Corporate Governance Statement

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

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

Going concern and longer-term viability

> The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified as set out on page 22 and 23; and

> The Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate as set out on page 23.

Other Code provisions

> Directors' statement on fair, balanced and understandable as set out on page 78;

> Board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out on page 24;

> The section of the annual report that describes the review of effectiveness of risk management and internal control systems as set out on page 54; and

> The section describing the work of the audit committee as set out on page 51.

Other Companies Act 2006 reporting

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

Strategic report and Directors' report

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

> the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

> the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

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

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

Other Companies Act 2006 reporting (continued)

Matters on which we are required to report by exception

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

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

Other voluntary reporting

Directors' remuneration

The Parent Company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The Directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 as if the Group were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the requirements of the Companies Act 2006 that would have applied had the Parent Company been a quoted company under the provisions of that Act.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Non-compliance with laws and regulations

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

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

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

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

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

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 Group's compliance with laws and regulations or indicate potential fraud risks; and

> challenging assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to revenue and regulatory allowance accounting, the valuation of certain defined benefit pension assets, the valuation of pension scheme liabilities and impairment of assets in course of construction as set out in the Key Audit Matters above.

We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members 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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Christopher Pooles (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Reading
United Kingdom

29 June 2023

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

Consolidated income statement

for the year ended 31 March

	Notes	2023 £m	2022 £m
Revenue from contracts with customers	4	**863.6**	539.6
Regulatory allowances under-recovered	4	**41.0**	202.0
Other revenue	4	**25.4**	8.2
Total revenue and regulatory allowances		**930.0**	749.8
Staff costs	7	**(485.9)**	(436.9)
Services and materials		**(81.8)**	(67.6)
Repairs and maintenance		**(45.5)**	(40.6)
External research and development		**(0.7)**	(0.4)
Depreciation, amortisation and impairment of property, plant, equipment, intangible and right-of-use assets	6	**(104.3)**	(85.5)
Goodwill impairment	6, 12	**(2.9)**	-
Change in expected credit losses	17	**0.8**	5.4
Other operating charges		**(39.2)**	(29.7)
Other operating income		**3.2**	2.8
(Loss)/profit on disposal of non-current assets		**(0.2)**	0.4
Deferred grants released	6	**0.6**	0.6
Net operating costs		**(755.9)**	(651.5)
Operating profit	6	**174.1**	98.3
Share of results of associate and joint ventures	34	**2.0**	2.0
Profit on disposal of joint venture	34	**1.3**	-
Fair value gain on previously held interest in joint venture	34	**-**	4.4
Investment income	8	**28.4**	11.7
Fair value movement on financial instruments	9	**(27.1)**	(44.5)
Finance costs	10	**(30.2)**	(63.2)
Profit before tax		**148.5**	8.7
Tax	11	**(32.3)**	(36.3)
Profit/(loss) for the year attributable to equity shareholders		**116.2**	(27.6)

Consolidated statement of comprehensive income

for the year ended 31 March

	Notes	2023 £m	Restated 2022 £m
Profit/(loss) for the year after tax		**116.2**	(27.6)
Items that will not be reclassified subsequently to profit and loss:			
Actuarial (loss)/gain on defined benefit pension scheme	32	**(302.9)**	365.1
Deferred tax relating to actuarial (loss)/gain on defined benefit pension scheme	24	**67.8**	(90.0)
Current tax relating to actuarial loss on defined benefit pension scheme	11	**3.7**	-
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of hedging derivatives		**2.6**	8.0
Transfer to income statement on cash flow hedges		**(1.0)**	(5.7)
Exchange differences arising on translation of foreign operations		**2.2**	2.0
Currency translation differences arising on consolidation of equity accounted foreign operations	34	**0.1**	(0.2)
Deferred tax relating to items that may be reclassified subsequently	24	**(0.3)**	(0.4)
Other comprehensive (loss)/income for the year, net of tax		**(227.8)**	278.8
Total comprehensive (loss)/income for the year attributable to equity shareholders		**(111.6)**	251.2

Consolidated balance sheet

at 31 March

	Notes	2023 £m	Restated 2022 £m
Assets			
Non-current assets			
Goodwill	12	**42.7**	45.7
Other intangible assets	13	**691.8**	687.3
Property, plant and equipment	14	**422.7**	412.4
Right-of-use assets	15	**37.7**	42.9
Investment	16	**29.7**	40.3
Interests in associate and joint ventures	34	**7.4**	8.2
Loans to joint ventures	34	**8.8**	8.0
Retirement benefit asset	32	**58.7**	341.9
Trade and other receivables	17	**15.1**	11.4
Amounts recoverable under regulatory agreement	17	**631.1**	667.4
Derivative financial instruments	20	**1.5**	0.2
		1,947.2	2,265.7
Current assets			
Trade and other receivables	17	**188.2**	151.5
Amounts recoverable under regulatory agreement	17	**100.1**	57.2
Current tax assets		**1.7**	3.5
Cash and cash equivalents	21	**160.2**	148.0
Derivative financial instruments	20	**1.6**	0.1
		451.8	360.3
Total assets		**2,399.0**	2,626.0
Current liabilities			
Trade and other payables	22	**(162.6)**	(174.0)
Amounts payable under regulatory agreement	22	**(91.4)**	(37.3)
Borrowings	18	**(45.0)**	-
Lease liabilities	19	**(8.0)**	(7.8)
Provisions	23	**(2.4)**	(1.2)
Derivative financial instruments	20	**(12.7)**	(9.4)
		(322.1)	(229.7)
Net current assets		**129.7**	130.6
Non-current liabilities			
Trade and other payables	22	**(84.6)**	(87.8)
Amounts payable under regulatory agreement	22	**(50.2)**	(131.8)
Borrowings	18	**(866.4)**	(938.9)
Lease liabilities	19	**(44.4)**	(50.8)
Deferred tax liability	24	**(197.9)**	(245.2)
Provisions	23	**(14.2)**	(13.6)
Derivative financial instruments	20	**(70.5)**	(67.9)
		(1,328.2)	(1,536.0)
Total liabilities		**(1,650.3)**	(1,765.7)
Net assets		**748.7**	860.3
Equity			
Called up share capital	25	**140.6**	140.6
Share premium account	26	**0.4**	0.4
Other reserves	27	**(31.2)**	(34.8)
Retained earnings		**638.8**	754.0
Equity attributable to the shareholders		**748.6**	860.2
Non-controlling interest	28	**0.1**	0.1
Total equity		**748.7**	860.3

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 29 June 2023 and signed on its behalf by:

Paul Golby

Paul Golby
Chairman

Alistair Borthwick
Chief Financial Officer

Consolidated statement of changes in equity

for the year ended 31 March

	Equity attributable to equity holders of the group						
	Share capital £m	Share premium account £m	Other reserves (note 27) £m	Restated Retained earnings £m	Restated Sub-total £m	Non-controlling interest £m	Restated total equity £m
At 1 April 2021	140.6	0.4	(38.5)	506.5	609.0	0.1	609.1
Loss for the year	-	-	-	(27.6)	(27.6)	-	(27.6)
Other comprehensive income for the year (restated: note 2)	-	-	3.7	275.1	278.8	-	278.8
Total comprehensive income for the year	**-**	**-**	**3.7**	**247.5**	**251.2**	**-**	**251.2**
At 31 March 2022	**140.6**	**0.4**	**(34.8)**	**754.0**	**860.2**	**0.1**	**860.3**
At 1 April 2022	**140.6**	**0.4**	**(34.8)**	**754.0**	**860.2**	**0.1**	**860.3**
Profit for the year	-	-	-	116.2	116.2	-	116.2
Other comprehensive income/(loss) for the year	-	-	3.6	(231.4)	(227.8)	-	(227.8)
Total comprehensive income/(loss) for the year	**-**	**-**	**3.6**	**(115.2)**	**(111.6)**	**-**	**(111.6)**
At 31 March 2023	**140.6**	**0.4**	**(31.2)**	**638.8**	**748.6**	**0.1**	**748.7**

Consolidated cash flow statement

for the year ended 31 March

	Note	2023 £m	2022 £m
Net cash generated from/(used in) operating activities	29	**183.5**	(172.5)
Cash flows from investing activities			
Interest received on short-term investments		**3.0**	0.4
Purchase of property, plant and equipment and other intangible assets		**(118.8)**	(112.7)
Proceeds of disposal of property, plant and equipment		**-**	0.4
Investment in subsidiary (net of cash acquired)		**-**	(3.7)
Proceeds on disposal of joint venture		**1.4**	-
Dividends received from joint venture and associate		**2.7**	1.2
Loans to joint ventures		**(12.5)**	(15.2)
Repayments of loans to joint ventures		**12.0**	9.6
Net cash outflow from investing activities		**(112.2)**	(120.0)
Cash flows from financing activities			
Interest paid		**(19.1)**	(17.1)
Interest received on derivative financial instruments		**7.3**	5.4
Repayment of old bond		**-**	(290.1)
New bonds issued		**105.5**	747.0
Bond arrangement fees		**(1.3)**	(5.8)
Drawdown of bank loan under the £380m (August 2020) liquidity facility		**-**	40.0
Repayment of bank loan under the £380m (August 2020) liquidity facility		**-**	(40.0)
Repayment of bank loan under the £400m (July 2015) revolving facility		**-**	(395.0)
Drawdown of bank loan under the £400m (May 2021) revolving facility		**40.0**	200.0
Repayment of bank loan under the £400m (May 2021) revolving facility		**(175.0)**	-
Repayment of former shareholder's loan to Searidge		**-**	(2.8)
Principal paid on lease liabilities		**(6.9)**	(7.0)
Interest paid on lease liabilities		**(1.4)**	(1.5)
Index-linked swaps repayments		**(8.0)**	(61.3)
Bank facility fees		**(0.4)**	(3.6)
Net cash (outflow)/inflow from financing activities		**(59.3)**	168.2
Increase/(decrease) in cash and cash equivalents during the year		**12.0**	(124.3)
Cash and cash equivalents at 1 April		**148.0**	272.1
Exchange gains on cash and cash equivalents		**0.2**	0.2
Cash and cash equivalents at 31 March		**160.2**	148.0
Net debt (representing borrowings and lease liabilities, net of cash and cash equivalents (see notes 21 and 29))		**(803.6)**	(849.5)

Notes forming part of the consolidated accounts

1. General information

NATS Holdings Limited is a private limited company incorporated in England and Wales and domiciled in the United Kingdom and acting under the Companies Act 2006. The address of the registered office is on page 78. The nature of the group's operations and its principal activities are set out in the Report of the directors and in the Strategic report.

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

2. Basis of preparation and accounting policies

Going concern

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

As explained in the Financial Review, during the year the group raised £104m from the issue of a £145m unsecured bond and cancelled its £450m unsecured bridging facility. At 31 March 2023, the group had access to liquidity of £495m comprising cash of £160.2m and undrawn committed bank facilities of £335.0m. At 29 June 2023, the group had access to cash and undrawn bank facilities of around £491m.

When considering the appropriateness of the going concern basis of preparation of the financial statements, the directors have reviewed the cash flow forecasts prepared by management covering a period to 30 June 2024, being at least 12 months from the date of approval of these financial statements. The directors have had regard to reasonably plausible changes in trading performance as well as severe traffic volume scenarios individually and in combination and the principal risks discussed on pages 24 to 26.

The severe traffic volume scenarios modelled were: an up to 65% reduction in air traffic volumes for a 12-month period, as a proxy for a traffic shock such as a further wave of Covid and related travel restrictions, being the most severe traffic scenario; Eurocontrol's March 2023 pessimistic case (see page 10) which assumed a slower recovery in air traffic volumes in light of the continuing challenging economic and geopolitical situation; a 15% loss of airport contract income, in the event of airport closures; adverse impacts of higher than planned inflation of our operating costs and capital expenditure programme; and higher cash outflows simulating the risk of unremunerated committed costs following the NR23 price control decision. Finally, a combination scenario was also performed of lower air traffic volumes and higher operating costs. Under the most severe scenario the group maintains adequate liquidity (of £234m) and headroom (NERL gearing at 58%) to meet its debt covenant (NERL gearing at 85%), prior to mitigating actions (such as other cost saving measures and deferring capital investment).

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

Accordingly, the directors have formed the judgement that, taking into account the financial resources available, the range of reasonably plausible future traffic volume scenarios and potential mitigating actions that could be taken, together with the duties of the CAA and Secretary of State for Transport referred to in the Viability statement, the group and company have adequate resources to continue to operate for a period of at least twelve months from the date of approval of the financial statements, and have therefore adopted the going concern basis in the preparation of the financial statements.

Accounting standards

The financial statements have been prepared in accordance with UK adopted International Accounting Standards, IFRS and IFRIC. 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 group has adopted the requirements of the following amendments to standards in the year, the adoption of these amendments has not had a material impact on the disclosures in the financial statements:

> 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

Notes forming part of the consolidated accounts

Accounting standards adopted in the year (continued)

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

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

Prior year restatement

It was identified that, at 31 March 2022, the carrying value of the retirement benefit asset had been understated by £10.4m and the related deferred tax liability understated by £2.5m, 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 £10.4m and the deferred tax liability has increased by £2.5m. The net impact being to increase the net assets by £7.9m. In the statement of comprehensive income, the actuarial gain on defined benefit pension scheme for the year ended 31 March 2022 has increased by £10.4m and the deferred tax relating to actuarial gain on defined benefit pension scheme charge, increased by £2.5m. The net impact is to increase other comprehensive income, retained earnings and total equity by £7.9m.

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.

Basis of consolidation

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

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

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

Revenue recognition

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

Notes forming part of the consolidated accounts

Airspace

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

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

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

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

UK airports

The group provides ATC, engineering support and airport optimisation services to UK airport customers. Each of these services represents a distinct performance obligation. For ATC and engineering support services there is a consistent pattern of delivery over the life of the contract, accordingly revenue for these services is recognised on a time lapse basis using the work output approach. For airport optimisation services 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, reflecting the pattern of control transferring to the customer, through the creation of an asset with no alternative use and an enforceable right to payment for work performed.

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

Defence services

The group provides ATC, asset provision and engineering maintenance services under the MOD's Project Marshall contract to the Aquila joint venture. These are separate contracts priced on a standalone basis, using a cost plus a margin approach. The ATC and engineering maintenance services represent distinct performance obligations. The asset provision contract contains two performance obligations (the delivery of a radio communications upgrade and fit-out of control towers). In each case, revenue is recognised over time based upon costs incurred for work performed to date, as a proportion of the estimated total contract costs, reflecting the pattern of control transferring to the customer, through the creation of an asset with no alternative use and an enforceable right to payment for work performed.

Other UK business

The group provides other services to UK customers including consultancy, training and information. These contracts can contain multiple deliverables that are considered distinct. The transaction price is allocated to each performance obligation based on stand-alone selling prices. Where the transaction price is not directly observable, the prices are estimated based on a cost plus margin. Revenue is recognised in line with costs incurred or labour hours expended for work performed to date, as a proportion of the estimated total contract costs, reflecting the pattern of control transferring to the customer, through the creation of an asset with no alternative use and an enforceable right to payment for work performed.

International

The group provides ATC and related services (including consultancy, airport optimisation services, 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.

Notes forming part of the consolidated accounts

Amounts recoverable or payable under regulatory agreement

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

As explained in note 3 of the financial statements, the period over which the revenue shortfall arising in 2020 to 2022 will be recovered will be determined by the CAA's final decision on the reconciliation of actual costs and revenue in this period and consultation on a new five-year price control (NR23) from 2023. In its October 2022 initial proposals for the NR23 price control, the CAA proposed the recovery of the revenue shortfall over an extended 10-year period.

NERL recognises its entitlement to amounts under-recovered and its liability for amounts over-recovered in its statement of financial position as Amounts recoverable or payable under regulatory agreement, classified as current or non-current according to the period in which it is expected to be settled. Amounts recoverable or payable under regulatory agreement meet the definitions, recognition criteria, and measurement concepts in the IASB's Framework for the Preparation and Presentation of Financial Statements (2001). Amounts recoverable or payable under regulatory agreement reflecting the recoverability of projected future cash flows, are stated at an amount for which it is highly probable that a significant risk reversal will not subsequently occur. Amounts are discounted at inception at the incremental cost of borrowing at the balance sheet date. Amounts under or over-recovered from charges for services provided during the year are reported on the face of the income statement within Regulatory allowances under or over-recovered. See also note 3.

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

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

Operating segments

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

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment performance is assessed by service line revenue and contribution. Further information is provided in notes 4 and 5.

Operating profit

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

Goodwill (see note 3)

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

Notes forming part of the consolidated accounts

Goodwill (see note 3) (continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. For goodwill held by NERL, which was recognised following the public private partnership transaction, fair value less costs of disposal is assessed by reference to the RAB of the economically regulated activities and costs of disposal. For goodwill acquired in a business combination, fair value reflects market transactions for similar assets. In assessing value in use, the estimated future cash flows (with a terminal value, as a proxy for future cash flows, which for NERL represents the RAB) are discounted to their present value using a market pre-tax discount rate (which for NERL is the pre-tax nominal regulated rate of return) or an appropriate surrogate. For NERL's assessment, a premium is applied to the RAB, as market precedent transactions indicate economically regulated businesses attract valuations in excess of RAB. A premium of 5% was determined for 2023, reflecting market precedent transactions and the independent assessment undertaken in 2022 (2022: 5%) - see notes 3 and 12.

Property, plant and equipment

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

> Freehold buildings: 10-40 years
> Leasehold buildings: over the remaining life of the lease to a maximum of 20 years
> Air traffic control systems: 5-25 years
> Plant and other equipment: 3-30 years
> Furniture, fixtures and fittings: 5-15 years
> Vehicles: 5-10 years

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

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

Borrowing costs

IAS 23: *Borrowing Costs*, requires costs of borrowings directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset. Qualifying assets are those which take a substantial time to get ready for intended use. These do not include assets which are ready for use when acquired. For NATS, qualifying assets relate to any additions to new projects that began from 1 April 2009, included in assets under construction.

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

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

Government grants and other grants

Government grants relating to property, plant and equipment are treated as deferred income and released to the income statement by equal annual instalments over the expected useful economic lives of the related assets. Grants of a revenue nature are credited to the income statement in the period to which they relate.

Government grants received in the 2022 financial year for the reimbursement of employee costs for those furloughed due to Covid under the Coronavirus Job Retention Scheme were included within staff costs. There are no unfulfilled conditions or contingencies attached to these grants.

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

Notes forming part of the consolidated accounts

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

> If the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;

> In all other cases where the renegotiated terms increase the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;

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

Short term, low-value leases and expired leases

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

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

Notes forming part of the consolidated accounts

Investments in associates and joint ventures

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

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

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

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

Internally-generated intangible assets – research and development expenditure

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

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

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

> the intention to complete the intangible asset and use or sell it;

> the ability to use or sell the intangible asset;

> how the intangible asset will generate probable future economic benefits;

> the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

> the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives, typically over 3 to 20 years. Assets in the course of construction are not amortised until ready for use. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

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

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

Recoverable amount is the higher of fair value less costs of disposal and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using the pre-tax nominal regulated rate of return for NERL (with a RAB terminal value with a premium as a proxy for future cash flows) and for NATS Services the weighted average cost of capital.

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

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

Share-based payments

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

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

Shares awarded by the Plan are treated as cash-settled liabilities. A liability is recognised for shares awarded over the period from award to when the employee becomes unconditionally entitled to the shares and are measured initially at their fair value.

Notes forming part of the consolidated accounts

Share-based payments (continued)

At each balance sheet date until the liability is settled, as well as at the date of settlement, the fair value of the liability is re-measured based on independent share valuations with any changes in fair value recognised in profit or loss for the year, within wages and salaries.

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

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

Taxation

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

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

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

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

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

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

Foreign currency translation

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the holding company, and the presentation currency for the consolidated financial statements. For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rate at the date of transactions is used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity in the Translation reserve (and attributed to non-controlling interests as appropriate).

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

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

Retirement benefit costs

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

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

Notes forming part of the consolidated accounts

Retirement benefit costs (continued)

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, which are reported in aggregate (see note 32):

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

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

Since 2009, the group and Trustees have introduced a number of pension reforms, as explained in note 32. These include: closing the defined benefit scheme to new entrants with effect from 1 April 2009, and establishing a defined contribution scheme for new entrants from 1 April 2009, limiting the rate of increase in pensionable pay and changing the indexation reference rate for future service.

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

Provisions

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

Financial instruments

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

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

Financial assets:

Fair value through profit or loss

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

Amortised cost

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

Impairment of financial assets

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

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

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

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

Notes forming part of the consolidated accounts

Cash and cash equivalents

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

Financial liabilities

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

Fair value through the profit or loss

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

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

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

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

Effective interest method

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

Equity

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

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

Reserves

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

> Other reserves, which arose on the completion of the PPP transaction in July 2001 under a statutory transfer scheme;

> Non-controlling interest, which represents the share of equity attributable to the minority investor in NATS Services LLC.

Derivative financial instruments and hedging activities

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

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

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

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

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

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Notes forming part of the consolidated accounts

Derivative financial instruments and hedging activities (continued)

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

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

3. Critical judgements and key sources of estimation uncertainty

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

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

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

Anticipating the impact of Covid on the demand for the company's air traffic control service and the actions that the company was proposing to take to reduce its cost base and to preserve liquidity, the CMA set out an expectation that in addition to determining the price control for 2023 and beyond, a reconciliation exercise would be necessary for the years 2020 to 2022 with reference to actual flight volumes and the costs actually incurred since the start of 2020. The re-determination by the CAA and the associated reconciliations were subject to a consultation process which will be finalised later during the summer of 2023. In October 2022, the CAA published its Initial Proposals (CAP 2394) for the NR23 price control, as well as the retrospective reconciliation.

The CAA's Initial Proposals set out its view of the efficient costs NERL incurred during the Covid period and calculated the value of the shortfall in regulatory allowances at £681m. The CAA also proposed that the amount should be recovered over the 10 years of the NR23 (2023 to 2027) and NR28 (2028 to 2032) price control periods. In its view this period is consistent with affordable charges for airline customers and consumers that supports the recovery in traffic levels while also ensuring NERL's financeability.

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

There is uncertainty with respect to the final outcome of the CAA's reconciliation process, which is expected in the summer of 2023 and this has required the company to estimate the amount of revenue and regulatory allowances for the year ended 31 March 2023, limiting recognition to an amount for which it is highly probable that a subsequent reversal will not occur. In assessing this amount, the company has made the following critical judgements:

> An assessment of the licence revenue allowance for calendar years 2020 to 2022 having regard to the CAA's initial proposals for efficient costs for calendar years 2020 to 2022 (being £648m, £556m and £589m respectively). The final outcome of the CAA's reconciliation of costs and revenue will not be completed until the summer of 2023, and therefore remains uncertain. As a result, the company has made a judgement as to the CAA's assessment of costs incurred, having regard to a similar assessment undertaken by the European Commission for air navigation service providers it regulates as well as stakeholder responses to the CAA's consultation, and has recognised an amount for which it is highly probable that a significant reversal will not subsequently occur, as required by accounting standards, following the CAA's assessment;

> The basis for determining the amount to be recognised in the three-month period to 31 March 2023. In making this assessment, consistent with the prior year judgement, the company considered that an input-based approach based on the proportion of operating costs actually incurred in this period relative to those planned to be incurred over calendar year 2023 was the most appropriate method for measuring progress in delivery of the air traffic control service. This resulted in 24.9% of the calendar year licence revenue allowance being recognised in this three-month period of £173m (2022: 23.9% or £136m). Other methods considered included a straight-line approach, which would have recognised 25%, an output-based measure on actual traffic volumes relative to forecast volumes for 2023 which would have recognised 20.8%, and the NR23 traffic forecast which would have recognised 21.1% of the 2023 revenue allowance in this period;

Notes forming part of the consolidated accounts

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

> The extended period for the recovery of the shortfall in regulatory allowances includes a significant financing component. Charges from January 2023 have commenced recovery of this shortfall and will do so until 2032. The company has recognised the significant financing component by discounting future cash flows at a rate, determined according to the requirements of the accounting standards, which reflects i) an assessment of the market cost of NERL's borrowing at the balance sheet date based on a gilt yields and the market implied margins on bonds of similar tenor to the average period of recovery of the revenue shortfall; and ii) an allowance for credit risk based on historic recovery experience. We have assumed a profile of 50% recovery of regulatory allowances in NR23 and 50% in NR28, in accordance with the CAA's initial proposals. A 0.5% change in the discount rate would change regulatory allowances by c£14m.

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

In carrying out impairment reviews of goodwill, intangible, tangible and right-of-use assets (including assets in the course of construction), a number of significant assumptions have to be made when preparing cash flow projections from which to determine value in use and also in assessing fair values less costs of disposal (see judgement relating to goodwill below). These include air traffic growth, the extent and timing of future cash flows and realisation of contract pipeline revenue, the value of the regulated asset bases, the scope for outperformance of the regulatory contract, market premia for transactions in similar economically regulated businesses, NERL's licence period and the outcome of the regulatory price control determinations. The RAB reflects the capital employed in the economically regulated business and, broadly, is uplifted annually for inflation and increases with capital expenditure and reduces by regulatory depreciation. The market premium, which is applied to the RAB when determining the fair value of goodwill, was assessed at the balance sheet date to be 5% (2022: 5%). This reflected market precedent transactions in the year, the result of an independent assessment in 2022, the CAA's initial proposals for NR23 and the retrospective reconciliation of income and costs during 2020 to 2022, the recovery in air traffic volumes during the year and the outlook for the growth in air traffic volumes.

There is an uncertainty in respect of the judgement on the RAB premium. As a sensitivity, the removal of the 5% RAB premium would not result in a goodwill impairment charge.

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

Investment in Aireon LLC (see note 16)

The group holds a minority interest in convertible redeemable preference shares in Aireon LLC, which carry voting rights and a right of conversion to equity interests in 2024. NATS interest in Aireon represents a financial asset which is required to be measured at fair value through profit or loss. The group valued its interest at £29.7m as at 31 March 2022 (2022: £40.3m). Aireon is a privately owned entity with few historic transactions and is therefore an illiquid unquoted investment with no readily available market price.

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

Aireon's dividend projections depend on its business performance, including delivery of new sales contracts not yet secured. A 10% change in revenue from new sales assumed but not yet secured would result in a c£5m change in fair value. The valuation is also sensitive to the discount rate. A 1% change in discount rate would result in a £3m to £4m change in fair value.

Retirement benefits

The group accounts for its defined benefit pension scheme such that the net pension scheme position is reported on the balance sheet with actuarial gains and losses being recognised directly in equity through the statement of comprehensive income. At 31 March 2023 the funding position of the scheme reported in the financial statements was a surplus of £58.7m (2022: £341.9m).

A number of key assumptions have been made in calculating the fair value of the group's defined benefit pension scheme which affect the balance sheet position and the group's reserves and income statement. Refer to note 32 of the notes to the consolidated accounts for a summary of the main assumptions and sensitivities. Actual outcomes may differ materially from the assumptions used and may result in volatility in the net pension scheme position.

Capital investment programme (see notes 13 and 14)

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

Notes forming part of the consolidated accounts

Long term contracts (see notes 17 and 22)

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

Leases (see notes 15 and 19)

Right-of-use assets are depreciated on a straight-line basis over the remaining term of the lease or asset life if it is shorter, and subject to annual impairment reviews, as noted above.

Determining the lease term

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

- Property leases in England and Wales that are governed by the Landlord and Tenant Act 1954. For those that are due to expire prior to 31 March 2031 it has been assumed that they will be extended under the Landlord and Tenants Act 1954 to this date.
- Airport equipment leases have primary, secondary and tertiary periods. The lease term assumed is the period for which the group is reasonably certain to exercise the option to extend, being the period the lessee expects to use the asset in delivery of air navigation services.

Notes forming part of the consolidated accounts

4. Total revenue and regulatory allowances

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

	2023 £m	2022 £m
Revenue from contracts with customers	**863.6**	539.6
Regulatory allowances under-recovered	**41.0**	202.0
Other revenue: EU funding passed to UK en route customers (see note 4a)	**22.7**	6.1
Other revenue: rental and sub-lease income	**2.7**	2.1
Total revenue and regulatory allowances (see operating segments)	**930.0**	749.8

a) Total revenue and regulatory allowances disaggregated by operating segment

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

The performance of operating segments is assessed based on service line revenue and contribution. Service line contribution represents the total revenue and regulatory allowance under-recovered and costs which are directly attributed to a service line. Costs which are not directly attributed to a service line include: costs managed outside of service lines, depreciation and amortisation (net of government grants), goodwill impairment, profit/(loss) on disposal of non-current assets, employee share scheme (costs)/credits, redundancy and relocation costs, R&D expenditure above the line tax credits, fair value gain on previously held interest in joint venture, investment income, fair value movements on financial instruments, profit on disposal of joint venture and finance costs. A reconciliation of service line contribution to profit/(loss) before tax is set out in note 5.

Principal activities

The following table describes the activities of each operating segment:

Airspace	This includes all of the group's economically regulated activities and encompasses services to en route, oceanic and London Approach customers provided from our Prestwick and Swanwick centres, together with all the supporting communications, navigation and surveillance infrastructure and facilities. Airspace includes air traffic services for helicopters operating in the North Sea, approach services for London airports, infrastructure services to the Ministry of Defence (MOD) for their en route operations and European projects in conjunction with other air traffic organisations.
UK Airports	The provision of air traffic control, engineering support and airport optimisation services to UK airport customers.
Defence Services	The provision of air traffic control, engineering support and other services to the UK MOD and to our joint venture for the UK MOD's Marshall contract.
Other UK Business	Other services provided to UK customers including: consultancy, offering airspace development, capacity improvement and training; and information, providing data to enable future efficiency and flight optimisation.
International	The provision of air traffic control and related services (including consultancy, engineering, training and information services) and the development and delivery of digital and remote tower solutions to overseas customers.

Notes forming part of the consolidated accounts

4. Total revenue and regulatory allowances (continued)

a) Total revenue and regulatory allowances disaggregated by operating segment (continued)

Segment information about these activities is presented below:

	2023			2022		
	Total intra-group and external £m	**Intra-group £m**	**External £m**	Total intra-group and external £m	Intra-group £m	External £m
Revenue from contracts with customers						
UK air traffic services:						
Services to UK en route customers	**576.5**	**-**	**576.5**	303.0	-	303.0
London Approach services	**13.5**	**-**	**13.5**	5.9	-	5.9
Infrastructure services to the MOD	**41.4**	**-**	**41.4**	37.6	-	37.6
Services for North Sea helicopters	**8.8**	**-**	**8.8**	8.4	-	8.4
Other income	**4.4**	**-**	**4.4**	1.5	-	1.5
	644.6	**-**	**644.6**	356.4	-	356.4
North Atlantic air traffic services:						
Services to oceanic en route customers	**43.7**	**-**	**43.7**	26.7	-	26.7
Intercompany revenue	**14.0**	**(14.0)**	**-**	12.2	(12.2)	-
Airspace	**702.3**	**(14.0)**	**688.3**	395.3	(12.2)	383.1
UK Airports	**155.3**	**(22.7)**	**132.6**	133.8	(19.9)	113.9
Defence Services	**16.6**	**(1.0)**	**15.6**	22.2	(1.2)	21.0
Other UK Business	**17.5**	**(3.0)**	**14.5**	15.0	(4.1)	10.9
International	**12.7**	**(0.1)**	**12.6**	11.5	(0.8)	10.7
Total revenue from contracts with customers	**904.4**	**(40.8)**	**863.6**	577.8	(38.2)	539.6
Regulatory allowances under-recovered						
Airspace						
UK air traffic services:						
Services to UK en route customers	**41.6**	**-**	**41.6**	196.5	-	196.5
London Approach services	**(0.6)**	**-**	**(0.6)**	5.5	-	5.5
Total regulatory allowances under-recovered	**41.0**	**-**	**41.0**	202.0	-	202.0
Other revenue: EU funding passed to UK en route customers						
Airspace	**22.7**	**-**	**22.7**	6.1	-	6.1
Other revenue: rental and sub-lease income						
Airspace	**3.5**	**(0.8)**	**2.7**	2.9	(0.9)	2.0
Other UK Business	**-**	**-**	**-**	0.1	-	0.1
	3.5	**(0.8)**	**2.7**	3.0	(0.9)	2.1
Total revenue and regulatory allowances	**971.6**	**(41.6)**	**930.0**	788.9	(39.1)	749.8

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

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

EC Regulations require that European funding for SESAR deployment received by ANSPs should ultimately be passed on to airspace users through a discount in the unit rate charge for UK en route services. In the financial year ended 31 March 2023, £22.7m (2022: £6.1m) of European funding was passed to airspace users. Accordingly, an equivalent amount was released from contract liabilities to offset the cost of the discount. As a result, the group's revenues from UK en route services reflect the revenue and regulatory allowances for which it is entitled for the services provided in the year.

Notes forming part of the consolidated accounts

4. Total revenue and regulatory allowances (continued)

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

	2023			2022		
	Total intra-group and external £m	**Intra-group £m**	**External £m**	Total intra-group and external £m	Intra-group £m	External £m
Regulated income						
Services to UK en route customers	**576.5**	**-**	**576.5**	303.0	-	303.0
London Approach services	**13.5**	**-**	**13.5**	5.9	-	5.9
Services to oceanic en route customers	**43.7**	**-**	**43.7**	26.7	-	26.7
Revenue from contracts with customers	**633.7**	**-**	**633.7**	335.6	-	335.6
Regulatory allowances under-recovered	**41.0**	**-**	**41.0**	202.0	-	202.0
Other revenue: EU funding passed to UK en route customers	**22.7**	**-**	**22.7**	6.1	-	6.1
Total regulated income	**697.4**	**-**	**697.4**	543.7	-	543.7
Non-regulated income						
Airspace						
Infrastructure services to the MOD	**41.4**	**-**	**41.4**	37.6	-	37.6
Services for North Sea helicopters	**8.8**	**-**	**8.8**	8.4	-	8.4
Other income	**4.4**	**-**	**4.4**	1.5	-	1.5
Intercompany revenue	**14.0**	**(14.0)**	**-**	12.2	(12.2)	-
UK Airports	**155.3**	**(22.7)**	**132.6**	133.8	(19.9)	113.9
Defence Services	**16.6**	**(1.0)**	**15.6**	22.2	(1.2)	21.0
Other UK Business	**17.5**	**(3.0)**	**14.5**	15.0	(4.1)	10.9
International	**12.7**	**(0.1)**	**12.6**	11.5	(0.8)	10.7
Revenue from contracts with customers	**270.7**	**(40.8)**	**229.9**	242.2	(38.2)	204.0
Other revenue: rental and sub-lease income	**3.5**	**(0.8)**	**2.7**	3.0	(0.9)	2.1
Total non-regulated income	**274.2**	**(41.6)**	**232.6**	245.2	(39.1)	206.1
	971.6	**(41.6)**	**930.0**	788.9	(39.1)	749.8

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

Notes forming part of the consolidated accounts

4. Total revenue and regulatory allowances (continued)

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

	2023			2022		
	Total intra-group and external £m	**Intra-group £m**	**External £m**	Total intra-group and external £m	Intra-group £m	External £m
Over time						
Revenue from contracts with customers	**900.8**	**(40.8)**	**860.0**	576.7	(38.2)	538.5
Regulatory allowances under-recovered	**53.2**	**-**	**53.2**	202.0	-	202.0
Other revenue: EU funding passed to UK en route customers	**22.7**	**-**	**22.7**	6.1	-	6.1
Other revenue: rental and sub-lease income	**3.5**	**(0.8)**	**2.7**	3.0	(0.9)	2.1
	980.2	**(41.6)**	**938.6**	787.8	(39.1)	748.7
At a point in time						
Regulatory allowances over-recovered	**(12.2)**	**-**	**(12.2)**	-	-	-
Revenue from contracts with customers	**3.6**	**-**	**3.6**	1.1	-	1.1
	(8.6)	**-**	**(8.6)**	1.1	-	1.1
	971.6	**(41.6)**	**930.0**	788.9	(39.1)	749.8

Notes forming part of the consolidated accounts

4. Total revenue and regulatory allowances (continued)

d) Total revenue and regulatory allowances disaggregated by geographical area

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

	2023			2022		
	Total intra-group and external £m	**Intra-group £m**	**External £m**	Total intra-group and external £m	Intra-group £m	External £m
Revenue and regulatory allowances, including Other revenue: EU funding passed to UK en route customers						
United Kingdom	**456.4**	**(40.8)**	**415.6**	373.7	(38.2)	335.5
Other European countries	**149.2**	**-**	**149.2**	122.7	-	122.7
United States of America	**113.7**	**-**	**113.7**	86.5	-	86.5
Republic of Ireland	**94.4**	**-**	**94.4**	68.7	-	68.7
Countries in Asia	**70.4**	**-**	**70.4**	65.0	-	65.0
Germany	**50.4**	**-**	**50.4**	46.0	-	46.0
Other North American countries	**26.9**	**-**	**26.9**	16.4	-	16.4
Countries in Africa	**4.3**	**-**	**4.3**	4.6	-	4.6
Countries in South America	**1.2**	**-**	**1.2**	1.2	-	1.2
Countries in Oceania	**1.2**	**-**	**1.2**	1.1	-	1.1
	968.1	**(40.8)**	**927.3**	785.9	(38.2)	747.7
Other revenue: rental and sub-lease income						
United Kingdom	**2.9**	**(0.8)**	**2.1**	2.4	(0.9)	1.5
Other European countries	**0.6**	**-**	**0.6**	0.6	-	0.6
	3.5	**(0.8)**	**2.7**	3.0	(0.9)	2.1
	971.6	**(41.6)**	**930.0**	788.9	(39.1)	749.8

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

Notes forming part of the consolidated accounts

4. Total revenue and regulatory allowances (continued)

e) Contract balances

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

	Contract assets		Contract liabilities	
	2023 £m	**2022 £m**	**2023 £m**	**2022 £m**
At 1 April	24.0	21.9	(93.6)	(90.1)
Opening contract assets transferred to trade and other receivables	(13.3)	(18.0)	-	-
Cumulative catch-up adjustments	-	(0.1)	-	-
Additional contract asset balances recognised at the balance sheet date	14.2	16.3	-	-
Impairment of contract assets	(0.4)	(0.4)	-	-
Acquisition through business combination	-	2.6	-	(0.3)
Opening contract liabilities which have now been recognised as revenue	-	-	35.8	13.0
(Decreases)/increases in contract assets and (increases) in contract liabilities due to cash received, excluding amounts recognised as revenue during the year	-	1.7	(19.3)	(16.2)
At 31 March	**24.5**	**24.0**	**(77.1)**	**(93.6)**

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

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

For the year ended 31 March 2023, a reduction of £12.2m was recognised in regulatory allowances over-recovered for performance obligations satisfied in previous periods (2022: £nil). This amount represents variable consideration relating to true-ups for the difference between actual pension contributions and the regulator's assumption for the three calendar years 2020 to 2022 arising from the actions taken by the company to reduce its staff costs in response to Covid.

Notes forming part of the consolidated accounts

4. Total revenue and regulatory allowances (continued)

g) Remaining performance obligations

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

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

	2023				
	Due within one year or less £m	Between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
UK Airports	15.3	13.1	-	-	28.4
Defence Services	3.5	-	-	-	3.5
Other UK Business	1.0	-	0.1	-	1.1
International	3.4	1.2	-	-	4.6
	23.2	**14.3**	**0.1**	**-**	**37.6**

	2022				
	Due within one year or less £m	Between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
Airspace	0.4	-	-	-	0.4
UK Airports	9.7	0.1	0.3	-	10.1
Defence Services	8.1	-	-	-	8.1
Other UK Business	1.5	-	0.1	-	1.6
International	7.8	1.8	1.6	-	11.2
	27.5	**1.9**	**2.0**	**-**	**31.4**

h) Cash flow hedged revenue from contracts with customers

A portion of the group's revenue from the provision of services denominated in foreign currencies is cash flow hedged. Included in revenue is the recycling of the effective amount of foreign currency derivatives that are used to hedge foreign currency revenue. The amount included in revenue is a £1.0m gain (2022: £4.1m gain).

Notes forming part of the consolidated accounts

5. Operating segments

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

A reconciliation of service line contribution to profit before tax is provided below:

	2023 £m	2022 £m
Airspace	**341.5**	222.2
UK Airports	**29.2**	27.8
Defence Services	**1.3**	2.1
Other UK Business	**8.0**	6.4
International	**-**	0.4
Service line contribution	**380.0**	258.9
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	**(103.7)**	(84.9)
Impairment of goodwill	**(2.9)**	-
(Loss)/profit on disposal of non-current assets	**(0.2)**	0.4
Employee share scheme (costs)/credits	**(6.7)**	3.1
Redundancy and relocation costs	**(0.3)**	(1.7)
Other costs not directly attributed to service lines	**(91.7)**	(76.7)
R&D expenditure above the line tax credits	**1.6**	1.2
Fair value gain on previously held interest in joint venture	**-**	4.4
Profit on disposal of joint venture	**1.3**	-
Investment income	**28.4**	11.7
Fair value movements on financial instruments	**(27.1)**	(44.5)
Finance costs	**(30.2)**	(63.2)
Profit before tax	**148.5**	8.7

The performances of Airspace and Defence Services include the group share of the results of European Satellite Services Provider SAS (ESSP SAS) and Aquila Air Traffic Management Services Limited respectively. The performance of International includes the group share of the results of FerroNATS Air Traffic Services SA up to December 2022 and Searidge Technologies Inc (see note 34). Other costs not directly attributed to service lines include corporate costs providing central support functions.

Notes forming part of the consolidated accounts

5. Operating segments (continued)

Non-current assets additions

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

	2023 £m	2022 £m
Airspace	**103.8**	92.4
UK Airports	**5.4**	2.1
Defence Services	**0.5**	1.0
Other Service lines	**4.0**	4.6
	113.7	100.1

Geographical segments

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

	Non-current assets	
	2023 £m	2022 £m
United Kingdom	**1,191.0**	1,180.8
United States of America	**30.0**	40.7
Canada	**7.8**	11.8
Other European countries	**3.7**	5.5
Countries in Asia	**0.6**	0.3
	1,233.1	1,239.1

Included within the United States of America geographical segment is the group's equity investment in Aireon LLC, see note 16. Included within the Canada geographical segment is the group's goodwill that arose on acquisition of Searidge, which has been impaired by £2.9m (2022: £nil) in the year, see note 12.

Information about major customers

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

Notes forming part of the consolidated accounts

6. Operating profit for the year

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

	2023 £m	2022 £m
The CAA regulatory charges in respect of NERL's air traffic services licence	**5.4**	5.2
The CAA regulatory charges for safety regulation at airports	**0.1**	0.1
Impairment of goodwill (note 12)	**2.9**	-
Amortisation of intangible assets (note 13)	**42.7**	37.8
Impairment of intangible assets (note 13)	**9.3**	1.6
Depreciation of property, plant and equipment (note 14)	**45.6**	40.5
Impairment of property, plant and equipment (note 14)	**0.4**	0.1
Depreciation of right-of-use assets (note 15)	**6.3**	5.5
Deferred grants released	**(0.6)**	(0.6)
Redundancy costs	**0.3**	1.9
Staff relocation costs (net of credits for revisions to estimates) following site closure	**-**	(0.2)
Research and development costs	**4.7**	3.6
R&D expenditure above the line tax credits	**(1.6)**	(1.2)
Foreign exchange gains/(losses)	**3.3**	(1.8)
Auditor's remuneration for audit services (see below)	**0.5**	0.4

A portion of the group's costs are denominated in foreign currencies and are cash flow hedged. Included in operating costs is the recycling of the effective amount of foreign currency derivatives that are used to hedge foreign currency costs. The amount included in operating cost is £nil (2022: £1.6m gain).

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

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

The analysis of auditor's remuneration is as follows:

	2023 £m	2022 £m
Fees payable to the company's auditor for the audit of the company's annual accounts	**0.4**	0.3
Fees payable to the company's auditor and their associates for other services to the group		
- The audit of the company's subsidiaries	**0.1**	0.1
Total audit fees	**0.5**	0.4

Total non-audit fees of £60,500 (2022: £50,500) include agreed upon procedures in relation to the NERL regulatory accounts of £20,000 (2022: £17,500), BDO acted as reporting accountant for NERL's March 2023 bond issues for a fee of £31,500 (2022: £25,000 for June 2021 bond issue) and other agreed upon procedures of £9,000 (2022: £8,000).

Notes forming part of the consolidated accounts

7. Staff costs

a. Staff costs

	2023 £m	2022 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries	367.3	336.8
Employee share scheme costs/(credits)	6.7	(3.1)
Social security costs	45.9	40.9
Pension costs (note 7b)	101.9	108.5
	521.8	483.1
Less:		
Amounts capitalised	(35.9)	(40.7)
Government grants	-	(5.5)
	485.9	436.9

Government grants of £nil (2022: £5.5m) relate to the reimbursement of employee costs for staff furloughed due to Covid under the Coronavirus Job Retention Scheme. There are no unfulfilled conditions or contingencies attached to these grants.

Wages and salaries include other allowances and holiday pay.

b. Pension costs (note 32)

	2023 £m	2022 £m
Defined benefit scheme	**69.9**	81.6
Defined contribution scheme	**32.0**	26.9
	101.9	108.5

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

Notes forming part of the consolidated accounts

7. Staff costs (continued)

c. Staff numbers

	2023 No.	2022 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers (incl. trainees)	**1,675**	1,683
Air traffic service assistants	**614**	572
Engineers	**846**	807
Others	**1,080**	1,033
	4,215	4,095
The number of employees (including executive directors) in post at 31 March was:	**4,323**	4,099

8. Investment income

	2023 £m	2022 £m
Interest on bank deposits	**3.3**	1.8
Other loans and receivables	**25.1**	9.9
	28.4	11.7

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

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

9. Fair value movement on financial instruments

	2023 £m	2022 £m
Charge arising from change in the fair value of derivatives not qualifying for hedge accounting	**(13.7)**	(43.8)
Change in the fair value of equity investment in Aireon designated as fair value through profit and loss (see note 16)	**(13.4)**	(0.7)
	(27.1)	(44.5)

Notes forming part of the consolidated accounts

10. Finance costs

	2023 £m	2022 £m
Interest on bank loans and hedging instruments	**7.3**	2.3
Bond and related costs including financing expenses	**14.1**	15.3
Interest on lease liabilities (see note 19)	**1.4**	1.5
Other finance costs	**6.6**	2.4
One-off re-financing costs	**0.8**	41.7
	30.2	63.2

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

One-off re-financing costs relates to unamortised bank facility fees following the cancellation of the company's £450m bridge facility. In the prior year, as part of NERL's refinancing undertaken in June 2021, the carrying value of the Guaranteed Secured Amortising Bond at amortised cost (excluding transaction costs and issue discount) at the date of redemption was lower than the redemption market value (excluding accrued interest). This difference resulted in a £38.4m loss on redemption that was taken to the income statement on derecognition and is included in one-off refinancing costs.

11. Tax

	2023 £m	2022 £m
Corporation tax		
Current tax	**12.1**	0.5
	12.1	0.5
Deferred tax (see note 24)		
Origination and reversal of temporary timing differences	**21.9**	(3.3)
Adjustments in respect of prior year	**1.7**	(0.4)
Effects of tax rate change on opening balance	**(3.4)**	39.5
	20.2	35.8
	32.3	36.3

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

Notes forming part of the consolidated accounts

11. Tax (continued)

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

	2023		2022	
	£m	**%**	£m	%
Profit on ordinary activities before tax	**148.5**		8.7	
Tax on profit on ordinary activities at standard rate in the UK of 19% (2022: 19%)	**28.2**	**19.0%**	1.7	19.0%
Tax effect of change in corporation tax from 19% to 25% (see below)	**0.5**	**0.3%**	37.6	432.3%
Tax effect of prior year adjustments: deferred tax	**1.7**	**1.1%**	(0.4)	(4.6%)
Patent box	**(1.2)**	**(0.8%)**	(1.3)	(14.9%)
Employee share scheme	**1.3**	**0.9%**	(0.3)	(3.4%)
Goodwill impairment	**0.6**	**0.4%**	-	-
Change in fair value of equity investment	**2.0**	**1.3%**	(0.6)	(6.9%)
Tax effect of fair value adjustments from business combination	**-**	**-**	(0.1)	(1.1%)
Joint ventures and associate	**0.4**	**0.3%**	(0.5)	(5.6%)
Unrecognised deferred tax assets on overseas subsidiaries	**0.1**	**0.1%**	-	-
Disposal of joint venture	**0.2**	**0.1%**	-	-
Other permanent differences	**(1.5)**	**(1.0%)**	0.2	2.4%
Tax charge for year at an effective tax rate of 21.8% (2022: 417.2%)	**32.3**	**21.8%**	36.3	417.2%
Deferred tax (credit)/charge taken directly to equity (see note 24)	**(67.5)**		90.4	

Deferred tax is provided at the prevailing rate of corporation tax expected to apply in the period when the liability is settled or the asset realised.

The group does not have any material uncertain tax positions.

Notes forming part of the consolidated accounts

11. Tax (continued)

Detailed reconciliation of the current tax charge

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

	2023		2022	
	£m	**%**	£m	%
Profit on ordinary activities before tax	**148.5**		8.7	
Tax on profit on ordinary activities at standard rate in the UK of 19% (2022: 19%)	**28.2**	**19.0%**	1.7	19.0%
Expenses not deductible for tax purposes				
Employee share scheme adjustments	**1.3**	**0.9%**	(0.3)	(3.4%)
Dividends received from group companies	**(0.4)**	**(0.3%)**	(0.5)	(5.7%)
Disposal of joint venture	**0.2**	**0.1%**	-	-
Impairment/(changes in fair value) of investments and goodwill	**2.6**	**1.8%**	(1.3)	(14.9%)
Capital allowances in excess of depreciation				
Capital allowances	**(16.9)**	**(11.4%)**	(20.0)	(229.9%)
Depreciation and amortisation on eligible assets	**14.5**	**9.8%**	9.4	108.0%
Other temporary differences				
Provisions	**0.5**	**0.3%**	(0.2)	(2.3%)
R&D expenditure tax credit	**0.2**	**0.1%**	0.5	5.7%
Joint ventures and associate	**0.4**	**0.3%**	(0.5)	(5.7%)
Unrecognised deferred tax assets on overseas subsidiaries	**0.1**	**0.1%**	-	-
Pension contributions paid in excess of charge to income statement	**(3.7)**	**(2.5%)**	(1.6)	(18.4%)
Loan relationship	**(1.7)**	**(1.2%)**	(1.4)	(16.1%)
Patent box	**(1.2)**	**(0.8%)**	(1.3)	(14.9%)
Corporate interest restriction	**(6.0)**	**(4.0%)**	6.0	69.1%
Losses brought forward	**(8.9)**	**(6.0%)**	8.9	102.4%
Consolidation adjustments	**(0.8)**	**(0.5%)**	1.2	13.9%
Prior year adjustments	**-**	**-**	(0.1)	(1.1%)
Current tax charge for year at an effective tax rate of 5.7% (2022: 5.7%)	**8.4**	**5.7%**	0.5	5.7%

The total current tax charge comprises a £12.1m charge to the Income statement (2022: £0.5m) and a £3.7m credit to the Statement of comprehensive income (2022: £nil) in relation to contributions to the Defined benefit pension scheme.

Notes forming part of the consolidated accounts

12. Goodwill

	£m
Cost	
At 1 April 2021	351.0
Acquisition of subsidiary	7.4
At 31 March 2022	**358.4**
Exchange on International goodwill	(0.2)
At 31 March 2023	**358.2**
Accumulated impairment losses	
At 31 March 2022	**312.7**
Impairment of subsidiary goodwill	2.9
Exchange on international goodwill	(0.1)
At 31 March 2023	**315.5**
Carrying amount	
At 31 March 2023	42.7
At 31 March 2022	45.7
At 1 April 2021	38.3

The amounts disclosed above relate to the following service lines: Airspace £38.3m (2022: £38.3m) and International £4.4m (2022: £7.4m). Its recoverable amount is determined by reference to the higher of its fair value less costs of disposal and its value in use. The valuation methodology is consistent with the IFRS 13 level 3 hierarchy.

The group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. For goodwill held in the Airspace service line, which arose from the NATS public private partnership transaction in 2001, fair value less costs of disposal is determined by reference to the value of the regulatory asset bases (RABs) of the relevant cash generating units of UK Air Traffic Services and North Atlantic Air Traffic Services (in aggregate £1,959.1m; 2022: £1,650.0m), opportunities for out-performance of regulatory settlements and market premia for economically regulated businesses, as well as estimated costs of disposal of £1.0m. A market premium is applied to the value of the RABs. It is assessed annually by reference to market precedent transactions and an independent assessment in 2022. The RAB premium at 31 March 2023 was determined to be 5% (2022: 5%). Overall, reflecting the value of the RAB and the premium assumption, goodwill was not impaired in the year (2022: £nil). This assessment reflected the impact of the recovery in the demand for air travel, the CAA's initial proposals with regard to the reconciliation of actual revenue and costs, the time period for the recovery of the revenue shortfall and its draft determination of the price control from 2023 which reflects new projections of air traffic volumes and associated safety, service performance targets and capital investment requirements. Goodwill would be impaired if the RAB premium was assessed to be a discount of 11% (2022: 0%).

Fair value less costs of disposal was higher than value in use at 31 March 2023. The carrying value of goodwill at 31 March 2023 was not impaired (2022: not impaired) as the book value of the net assets of the Airspace service line of £1,660m was below the fair value less costs of disposal of £1,958m.

Goodwill held in the International service line arose on acquisition of Searidge. Its carrying value has been assessed based on the expected recoverable amount on a value in use basis, based on cash flow projections over a five year period assuming compound annual sales growth of 31% (2022: 20% growth per annum), reflecting historic experience and using a 26% (2022: 20%) pre-tax discount rate. Goodwill at 31 March 2023 was impaired by £2.9m (2022: not impaired), when comparing the value in use of £8.6m to the carrying value. Goodwill will not be deductable for tax purposes. As a sensitivity a 1% increase in the discount rate would result in a further goodwill impairment of £0.7m.

Notes forming part of the consolidated accounts

13. Other intangible assets

	Operational software £m	Non-operational software £m	Airspace and resectorisation £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2021	499.0	121.4	56.2	385.0	1,061.6
Additions internally generated	1.2	0.5	2.6	25.5	29.8
Additions externally acquired	0.3	1.5	0.2	29.9	31.9
Disposals during the year	(0.2)	(0.3)	-	-	(0.5)
Other transfers during the year	6.9	3.8	76.3	(44.7)	42.3
Acquisition through business combination	-	3.3	-	-	3.3
At 31 March 2022	**507.2**	**130.2**	**135.3**	**395.7**	**1,168.4**
Additions internally generated	1.2	-	1.7	22.3	25.2
Additions externally acquired	1.2	0.6	0.4	32.6	34.8
Disposals during the year	-	(0.1)	-	-	(0.1)
Other transfers during the year	2.0	-	3.8	(9.3)	(3.5)
At 31 March 2023	**511.6**	**130.7**	**141.2**	**441.3**	**1,224.8**
Accumulated amortisation and impairment					
At 1 April 2021	295.1	94.8	39.8	12.4	442.1
Charge for the year	23.0	7.7	7.1	-	37.8
Impairment provision recognised in income statement	-	1.5	-	0.1	1.6
Transfer of impairment provision	-	0.1	-	-	0.1
Disposals during the year	(0.2)	(0.3)	-	-	(0.5)
At 31 March 2022	**317.9**	**103.8**	**46.9**	**12.5**	**481.1**
Charge for the year	22.7	7.5	12.5	-	42.7
Impairment provision recognised in income statement	1.1	-	-	8.2	9.3
Disposals during the year	-	(0.1)	-	-	(0.1)
At 31 March 2023	**341.7**	**111.2**	**59.4**	**20.7**	**533.0**
Carrying amount					
At 31 March 2023	169.9	19.5	81.8	420.6	691.8
At 31 March 2022	189.3	26.4	88.4	383.2	687.3
At 1 April 2021	203.9	26.6	16.4	372.6	619.5

An annual review is performed to assess the carrying value of other intangible assets, including operating assets and assets in the course of construction. The accumulated amortisation of assets in the course of construction represents impairment provisions. During the year, impairment charges of £9.3m (2022: £1.6m) were made in respect of both operating software assets and airspace and support information software assets in the course of construction, reflecting a reassessment of certain projects and assets, and the likelihood of benefits being realised in full or projects being fully completed, to write these assets down to their carrying amount.

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

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

Notes forming part of the consolidated accounts

14. Property, plant and equipment

	Freehold land and buildings £m	Improvements to leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Assets in course of construction and installation £m	Total £m
Cost						
At 1 April 2021	246.4	45.6	1,395.0	26.1	222.5	1,935.6
Additions during the year	0.1	-	3.5	-	33.3	36.9
Acquisition through business combination	-	-	0.2	-	-	0.2
Disposals during the year	-	-	(0.5)	-	-	(0.5)
Other transfers during the year	-	-	49.4	-	(91.7)	(42.3)
At 31 March 2022	**246.5**	**45.6**	**1,447.6**	**26.1**	**164.1**	**1,929.9**
Additions during the year	0.4	0.2	10.9	0.6	40.9	53.0
Disposals during the year	-	-	(0.7)	-	-	(0.7)
Other transfers during the year	0.1	0.4	23.2	0.7	(20.9)	3.5
At 31 March 2023	**247.0**	**46.2**	**1,481.0**	**27.4**	**184.1**	**1,985.7**
Accumulated depreciation and impairment						
At 1 April 2021	160.1	41.3	1,250.3	22.3	3.5	1,477.5
Provided during the year	7.8	1.1	30.8	0.8	-	40.5
Impairment provision recognised in income statement	-	-	-	-	0.1	0.1
Transfer of impairment provision	-	-	1.7	-	(1.8)	(0.1)
Disposals during the year	0.3	-	(1.1)	0.3	-	(0.5)
At 31 March 2022	**168.2**	**42.4**	**1,281.7**	**23.4**	**1.8**	**1,517.5**
Provided during the year	7.7	1.1	36.0	0.8	-	45.6
Impairment provision recognised in income statement	-	-	0.4	-	-	0.4
Transfer of impairment provision	-	-	(0.5)	-	0.5	-
Disposals during the year	-	-	(0.5)	-	-	(0.5)
At 31 March 2023	**175.9**	**43.5**	**1,317.1**	**24.2**	**2.3**	**1,563.0**
Carrying amount						
At 31 March 2023	71.1	2.7	163.9	3.2	181.8	422.7
At 31 March 2022	78.3	3.2	165.9	2.7	162.3	412.4
At 1 April 2021	86.3	4.3	144.7	3.8	219.0	458.1

The group conducts annual reviews of the carrying values of its property, plant and equipment where there is an indicator of impairment. During the year, the group incurred impairment charges of £0.4m (2022: £0.1m) relating to operating air traffic control equipment and assets in the course of construction, reflecting a reassessment of certain projects and assets, and the likelihood of benefits being realised in full, to write these assets down to their carrying amount.

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

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

During the year the group capitalised £0.9m (2022: £0.6m) of general borrowing costs at a capitalisation rate of 1.70% (2022: 1.40%), in accordance with IAS 23: *Borrowing Costs*, relating to both property, plant and equipment and other intangible assets.

Notes forming part of the consolidated accounts

15. Right-of-use assets

	Leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Total £m
Cost				
At 1 April 2021	64.0	5.7	1.2	70.9
Additions during the year	1.5	-	-	1.5
Effect of modification to lease terms	0.3	-	-	0.3
Price changes - market value	0.1	-	-	0.1
Terminations during the year	-	(1.6)	(0.2)	(1.8)
Retranslation	0.1	-	-	0.1
Transfers during the year	(0.1)	(0.1)	0.2	-
At 31 March 2022	**65.9**	**4.0**	**1.2**	**71.1**
Additions during the year	0.2	-	0.5	0.7
Effect of modification to lease terms	-	0.5	-	0.5
Terminations during the year	(0.7)	(0.6)	(1.1)	(2.4)
At 31 March 2023	**65.4**	**3.9**	**0.6**	**69.9**
Accumulated depreciation and impairment				
At 1 April 2021	20.4	3.1	0.4	23.9
Charge during the year	4.4	0.7	0.4	5.5
Charge capitalised in the year	0.6	-	-	0.6
Terminations during the year	-	(1.6)	(0.2)	(1.8)
Transfers during the year	(0.2)	(0.1)	0.3	-
At 31 March 2022	**25.2**	**2.1**	**0.9**	**28.2**
Charge during the year	5.2	0.8	0.3	6.3
Terminations during the year	(0.7)	(0.6)	(1.0)	(2.3)
At 31 March 2023	**29.7**	**2.3**	**0.2**	**32.2**
Carrying amount				
At 31 March 2023	35.7	1.6	0.4	37.7
At 31 March 2022	40.7	1.9	0.3	42.9
At 1 April 2021	43.6	2.6	0.8	47.0

The group conducts annual reviews of the carrying values of its right-of-use assets where there is an indicator of impairment. No assets were impaired in the years ended 31 March 2023 and 31 March 2022.

Notes forming part of the consolidated accounts

16. Investment in Aireon LLC

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

The investment in Aireon is in convertible redeemable cumulative 5% preference interests with voting rights of 8.6%. The investment is intended to result in fully diluted common interests (equivalent to ordinary shares) with voting rights of 10.35% (2022: 11.1%). NATS is entitled to appoint one of the eleven Board members.

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

In June 2022, Aireon raised US$50m through an issue of additional preference shares to Iridium. Iridium's final shareholding, and therefore NATS' shareholding, is contingent on Aireon meeting a revenue target. In the event that this target is not met and a further capital raise is made by December 2023, NATS' shareholding may be diluted further.

The investment in Aireon meets the definition of a financial asset under international accounting standards. The conversion option and the mandatory redemption characteristics of the investment requires its measurement at fair value through profit or loss.

The valuation technique used to determine fair value is the income approach. The fair value of the investment reflects the present value of dividend projections based on Aireon's most recent long-term operating plan (January 2023), and NATS' assessment of underlying plan assumptions. The discount rate assumed for this purpose is 14.3% (2022: 14.3%). The fixed cost nature of Aireon's business makes its plan sensitive to the achievement of management's revenue growth assumptions, which is reflected in the discount rate assumption. A 1% increase in the discount rate would result in a c£3.3m decrease in fair value and a 1% reduction in the discount rate would result in a c£3.8m increase in fair value. A 10% increase in revenue assumed from unsigned sales contracts would result in an increase in fair value of £5.3m and a 10% reduction in revenue assumed from unsigned sales contracts would result in a decrease in fair value of £5.4m. The investment is classified within Level 3 of the fair value hierarchy.

	£m
Fair value at 1 April 2022	**40.3**
Change in fair value in the period, reported in 'Fair value movement on financial instruments' (see note 9)	**(13.4)**
Effect of foreign exchange, reported in Consolidated statement of comprehensive income	**2.8**
Fair value at 31 March 2023	**29.7**

The effect of changes in the rate of foreign exchange arises on consolidation of NATS (USA) Inc, which reports its results in US dollars.

Notes forming part of the consolidated accounts

17. Financial and other assets

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

Trade and other receivables

	2023 £m	2022 £m
Non-current		
Receivable from customers gross	**0.4**	1.0
Prepayments	**1.1**	2.3
Contract assets	**13.6**	8.1
	15.1	11.4
Current		
Receivable from customers gross	**159.5**	130.1
Less: expected credit loss provision	**(10.8)**	(11.7)
	148.7	118.4
Amounts recoverable under contracts	**-**	1.4
Contract spare parts	**-**	0.5
Contract assets	**17.6**	15.9
Other debtors	**2.5**	0.7
Prepayments	**19.4**	14.6
	188.2	151.5

Amounts recoverable under regulatory agreement

	2023 £m	2022 £m
Non-current		
Amounts recoverable under regulatory agreement	**631.1**	667.4
Current		
Amounts recoverable under regulatory agreement	**100.1**	57.2

The average credit period on sales of services was 35 days (2022: 38 days). Interest is charged by Eurocontrol to UK en route customers at 9.97% (2022: 9.48%) on balances outstanding after more than 30 days.

Receivables from customers which are current include unbilled revenue for services provided in March 2023. Prior year receivables from customers included unbilled revenue for services provided in March 2022.

Amounts recoverable under regulatory agreement which are non-current include the net present value of regulatory allowances under-recovered, which will be recovered after 31 March 2024 and across the two five year price control periods starting in 2023 and pension pass through of £29.3m (2022: £34.0m), £5.5m of which relates to Reference Period 1 and is being recovered over a 15 year period to 31 December 2030 and £23.8m to Reference Period 2 which is being recovered over a 15 year period to 31 December 2035. An assessment of credit risk has been included within the discount rate used to determine the net present value.

Amounts recoverable under regulatory agreement which are current relate to Reference Period 1 and the recovery of that part of the Covid income shortfall included in the unit rates to be charged in the financial year ending 31 March 2024. Amounts recoverable under regulatory agreement in the prior year relate to Reference Period 1 and were recovered by 31 March 2022.

Notes forming part of the consolidated accounts

17. Financial and other assets (continued)

Movement in the excepted credit loss provision

	2023 £m	2022 £m
Balance at the beginning of the year	**11.7**	17.1
Decrease in allowance recognised in the income statement	**(0.8)**	(5.4)
Foreign exchange movement in the year	**0.4**	(0.1)
Amounts recovered during the year	**-**	0.3
Amounts written off as irrecoverable	**(0.5)**	(0.2)
Balance at the end of the year	**10.8**	11.7

The group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. In order to measure the expected credit losses, the credit risk characteristics of trade receivables and contract assets have been considered. Based on this, trade receivables and contract assets have been grouped into sub-groups as they are considered to have different credit risk characteristics and for each of these sub-groups separate provisions matrices based on the days past due are used to summarise historic loss patterns. The historical loss rates calculated reflect the economic conditions in place during the period to which the historical data relates. Consideration needs to be made as to whether these historical loss rates were incurred in economic conditions that are representative of those expected to exist during the exposure period at the balance sheet date. Therefore we have reassessed lifetime expected credit losses at 31 March 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.

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

Notes forming part of the consolidated accounts

17. Financial and other assets (continued)

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

	2023								
		Receivables - months past due							
	Unbilled income	Current	1 month	2-3 months	4-6 months	7-12 months	>12 months	In administration	Total £m
NERL expected credit loss rate (%)	1.5%	1.5%	9.1%	27.8%	74.4%	43.8%	80.9%	100.0%	
NERL gross carrying amount (£m)	63.5	62.7	1.2	0.4	0.3	0.8	0.7	7.5	137.1
NERL lifetime expected credit loss (£m)	**1.0**	**0.9**	**0.1**	**0.1**	**0.2**	**0.4**	**0.6**	**7.5**	**10.8**
Other subsidiaries expected credit loss rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	16.5%	100.0%	
Other subsidiaries gross carrying amount (£m)	33.7	17.6	1.6	0.6	0.3	-	0.2	-	54.0
Other subsidiaries expected credit losses (£m)	-	-	-	-	-	-	-	-	-
Total expected credit losses (£m)	**1.0**	**0.9**	**0.1**	**0.1**	**0.2**	**0.4**	**0.6**	**7.5**	**10.8**

	2022								
		Receivables - months past due							
	Unbilled income	Current	1 month	2-3 months	4-6 months	7-12 months	>12 months	In administration	Total £m
NERL expected credit loss rate (%)	2.7%	2.5%	47.4%	29.9%	60.5%	39.6%	68.5%	100.0%	
NERL gross carrying amount (£m)	44.9	42.2	0.8	0.2	0.2	0.1	0.6	8.4	97.4
NERL lifetime expected credit loss (£m)	**1.2**	**1.1**	**0.4**	**0.1**	**0.1**	**-**	**0.4**	**8.4**	**11.7**
Other subsidiaries expected credit loss rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	
Other subsidiaries gross carrying amount (£m)	11.6	43.9	1.9	-	-	-	0.3	-	57.7
Other subsidiaries expected credit losses (£m)	-	-	-	-	-	-	-	-	-
Total expected credit losses (£m)	**1.2**	**1.1**	**0.4**	**0.1**	**0.1**	**-**	**0.4**	**8.4**	**11.7**

Notes forming part of the consolidated accounts

17. Financial and other assets (continued)

Non-current trade and other receivables include £6.1m 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 contract, which has not been subject to a significant increase in credit risk since initial recognition.

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

As at 31 March 2022 trade receivables of £7.5m (2022: £8.4m) had lifetime expected credit losses of the full value of the receivables. These receivables are in administration, receivership or liquidation.

Cash and cash equivalents

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

Overall, the maximum credit risk relating to cash and cash equivalents, loans to joint ventures and trade and other receivables, excluding amount recoverable under regulatory agreement, prepayments, VAT receivables and contract spare parts, would be £351.4m (2022: £301.4m).

18. Borrowings

	2023 £m	2022 £m
Unsecured at amortised cost		
Bank loans	**65.0**	200.0
£450m 1.375% Bonds due 2031	**448.7**	448.2
£300m 1.750% Bonds due 2033	**299.0**	298.8
£145m 1.750% Bonds due 2033	**105.8**	-
Gross borrowings	**918.5**	947.0
Unamortised bond issue costs and bank facility fees	**(7.1)**	(8.1)
	911.4	938.9
Amounts due for settlement within 12 months	**45.0**	-
Amounts due for settlement after 12 months	**866.4**	938.9

Notes forming part of the consolidated accounts

18. Borrowings (continued)

In March 2023 NERL issued £145m of fixed rate bonds in the form of a tap of its existing £300m 1.75% bonds due in 2033. The bonds were issued at a price of 72.75%, reflecting the change in market conditions since the original 2033 bonds were issued in 2021. Upon issuance of these new bonds, NERL cancelled its £450m bridge facility. As at 31 March 2023, the remaining £400m revolving facility agreement, with drawings of £65m, had an expiry date in May 2025. On 27 April 2023, NERL and its syndicate of banks agreed to extend the expiry of this facility to May 2026.

The average effective interest rate on the bank loans in the year was 2.6% (2022: 0.8%) and was determined based on the Sterling Overnight Index Average (SONIA) rates plus a margin of 0.45% and utilisation fee.

Bonds and bank borrowings are initially recognised at fair value net of any directly attributable transaction costs. These are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried on the balance sheet. Interest expense includes initial transaction costs as well as any interest payable while the liability is outstanding.

Undrawn committed facilities

	2023 £m	2022 £m
Undrawn committed facilities expire as follows:		
Expiring in more than two years	**335.0**	650.0
	335.0	650.0

At 31 March 2023, NERL had outstanding drawings of £65.0m (2022: £200.0m) against its committed bank facilities.

NATS Services has an uncommitted overdraft facility of £1.0m that was undrawn as at 31 March 2023 and 31 March 2022 and is not included in the table above.

Notes forming part of the consolidated accounts

19. Leases

Details of the carrying values of right-of-use assets under lease agreements, and the depreciation charge for right-of-use assets included in the income statement are reported in note 15.

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

	2023 £m	2022 £m
Due within one year or less	**9.2**	9.1
Due between one and two years	**7.7**	7.8
Due between two and five years	**21.2**	22.0
Due in more than five years	**19.4**	26.1
	57.5	65.0
Less: future finance charges	**(5.1)**	(6.4)
	52.4	58.6
Analysed as:		
Current	**8.0**	7.8
Non-current	**44.4**	50.8
	52.4	58.6

The consolidated income statement shows the following amounts relating to leases:

	2023 £m	2022 £m
Interest on lease liabilities (see note 10)	**1.4**	1.5
Short-term lease expense	**0.1**	-

Nature of leasing activities

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

Notes forming part of the consolidated accounts

19. Leases (continued)

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

	Lease contracts No.	Fixed payments %(i)	Variable payments %(i)	Sensitivity £m
Year ended 31 March 2023				
Property leases with payments linked to inflation	53	n/a	21.9%	0.6
Property leases with periodic uplifts to market rentals	45	n/a	69.1%	1.8
Property leases with fixed payments	6	3.8%	n/a	n/a
Leases of plant and equipment	28	3.3%	n/a	n/a
Vehicle leases	41	1.9%	n/a	n/a
	173	**9.0%**	**91.0%**	**2.4**
Year ended 31 March 2022				
Property leases with payments linked to inflation	56	n/a	22.8%	0.7
Property leases with periodic uplifts to market rentals	46	n/a	71.9%	2.1
Property leases with fixed payments	8	1.5%	n/a	n/a
Leases of plant and equipment	22	3.6%	n/a	n/a
Vehicle leases	42	0.2%	n/a	n/a
	174	**5.3%**	**94.7%**	**2.8**

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

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

> The length of the lease term;

> What the location will be used for e.g. a break clause is more important for a location used to house older technology; and

> Whether the location represents a new area of operations for the group.

At 31 March 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 group would not exercise its right to exercise any right to break the lease. In addition, the carrying amounts of some leases include the period to which the group is reasonably certain that options to extend the leases will be exercised. The remaining lease payments on all these leases is £21.2m (2022: £23.1m), of which £11.6m (2022: £13.0m) is potentially avoidable if the leases were not extended and a further £8.3m (2022: £7.1m) is potentially avoidable were the group to exercise break clauses at the earliest opportunity.

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

The group did not enter into any new sale and leaseback arrangements in the year to 31 March 2023 (2022: nil), with additions to right-of-use assets and lease liabilities of £nil (2022: right-of-use assets and lease liabilities £nil). The amount for leases not yet commenced to which the group is committed at 31 March 2023 is £0.1m (2022: £nil).

Notes forming part of the consolidated accounts

20. Derivative financial instruments

Fair value of derivative financial instruments

	2023 £m	2022 £m
Non-current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	**1.5**	0.2
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	**1.6**	0.1
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	**(1.0)**	(0.9)
Derivative financial instruments classified as held for trading		
Index-linked swaps	**(11.7)**	(8.5)
	(12.7)	(9.4)
Non-current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	**(0.6)**	(0.5)
Derivative financial instruments classified as held for trading		
Index-linked swaps	**(69.9)**	(67.4)
	(70.5)	(67.9)

Further details on derivative financial instruments are provided in note 21. The index-linked swaps are classified under international accounting standards as held for trading as they do not qualify for hedge accounting.

Hedge effectiveness is determined at the inception of the hedge relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The hedge ratio is established with reference to the cash flows associated with the hedged item and the hedging instrument. Ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the hedging instrument counterparties.

Notes forming part of the consolidated accounts

21. Financial instruments

Capital risk management

The group manages its capital to ensure that entities in the group are able to continue as going concerns, to ensure that NERL is able to meet its obligations under the air traffic services licence, for NATS Services to meet obligations to its customers, and to fund returns to shareholders.

The capital structure of the group consists of borrowings as disclosed in note 18, cash and cash equivalents, as shown in this note, and equity attributable to shareholders as disclosed in the consolidated statement of changes in equity.

External capital requirements

NERL's air traffic services licence requires the company to use all reasonable endeavours to maintain an investment grade issuer credit rating (BBB-/Baa3 or better). Separately, it is the objective of the group to target a credit profile for NERL that exceeds BBB-/Baa3.

As at 31 March 2023, NERL had a credit rating of A+ (negative outlook) from Standard & Poor's (2022: A+ (negative outlook)) and A2 (stable outlook) from Moody's (2022: A2 (negative outlook)).

Gearing ratio

The group does not seek to maintain a target gearing ratio at group level. Instead it monitors and reports on the gearing ratio of NERL, the economically regulated subsidiary, based on a ratio of net debt (as defined by its air traffic services licence) to its regulatory asset base (RAB), ensuring that gearing remains below its financial covenant level of 85%. In addition, the CAA has set NERL a monitoring threshold for gearing of 60% and a gearing cap of 65% of net debt to RAB, with a requirement for NERL to remedy the position if this cap is exceeded. NERL's gearing ratio at 31 March 2023 was 52.3% (2022: 60.1%).

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Categories of financial instrument

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

	2023 £m	2022 £m
Financial assets		
Financial assets at fair value through profit or loss		
Equity investment (see note 16)	**29.7**	40.3
Financial assets at amortised cost		
Trade and other receivables	**182.4**	145.4
Loans to joint ventures	**8.8**	8.0
Cash and cash equivalents	**160.2**	148.0
	351.4	301.4
Derivative financial instruments		
In designated hedge accounting relationships	**3.1**	0.3
	384.2	342.0
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables	**(127.6)**	(132.5)
Borrowings	**(918.5)**	(947.0)
Lease liabilities	**(52.4)**	(58.6)
	(1,098.5)	(1,138.1)
Derivative financial instruments		
In designated hedge accounting relationships	**(1.6)**	(1.4)
At fair value through profit and loss	**(81.6)**	(75.9)
	(83.2)	(77.3)
	(1,181.7)	(1,215.4)

Financial assets at amortised cost includes balances for trade and other receivables (excluding prepayments of £20.5m (2022: £16.9m), VAT of £0.4m (2022: £0.1m) and contract spare parts of £nil (2022: £0.5m)), loans to joint ventures and cash and cash equivalents.

Financial liabilities at amortised cost includes balances for trade and other payables (excluding contract liabilities of £77.1m (2022: £93.6m), deferred income of £24.7m (2022: £24.1m) and taxes and social security liabilities of £17.8m (2022: £11.6m)), bond and bank borrowings (excluding unamortised bond issue costs and bank facility fees) and lease liabilities.

The index-linked swaps are categorised as held for trading. During the year, £8.0m of amortisation payments (2022: £6.3m) were made in relation to the index-linked swaps. In the prior year, there was an additional settlement payment of index-linked swaps of a market value of £55.0m with one of the counterparties. Taking into account the index-linked swap amortisation payments, a charge arising from the change in fair value of £13.7m has been recorded in the income statement in the year (2022: £43.8m charge). This decrease in the charge for the year largely relates to the impact that actual inflation and future inflation expectations have had on the fair value changes for the £200m (notional) of 10 year index-linked swaps that were entered into in June 2021.

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Financial risk management objectives

The group's Treasury function is mandated by the Board to manage financial risks that arise in relation to underlying business needs. The function provides services to the business, co-ordinates access to financial markets and monitors and manages financial risks relating to the operations of the group. The function has clear policies and operating parameters. The Treasury Committee provides oversight and meets at least three times a year to approve strategy and to monitor compliance with Board policy. The Treasury function does not operate as a profit centre and the undertaking of speculative transactions is not permitted. The principal financial risks arising from the group's activities include market risk (including currency risk, interest rate risk and inflation risk), credit risk and liquidity risk.

Market risk

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and inflation rates. These risks are explained below. From time to time, the group enters into a variety of derivative financial instruments to manage its exposure to these risks, including:

- forward foreign exchange contracts to hedge the exchange risk arising on services provided to UK en route customers that are billed in euro, US dollar satellite data charges for satellite based surveillance services across the North Atlantic and other purchases from foreign suppliers in foreign currencies;
- interest rate swaps to mitigate the risk of rising interest rates; and
- index-linked swaps to mitigate the risk of low inflation.

Foreign currency risk management

During the course of the year the group continued to manage foreign exchange risk arising from UK en route services revenue. It did this by entering into forward foreign exchange contracts on a monthly basis to hedge up to 95% of the forecast UK en route revenue up to four months' hence, based on short-term forecasts of chargeable service units.

The group's international activities account for 1.4% of external revenue and regulatory allowances (2022: 1.4%). The group trades with and provides finance to its overseas joint ventures and subsidiaries. Where appropriate the transactions are conducted in sterling. The group benefits from natural hedges of its exposure to fluctuations on the translation of its foreign operations into sterling as a result of holding cash reserves in foreign currencies.

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

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Foreign currency risk management (continued)

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

	Assets		Liabilities	
Currency	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Euro	**62.3**	38.4	**(8.2)**	(7.5)
US dollar	**35.3**	45.2	**(2.7)**	(1.0)
Hong Kong dollar	**5.0**	4.6	**(0.3)**	(0.5)
Canadian dollar	**3.7**	2.7	**(4.5)**	(2.9)
Singapore dollar	**0.9**	1.1	**(0.6)**	(0.6)
Thai baht	**0.9**	0.9	**(0.1)**	(0.2)
Qatari riyal	**0.6**	0.9	**-**	-
Omani rial	**0.4**	0.4	**-**	-
UAE dirham	**0.3**	0.4	**(0.4)**	(0.4)
Indian rupee	**0.3**	-	**-**	-
Norwegian krone	**0.1**	0.4	**(0.2)**	-
Swedish krona	**-**	-	**(0.1)**	-
	109.8	95.0	**(17.1)**	(13.1)

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Foreign currency sensitivity analysis

The group has assets and liabilities denominated in foreign currencies including the equity investment in Aireon and cash balances of £10.4m at 31 March 2023 (2022: £6.3m) in euro, Hong Kong dollars, Canadian dollars, US dollars, Thai baht, Indian rupee, Omani rial, Singapore dollars, Norwegian krone, Qatari riyal and UAE dirham. Trade and other receivables and trade and other payables contains £68.0m (2022: £48.6m) and £13.8m (2022: £13.1m) respectively, denominated in euro, US dollars, Canadian dollars, Hong Kong dollars, Singapore dollars, Qatari riyal, UAE dirham, Thai baht, Omani rial, Swedish krona and Indian rupee. Furthermore, the group has entered into forward foreign currency contracts to hedge exchange risk relating to customer receipts and supplier costs which will arise in future periods.

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

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

Currency	2023 Impact £m	2022 Impact £m
Euro	**5.3**	0.1
US dollar	**(7.1)**	(8.1)
Hong Kong dollar	**(0.5)**	(0.4)
Canadian dollar	**(0.3)**	(0.3)
Singapore dollar	**-**	0.1
Qatari riyal	**(0.1)**	(0.1)
Thai baht	**(0.1)**	(0.1)
Norwegian krone	**(0.1)**	-
	(2.9)	(8.8)

There was an overall decrease in currency exposure reflecting an increase in forward contract sales of euro (due to the greater volume of flights driving higher billings compared to prior year) and US dollar. The group believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk.

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Foreign currency sensitivity analysis (continued)

Throughout the year the group applied its policy of entering into forward foreign exchange contracts to sell euro forecast to be remitted to the UK by Eurocontrol in respect of UK en route revenues. The group also continued to enter into various forward foreign exchange contracts to fund capital purchases and services, which have been designated as cash flow hedges. At the year end, all forward foreign exchange contracts were determined to be effective. The following contracts were outstanding at year end:

	2023			2022		
			Average exchange rate			Average exchange rate
Euro sold	**£m**	**€m**		£m	€m	
0-90 days	**163.5**	**184.6**	**0.8858**	62.8	74.8	0.8387
91-365 days	**3.7**	**4.2**	**0.8684**	1.1	1.3	0.8503
> 365 days	**7.7**	**8.6**	**0.8930**	9.6	10.9	0.8864
	174.9	**197.4**	**0.8857**	73.5	87.0	0.8448
Euro bought	**€m**	**£m**		€m	£m	
0-90 days	**6.1**	**5.4**	**0.8823**	4.3	3.7	0.8682
91-365 days	**24.5**	**21.6**	**0.8818**	16.9	14.7	0.8706
> 365 days	**44.7**	**40.5**	**0.9066**	25.6	23.0	0.8968
	75.3	**67.5**	**0.8965**	46.8	41.4	0.8847
US dollar sold	**£m**	**US$m**		£m	US$m	
0-90 days	**5.9**	**7.2**	**1.2046**	-	-	-
91-365 days	**-**	**-**	**-**	0.6	0.8	1.3745
> 365 days	**16.8**	**20.4**	**1.2127**	-	-	-
	22.7	**27.6**	**1.2106**	0.6	0.8	1.3732
US dollar bought	**US$m**	**£m**		US$m	£m	
0-90 days	**14.6**	**11.6**	**1.2565**	6.3	4.8	1.3098
91-365 days	**20.1**	**16.6**	**1.2103**	15.1	11.5	1.3161
> 365 days	**42.1**	**33.3**	**1.2648**	27.4	20.7	1.3241
	76.8	**61.5**	**1.2485**	48.8	37.0	1.3198

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Foreign currency sensitivity analysis (continued)

	2023			2022		
			Average exchange rate			Average exchange rate
Canadian dollar bought	**C$m**	**£m**		C$m	£m	
0-90 days	**3.2**	**1.9**	**1.6529**	1.6	0.9	1.7559
91-365 days	**4.0**	**2.6**	**1.5847**	1.1	0.7	1.6823
> 365 days	**0.3**	**0.2**	**1.7098**	2.1	1.2	1.7523
	7.5	**4.7**	**1.6174**	4.8	2.8	1.7365
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

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 £0.8m (2022: £0.9m unrealised gain). The majority of these contracts will mature within the next financial year at which stage the amount deferred in equity will be realised in the income statement.

Gains and losses on the ineffective portion of the cash flow hedges are recorded immediately in the income statement. For the year ended 31 March 2023, a charge of £13.7m was recorded in the income statement (2022: £43.8m charge). This decrease in the charge for the year largely relates to the impact that actual inflation and future inflation expectations have had on the fair value changes for the £200m (notional) of 10-year index-linked swaps that were entered into in June 2021.

In addition to the above, NERL has entered into average rate forward agreements with a fixing date after 31 March 2023 to sell euro anticipated to be received in July 2023 in respect of UK en route revenues, for this reason they are not included in the table above. The value of these cash flows is £64.7m (2022: £38.5m).

Interest rate risk management

The group is exposed to interest rate risk to the extent that it holds borrowings at fixed, floating and index-linked interest rates. Its interest rate risk management policies, which are kept under continuous review, are specific to NERL. Except for NERL, no other entity within the NATS group had borrowings at 31 March 2023 (2022: none).

The group seeks to minimise NERL's exposure to movements in interest rates by ensuring NERL holds an appropriate balance of fixed, floating and index-linked debt as a percentage of its net debt by the use of interest rate swap contracts and index-linked swap contracts.

The group's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section of this note. The group held no interest rate swaps at 31 March 2023 (2022: none).

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Economic interest rate exposure

The group's cash balances were as follows:

	2023			2022		
Currency	**Amount £m**	**Economic interest rate %**	**Average maturity days**	**Amount £m**	**Economic interest rate %**	**Average maturity days**
Sterling	149.8	4.0	30	141.7	0.4	6
Euro	1.7	-	3	1.5	-	1
Hong Kong dollar	3.6	-	3	2.5	-	1
Canadian dollar	2.0	-	3	0.4	-	1
US dollar	1.2	-	3	0.7	-	1
Thai baht	0.7	-	3	0.5	-	1
Indian rupee	0.3	-	3	-	-	-
Omani rial	0.3	-	3	0.3	-	1
Singapore dollar	0.3	-	3	-	-	-
Norwegian krone	0.1	-	3	0.4	-	1
Qatari riyal	0.1	-	3	-	-	-
UAE dirham	0.1	-	3	-	-	-
	160.2			**148.0**		

The economic interest rate reflects the true underlying cash rate that the group was paying on its borrowings or receiving on its deposits at 31 March (excluding any unwind of original issue discount). The economic interest rate exposure of the group's borrowings is presented below:

	Total £m	**Variable rate £m**	**Fixed rate £m**	**Economic interest rate %**	**Weighted average time rate is fixed years**
At 31 March 2023					
Sterling:					
£450m 1.375% Bonds due 2031	448.7	-	448.7	1.38%	4.9
£300m 1.750% Bonds due 2033	299.0	-	299.0	1.76%	10.5
£145m 1.750% Bonds due 2033	105.8	-	105.8	2.40%	10.5
Bank loans	65.0	65.0	-	4.66%	0.0
Lease liabilities	52.4	-	52.4	2.55%	8.9
Total	**970.9**	**65.0**	**905.9**		
At 31 March 2022					
Sterling:					
£450m 1.375% Bonds due 2031	448.2	-	448.2	1.38%	5.9
£300m 1.750% Bonds due 2033	298.8	-	298.8	1.76%	11.5
Bank loans	200.0	200.0	-	1.17%	0.0
Lease liabilities	58.6	-	58.6	2.52%	8.7
Total	**1,005.6**	**200.0**	**805.6**		

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Economic interest rate exposure (continued)

The following table shows the percentage of fixed, index-linked and floating rate debt as a percentage of group net debt. Net debt is defined for this purpose as borrowings and lease liabilities net of cash and cash equivalents, as distinct from the definition used for financial covenants purposes. Index-linked debt in this table reflects the notional of outstanding inflation swaps only. As a result, the fixed debt represents total fixed debt less the notional of outstanding inflation swaps.

	2023		2022	
	£m	**%**	£m	%
Fixed (net of bond discount and issue costs)	**669.5**	**83.3**	560.7	66.0
Index-linked (effected via inflation swaps)	**230.6**	**28.7**	240.0	28.3
Floating (net of cash and facility costs)	**(96.5)**	**(12.0)**	48.8	5.7
Net debt	**803.6**	**100.0**	849.5	100.0

At 31 March 2023, NERL is the only entity in the group with borrowings and had net debt of £903.2m (2022: £943.1m). NATS Services had cash of £91.5m (2022: £86.3m), NATS Limited had cash of £3.9m (2022: £5.8m) and other entities in the group had cash of £7.1m (2022: £5.0m). Net debt includes lease liabilities of £49.5m (2022: £55.1m) in NERL and £2.9m (2022: £3.5m) in other group entities.

The following table shows the percentage of fixed, index-linked and floating rate debt as a percentage of NERL net debt, reflecting the application of the interest rate risk management policies that are specific to NERL.

	2023		2022	
	£m	**%**	£m	%
Fixed (net of bond discount and issue costs)	**666.6**	**73.8**	557.2	59.1
Index-linked (effected via inflation swaps)	**230.6**	**25.5**	240.0	25.4
Floating (net of cash and facility costs)	**6.0**	**0.7**	145.9	15.5
Net debt	**903.2**	**100.0**	943.1	100.0

Interest rate sensitivity analysis

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

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

	2023 Impact £m	2022 Impact £m
Cash at bank (2023: £160.2m, 2022: £148.0m)	**1.6**	1.5
Borrowings (2023: £65.0m, 2022: £200.0m)	**(0.7)**	(2.0)
	0.9	(0.5)

Overall the group's sensitivity to interest rate changes has decreased. This reflects a reduction in the amount of floating rate liabilities.

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Inflation rate risk

The regulatory charge control conditions that apply to NERL's UK en route and North Atlantic services determines a regulatory allowance for financing charges that is linked to inflation. To achieve an economic hedge of part of this income, NERL enters into index-linked swaps. The table below sets out the group's exposure to these inflation swaps:

	Notional index-linked swaps (by amortisation or termination date)					Interest rate % (weighted average)	
	Within one year £m	**Between one and five years £m**	**Between five and 15 years £m**	**Total £m**	**Marked to market £m**	Payable %	Receivable %
At 31 March 2023							
Inflation swaps							
Amortising swap fixed to RPI, maturing in 2026	**10.2**	**20.4**	**-**	**30.6**	**34.2**	4.05%	5.25%
Bullet repayment swap fixed to RPI, maturing in 2031	**-**	**-**	**200.0**	**200.0**	**47.4**	(2.14%)	1.53%
	10.2	**20.4**	**200.0**	**230.6**	**81.6**		
At 31 March 2022							
Inflation swaps							
Amortising swap fixed to RPI, maturing in 2026	**9.4**	**30.6**	**-**	**40.0**	**39.6**	4.05%	5.25%
Bullet repayment swap fixed to RPI, maturing in 2031	**-**	**-**	**200.0**	**200.0**	**36.3**	(2.14%)	1.53%
	9.4	**30.6**	**200.0**	**240.0**	**75.9**		

Inflation rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to inflation arising from the index-linked swaps. The analysis is prepared assuming that the index-linked swaps at the balance sheet date were in place for the whole year. A 1% increase or decrease in inflation each year for the life of the swaps is considered to represent a reasonably possible change in inflation. An increase in the rate of RPI inflation will increase the future index-linked payments that NERL is required to make under the swap contracts and so impacts their mark to market value.

The following table shows the effect of a 1% increase in inflation on the amount of interest payable in respect of the swaps and the impact on their value when marked to market. A positive number indicates an increase in profit and equity and a negative number a reduction in profit and equity. There would be a fairly equal and opposite impact on profit and equity if inflation falls by 1%.

	2023 Impact £m	2022 Impact £m
Change in mark to market value	**(20.6)**	(24.9)

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Inflation rate sensitivity analysis (continued)

The mark to market value of the index-linked swaps is also sensitive to the discount rates that are used to determine the net present value of the cash flows under the swap agreements. The discount rate is determined by reference to market yields on interest rate swaps. The effect of a 1% increase in the discount rate would be to increase profit and equity by £3.4m (2022: £4.3m). There would be a fairly equal and opposite impact on profit and equity if discount rates decreased by 1%.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The group's exposure to credit risk arises from the risk of default by customers on settlement of trade receivables and from the risk of a failure of a financial institution in which funds are invested for return or held for trading purposes or with whom derivative contracts are entered into. The risk of loss from default by customers and the mitigations against this risk are explained in note 17. With regard to funds or contracts held with financial institutions, the group's policy is to transact with counterparties that hold a minimum credit rating as supplied by independent rating agencies: Standard & Poor's, Moody's and Fitch Ratings.

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

The group's cash and cash equivalents take the form of cash at bank of £11.4m (2022: £9.1m), bank term deposits of £62.7m (2022: £30.9m) and money market fund investments of £86.1m (2022: £108.0m). Bank term deposits with maturities up to 3 months and between 3 and 6 months are only entered into with institutions holding a long-term minimum credit rating of A- and A+ respectively from Standard & Poor's or Fitch Ratings and A3 and A1 respectively from Moody's. Money market fund investments are restricted to AAA rated liquidity funds and must have same-day access.

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

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

	2023			2022		
Rating (Standard & Poor's)	**Number of institutions**	**£m**	**By credit rating %**	Number of institutions	£m	By credit rating %
AAAm	**5**	**86.1**	**53.7**	5	108.0	73.0
AA-	**2**	**10.9**	**6.8**	1	0.3	0.2
A+	**4**	**39.7**	**24.8**	3	29.2	19.7
A	**2**	**23.5**	**14.7**	3	10.5	7.1
		160.2	**100.0**		148.0	100.0

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Liquidity risk management

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

With regard to NERL, the group's policy is to:

> maintain free cash at a level equivalent to between one and two months' of UK en route services revenues (see below) and at any time not less than £50m. Free cash is defined as cash and cash equivalents and short-term investments;

> ensure access to committed bank facilities sufficient to withstand a credible range of downside scenarios relative to the prevailing price control business plan. At 31 March 2023 NERL had access to undrawn bank facilities totalling £335m;

> ensure access to long-term funding to finance its long-term assets;

> ensure that the ratio of bank funding to total gross borrowings does not exceed 75%; and

> maintain a portfolio of debt diversified by source and maturity.

The following table shows the ratio of free cash in NERL to average monthly UK en route services income during the year:

	2023 £m	2022 £m
Average monthly UK en route services income	**53.3**	42.1
Free cash at 31 March	**57.7**	50.9
Ratio of free cash to UK en route services income	**1.1**	1.2

The following table shows the ratio of the group's bank borrowings to its gross borrowings at 31 March:

	2023 £m	2022 £m
Bank borrowings	**65.0**	200.0
Gross borrowings (including lease liabilities)	**970.9**	1,005.6
Bank borrowings as a percentage of gross borrowings	**7%**	20%

It is company policy not to issue new guarantees in respect of the borrowings of subsidiaries or to allow the creation of any new mortgages or other charges over group assets.

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Maturity of borrowings

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

	2023				2022			
	Unsecured lease liabilities £m	**Unsecured loans £m**	**Other liabilities £m**	**Total £m**	Unsecured lease liabilities £m	Unsecured loans £m	Other liabilities £m	Total £m
Due within one year or less	**9.2**	**62.4**	**121.2**	**192.8**	9.1	13.3	125.9	148.3
Between one and two years	**7.7**	**60.6**	**1.8**	**70.1**	7.8	59.3	0.9	68.0
Due between two and five years	**21.2**	**236.3**	**0.5**	**258.0**	22.0	368.4	3.2	393.6
Due in more than five years	**19.4**	**718.4**	**4.1**	**741.9**	26.1	613.4	2.5	642.0
	57.5	**1,077.7**	**127.6**	**1,262.8**	65.0	1,054.4	132.5	1,251.9
Effect of interest, discount and unamortised bond issue and bank facility fees	**(5.1)**	**(166.3)**	**-**	**(171.4)**	(6.4)	(115.5)	-	(121.9)
	52.4	**911.4**	**127.6**	**1,091.4**	58.6	938.9	132.5	1,130.0

Other liabilities above include trade and other payables (excluding deferred income of £24.7m (2022: £24.1m), contract liabilities of £77.1m (2022: £93.6m), and taxes and social security liabilities of £17.8m (2022: £11.6m)).

The following table sets out the maturity profile of the group's derivative financial liabilities. Cash flows under the index-linked swaps are not fixed and are subject to movements in inflation. Accordingly, the cash flows associated with the index-linked swaps have been derived from observable market prices for inflation. The table shows undiscounted cash inflows/(outflows) on these derivatives.

	Due within one year or less £m	**Due between one and two years £m**	**Due between two and five years £m**	**Due in more than five years £m**	**Total £m**
2023					
Index-linked swaps receivable	8.4	8.7	23.0	24.8	64.9
Index-linked swaps payable	(11.7)	(12.6)	(85.5)	(56.0)	(165.8)
	(3.3)	(3.9)	(62.5)	(31.2)	(100.9)
Foreign exchange forward contract receivables	233.4	65.2	32.9	0.3	331.8
Foreign exchange forward contract payables	(232.5)	(64.3)	(33.7)	(0.3)	(330.8)
	0.9	0.9	(0.8)	-	1.0
	(2.4)	**(3.0)**	**(63.3)**	**(31.2)**	**(99.9)**
2022					
Index-linked swaps receivable	8.0	8.2	21.8	33.4	71.4
Index-linked swaps payable	(8.5)	(10.8)	(85.1)	(57.0)	(161.4)
	(0.5)	(2.6)	(63.3)	(23.6)	(90.0)
Foreign exchange forward contract receivables	101.4	16.6	33.5	3.3	154.8
Foreign exchange forward contract payables	(102.3)	(16.8)	(33.9)	(3.4)	(156.4)
	(0.9)	(0.2)	(0.4)	(0.1)	(1.6)
	(1.4)	**(2.8)**	**(63.7)**	**(23.7)**	**(91.6)**

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Fair value measurements

Set out below is information about how the group determines fair values of various financial assets and financial liabilities.

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

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

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

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

Fair value measurements recognised on the balance sheet

	2023				2022			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Equity investment	**-**	**-**	**29.7**	**29.7**	-	-	40.3	40.3
Derivative financial instruments in designated hedge accounting relationships	**-**	**3.1**	**-**	**3.1**	-	0.3	-	0.3
	-	**3.1**	**29.7**	**32.8**	-	0.3	40.3	40.6
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	**-**	**(1.6)**	**-**	**(1.6)**	-	(1.4)	-	(1.4)
Derivative financial instruments classified as held for trading	**-**	**(81.6)**	**-**	**(81.6)**	-	(75.9)	-	(75.9)
	-	**(83.2)**	**-**	**(83.2)**	-	(77.3)	-	(77.3)

There were no transfers between individual levels in the year.

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Valuation techniques and key inputs

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

The fair values of the financial instruments held at fair value have been determined based on available market information at the balance sheet date and the valuation methodologies listed below:

- the fair values of forward foreign exchange contracts are calculated with reference to well recognised proprietary financial models used by bank counterparties, and verified using discounted cash flow modelling;
- the fair value of the index-linked swaps reflect valuations provided by bank counterparties using proprietary financial models and debt value adjustments that are based on market parameters. This is validated using discounted cash flow modelling based on the latest published inflation index, observable forecasts of inflation and discount rates taken from the observable interest rate swap curve at the reporting date, as well as observable sources of credit risk values;
- the valuation technique used to determine the fair value of the equity investment in Level 3 of the hierarchy is explained in note 16; and
- the fair value of the fixed rate bond has been derived from its externally quoted price.

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

	Carrying amount		Fair value	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Financial liabilities				
£450m 1.375% Bonds due 2031	**(448.7)**	(448.2)	**(386.3)**	(423.6)
£300m 1.750% Bonds due 2033	**(299.0)**	(298.8)	**(224.9)**	(274.2)
£145m 1.750% Bonds due 2033	**(105.8)**	-	**(108.7)**	-
	(853.5)	(747.0)	**(719.9)**	(697.8)

Notes forming part of the consolidated accounts

22. Financial and other liabilities

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

Trade and other payables

	2023 £m	2022 £m
Current		
Trade payables	**24.1**	21.0
Other payables	**8.7**	10.2
Tax and social security	**17.8**	11.6
Contract liabilities	**21.6**	34.8
Accruals and deferred income	**90.4**	96.4
	162.6	174.0
Non-current		
Trade payables	**3.7**	1.7
Other payables	**0.1**	0.2
Contract liabilities	**55.5**	58.8
Accruals and deferred income	**25.3**	27.1
	84.6	87.8
	247.2	261.8

Amounts payable under regulatory agreement

	2023 £m	2022 £m
Current		
Amounts payable under regulatory agreement	**91.4**	37.3
Non-current		
Amounts payable under regulatory agreement	**50.2**	131.8
	141.6	169.1

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 29 days (2022: 30 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

Amounts payable under regulatory agreement that are non-current include regulatory allowances over-recovered for previous regulatory control periods, which will be repaid after 31 March 2024 through future charges. Amounts payable under regulatory agreement that are current include regulatory allowances over-recovered for previous regulatory control periods, which will be repaid by 31 March 2024 through 2023 and 2024 charges.

Notes forming part of the consolidated accounts

23. Provisions

	Property £m	Redundancy £m	Relocation £m	Other £m	Total £m
At 1 April 2022	10.3	0.1	0.2	4.2	14.8
Additional provision in the year	2.4	0.3	-	0.9	3.6
Release of provision in the year	(0.3)	-	-	(1.2)	(1.5)
Utilisation of provision	(0.1)	(0.1)	(0.1)	-	(0.3)
At 31 March 2023	**12.3**	**0.3**	**0.1**	**3.9**	**16.6**

	2023 £m	2022 £m
Amounts due for settlement within 12 months	**2.4**	1.2
Amounts due for settlement after 12 months	**14.2**	13.6
	16.6	14.8

The property provision represents the best estimate of dismantlement, removal or restoration costs arising from property leases and other property-related costs. The ageing of the provision reflects the expected timing of the settlement of these costs.

The redundancy provision represents the best estimate of the future cost of redundancy payments to employees that have committed to the redundancy terms at 31 March 2023. The ageing of the provision reflects the expected timing of employees leaving the group.

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

The other provisions represent the best estimate of other liabilities, including the cost of fulfilling onerous contracts. The ageing of the provision reflects the best estimate of when these potential liabilities will fall due.

Notes forming part of the consolidated accounts

24. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £m	Restated Retirement benefits £m	Financial instruments £m	Tax credits and unutilised tax losses £m	Other £m	Restated Total £m
At 1 April 2021	136.9	(6.0)	(4.3)	-	(7.9)	118.7
Acquisition through business combination	0.9	-	-	(0.6)	-	0.3
Charge/(credit) to income	54.2	(1.5)	1.5	(15.7)	(2.7)	35.8
Charge to equity	-	90.0	0.4	-	-	90.4
At 31 March 2022	**192.0**	**82.5**	**(2.4)**	**(16.3)**	**(10.6)**	**245.2**
At 1 April 2022	192.0	82.5	(2.4)	(16.3)	(10.6)	245.2
Charge/(credit) to income	4.8	-	1.7	15.0	(1.3)	20.2
(Credit)/charge to equity	-	(67.8)	0.3	-	-	(67.5)
At 31 March 2023	**196.8**	**14.7**	**(0.4)**	**(1.3)**	**(11.9)**	**197.9**

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	**211.5**	274.5
Deferred tax assets	**(13.6)**	(29.3)
	197.9	245.2

Notes forming part of the consolidated accounts

25. Share capital

	Authorised		Called up, allotted and fully paid	
	Number of shares	**£m**	**Number of shares**	**£m**
Ordinary shares of £1 each				
At 31 March 2023 and 31 March 2022	144,100,007	144.1	131,000,007	131.0
Ordinary A shares of 80 pence each				
At 31 March 2023 and 31 March 2022	54,272,594	43.4	12,048,193	9.6
		187.5		**140.6**

Each class of ordinary shares has the same voting rights and rights to dividends.

Special share

The authorised and issued share capital of NATS Holdings Limited includes one special rights redeemable preference share with a nominal value of £1. The share is redeemable at any time after the shareholding of the Crown falls below 25%. This share can only be held by a Minister of the Crown, the Treasury Solicitor or any other person acting on behalf of the Crown. The special shareholder is entitled to attend and speak at meetings. The special share does not carry any rights to vote at general meetings except in the following circumstances:

- alterations to the company's share capital;
- alterations to voting rights of any of the company's shares; and
- the removal of any director appointed by a Crown representative.

If an attempt is made to approve any of these events or to pass a resolution to wind up the company at a general meeting, on an ordinary resolution, the special shareholder will have no less than one vote more than the total number of all other votes cast, and on a special resolution, they shall have no less than one vote more than 25% of the total votes cast.

26. Share premium account

	£m
Balance as at 31 March 2023 and 31 March 2022	**0.4**

Notes forming part of the consolidated accounts

27. Other reserves

The following table shows a breakdown of the balance sheet line item 'Other reserves' and the movements in these reserves during the year. A description of the nature and purpose of each reserve is provided in note 2.

	AESOP reserve £m	Hedge reserve £m	Translation reserve £m	Other reserves[1] £m	Total £m
At 1 April 2021	(0.3)	(2.6)	(0.9)	(34.7)	(38.5)
Other comprehensive income for the year	-	1.9	1.8	-	3.7
At 31 March 2022	**(0.3)**	**(0.7)**	**0.9**	**(34.7)**	**(34.8)**
At 1 April 2022	(0.3)	(0.7)	0.9	(34.7)	(34.8)
Other comprehensive income for the year	-	1.3	2.3	-	3.6
At 31 March 2023	**(0.3)**	**0.6**	**3.2**	**(34.7)**	**(31.2)**

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

28. Non-controlling interest

The non-controlling interest (a 30% ownership interest in NATS Services LLC) recognised at the acquisition date was measured by reference to the fair value of the non-controlling interest and amounted to £0.1m (Omani rial 0.1m).

As at 31 March 2023, a loan to the non-controlling interest amounted to £0.1m (Omani rial 0.1m) and is included in other debtors (see note 17).

Notes forming part of the consolidated accounts

29. Notes to the cash flow statement

	2023 £m	2022 £m
Operating profit from continuing operations	**174.1**	98.3
Adjustments for:		
Impairment of goodwill	**2.9**	-
Depreciation of property, plant and equipment	**45.6**	40.5
Amortisation of intangible assets	**42.7**	37.8
Depreciation of right-of-use assets	**6.3**	5.5
Impairment losses	**9.7**	1.7
Deferred grants released	**(0.6)**	(0.6)
(Loss)/profit on disposal of property, plant and equipment	**0.2**	(0.4)
R&D expenditure above the line tax credits	**(1.6)**	(1.2)
Adjustment for pension funding	**(19.7)**	(8.3)
Operating cash flows before movements in working capital	**259.6**	173.3
Decrease/(increase) in amounts recoverable under contracts	**1.4**	(0.3)
Increase in trade, other receivables and amounts recoverable under regulatory agreement	**(39.5)**	(314.9)
Decrease in trade, other payables, provisions and amounts payable under regulatory agreement	**(34.0)**	(45.0)
Cash generated from/(used in) operations	**187.5**	(186.9)
Tax (paid)/received	**(4.0)**	14.4
Net cash generated from/(used in) operating activities	**183.5**	(172.5)

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

Increase in trade and other receivables, and amounts recoverable under regulatory agreement represents the movement on the balance sheet adjusted for non-cash items such as discounting and pension pass through accruals, and for capital prepayments.

Decrease in trade and other payables, amounts payable under regulatory agreement and provisions represents the movement on the balance sheet adjusted for interest and capital accruals.

Reconciliation of net financial liabilities

The table below analyses those net financial liabilities for which cash flows arise from financing activities in each of the periods presented.

	2023 £m	2022 £m
Cash and cash equivalents	**160.2**	148.0
Borrowings	**(911.4)**	(938.9)
Lease liabilities	**(52.4)**	(58.6)
Net debt	**(803.6)**	(849.5)
Index-linked swaps	**(81.6)**	(75.9)
Net financial liabilities	**(885.2)**	(925.4)
Cash and liquid investments	**160.2**	148.0
Gross debt - fixed interest rates (net of unamortised bond issue costs)	**(900.1)**	(800.7)
Gross debt - variable interest rates (net of unamortised bank facility fees)	**(63.7)**	(196.8)
Net debt	**(803.6)**	(849.5)
Index-linked swaps	**(81.6)**	(75.9)
Net financial liabilities	**(885.2)**	(925.4)

Notes forming part of the consolidated accounts

29. Notes to the cash flow statement (continued)

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

	Assets	Liabilities from financing activities (excluding derivatives)				Net debt	Derivatives	Net financial liabilities
	Cash and cash equivalents £m	Lease liabilities £m	Bonds (i) £m	Advances of en route charges £m	Bank loans (ii) £m	Sub-total £m	Index-linked swaps £m	Total £m
Net financial liabilities as at 1 April 2021	272.1	(63.9)	(250.9)	(67.4)	(392.7)	(502.8)	(93.4)	(596.2)
Cash flows	(124.3)	7.0	(451.1)	-	198.6	(369.8)	61.3	(308.5)
New leases in the year	-	(1.5)	-	-	-	(1.5)	-	(1.5)
Effect of modification to lease terms	-	(0.3)	-	-	-	(0.3)	-	(0.3)
Lease price changes - market value	-	(0.1)	-	-	-	(0.1)	-	(0.1)
Fair value movements on index-linked swaps	-	-	-	-	-	-	(43.8)	(43.8)
Loss on redemption of £600m 5.25% Bond	-	-	(38.4)	-	-	(38.4)	-	(38.4)
Foreign exchange adjustments	0.2	-	-	-	-	0.2	-	0.2
Other non-cash movements (iii)	-	0.2	(1.7)	67.4	(2.7)	63.2	-	63.2
Net financial liabilities as at 31 March 2022	**148.0**	**(58.6)**	**(742.1)**	**-**	**(196.8)**	**(849.5)**	**(75.9)**	**(925.4)**
Cash flows	12.0	6.9	(104.2)	-	135.4	50.1	8.0	58.1
New leases in the year	-	(0.7)	-	-	-	(0.7)	-	(0.7)
Effect of modification to lease terms	-	(0.5)	-	-	-	(0.5)	-	(0.5)
Fair value movements on index-linked swaps	-	-	-	-	-	-	(13.7)	(13.7)
Foreign exchange adjustments	0.2	-	-	-	-	0.2	-	0.2
Other non-cash movements (iii)	-	0.5	(1.4)	-	(2.3)	(3.2)	-	(3.2)
Net financial liabilities as at 31 March 2023	**160.2**	**(52.4)**	**(847.7)**	**-**	**(63.7)**	**(803.6)**	**(81.6)**	**(885.2)**

(i) The amount shown under bonds is net of unamortised bond issue costs.
(ii) The amount shown under bank loans is net of unamortised bank facility fees and accrued bank facility fees.
(iii) Other non-cash flow movements include amortisation of bond issue costs of £1.4m (2022: £1.7m) and amortisation of bank facility fees of £2.3m (2022: £2.7m). The £67.4m in the prior year represents the settlement of advances of en route charges, which have been deducted from income receipts. Lease liabilities other non-cash movements of £0.5m (2022: £0.2m) include the reinstatement element of right-of-use asset additions.

Interest due on bonds and bank loans was fully paid on 31 March 2023 (2022: fully paid) and therefore accrued interest does not form part of net debt.

Notes forming part of the consolidated accounts

30. Financial commitments

	2023 £m	2022 £m
Amounts contracted but not provided for in the accounts	**48.7**	39.9

Guarantees

NATS Holdings Limited has given guarantees to the Ministry of Defence in relation to NERL's performance under its Future Military Area Radar Services contract with the MOD.

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

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

As part of the tendering process for new contracts, the NATS group may be required to put in place a tender or bid guarantee which expires once the contract is awarded. Where tenders are successful, contractual terms may also require performance or advance payment guarantees. These guarantees vary in length depending on the life of the contract and may run until the expiry of the contract. The total guarantees provided in these respects at 31 March 2023 was £7.8m (2022: £9.1m).

Notes forming part of the consolidated accounts

31. Share based payments

The company operates an All-Employee Share Ownership Plan for the benefit of employees to hold 5% of the share capital of the company. The plan is administered by NATS Employee Sharetrust Limited. The scheme allows for free shares, dividend shares, partnership shares and matching shares to be awarded to employees. Partnership shares vest at the point of the 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:

Date of share awards	No. shares awarded to employees	**No. employee shares outstanding at 31 March 2023**	No. employee shares outstanding at 31 March 2022
Free share awards			
21 September 2001	3,353,742	**147,600**	156,736
20 October 2003	2,459,000	**140,012**	151,777
10 September 2004	1,966,000	**215,520**	240,722
11 January 2008	1,071,840	**172,088**	192,968
18 September 2009	963,200	**193,106**	217,206
Partnership shares			
1 March 2011	694,783	**174,498**	196,075
26 September 2012	714,959	**216,441**	246,862
30 May 2014	496,738	**190,157**	224,841
31 October 2016	530,303	**275,121**	368,814
31 October 2018	635,048	**485,968**	505,368
Matching shares			
1 March 2011	694,783	**175,125**	195,650
26 September 2012	714,959	**217,141**	246,532
30 May 2014	496,738	**190,283**	224,907
31 October 2016	530,303	**275,120**	368,976
31 October 2018	635,048	**490,887**	509,996
		3,559,067	4,047,430
Dividend shares issued on 28 June 2005	247,017	**17,949**	19,545
Total employee shares in issue at 31 March		**3,577,016**	4,066,975

Notes forming part of the consolidated accounts

31. Share based payments (continued)

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

	Movement in the no. of shares during the year ended 31 March 2023	Movement in the no. of shares during the year ended 31 March 2022
Balance at 1 April	**4,066,975**	4,248,420
Forfeited during the year	**-**	(43,866)
Exercised during the year	**(489,959)**	(137,579)
Balance at 31 March	**3,577,016**	4,066,975

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 £13.3m (2022: £12.5m) and is included in other accruals and deferred income. The income statement includes a cost of £6.7m (2022: £3.1m credit). Payments made to leavers and current employees for the shares they exercised during the year was £5.9m (2022: £nil).

32. Retirement benefit schemes

Defined contribution scheme

The group provides a defined contribution scheme to all qualifying employees who are not members of the defined benefit scheme. The assets of the scheme are held separately from those of the group in funds under the control of a board of Trustees.

The group operates a salary sacrifice arrangement whereby employees sacrifice an element of their salary in favour of contributions to the pension scheme. NATS operates a number of contribution structures. In general, NATS matches employee contributions to the scheme in a ratio 2:1, up to a maximum employer contribution of 18%. For the year ended 31 March 2023 employer contributions of £20.5m (2022: £17.2m), excluding employee salary sacrifice contributions of £11.5m (2022: £9.7m), represented 16.3% of pensionable pay (2022: 16.2%).

The defined contribution scheme had 2,108 members at 31 March 2023 (2022: 1,821).

Notes forming part of the consolidated accounts

32. Retirement benefit schemes (continued)

Defined benefit scheme

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

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

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

The defined benefit scheme had the following membership at 31 March:

	2023 No.	2022 No.
Active members	**1,550**	1,591
Deferred members	**1,016**	1,081
Pensioners	**3,011**	2,945
	5,577	5,617

Notes forming part of the consolidated accounts

32. Retirement benefit schemes (continued)

Trustees' funding assessment

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

The last Trustees' funding assessment of the NATS' section was carried out at 31 December 2020 and used the projected unit credit method. The assumptions which have the most significant effect on the liabilities assessed at the valuation and hence the contribution requirement are those relating to the rate of return on investments, the rate of increase in salaries, the rate of increase in pensions and life expectancy.

The market value of the NATS' section's assets as at 31 December 2020 was £5,496.2m. For the purpose of the Trustees' funding assessment assets were taken at market value. The shortfall of assets relative to the value of benefits that had accrued to existing members was £171.9m, corresponding to a funding ratio of 97.0%.

The 2020 valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual and expenses was 71.9% of pensionable pay (66.2% employers and 5.7% employees). The employer contribution includes an allowance to cover administration costs, including the Pension Protection Fund (PPF) levy.

Contributions to the pension scheme

Following the 2020 valuation, NATS and the Trustees agreed a recovery plan which would see the funding deficit repaid by 31 December 2029. Under the schedule of contributions, normal contributions were paid at 41.7% of pensionable pay until 31 December 2022 and increased to 66.2% from 1 January 2023. The NATS group paid deficit recovery contributions of £26.0m in 2021 calendar year, which increased by 2.37% for 2022 calendar year. From 1 January 2023 to 31 December 2029, deficit recovery contributions will be paid at £27.2m in 2023 and increase annually by 2.37% for 2024 to 2029.

During the year the group paid cash contributions to the scheme of £89.6m (2022: £89.9m). This amount included £7.1m (2022: £7.6m) of wages and salaries sacrificed by employees in return for pension contributions, there were no contributions in lieu of redundancy payments (2022: £0.1m). Excluding the effect of salary sacrifice and past service costs, employer cash contributions were paid at a rate of 59.6% (2022: 61.2%) of pensionable pay.

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2024 is £145.2m, including salary sacrifice contributions estimated at £9.1m.

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

Company's accounting valuation under international accounting standards

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

This valuation differs from the Trustees' funding assessment explained above in a number of critical respects, including for example, differences in timing and frequency as well as in valuation assumptions. The Trustees' last funding assessment was prepared as at 31 December 2020, whereas the company's accounting valuation is prepared annually at 31 March. As a result, at each valuation date, the market conditions on which the assumptions are based will be different. Also, the assumptions adopted for the Trustees' funding assessment are set by the Trustees and include appropriate margins for prudence, whereas those adopted for the company's accounting valuation are prescribed by international accounting standards and reflect best estimates.

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

Notes forming part of the consolidated accounts

32. Retirement benefit schemes (continued)

An actuarial valuation for IAS 19 purposes was carried out at 31 March 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.

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

a. asset volatility: for accounting purposes, scheme liabilities are determined using a discount rate set by reference to high quality corporate bond yields. If scheme assets under-perform relative to this yield, this will create a deficit. As explained below, NATS and Trustees have taken and continue to review measures to de-risk the scheme by investing more in assets which better match the liabilities.

b. changes in bond yields: a decrease in the yield on high quality corporate bonds will increase scheme obligations, although this is partly mitigated by an increase in the value of the scheme's holdings of bonds.

c. inflation risk: the scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. As discussed further below, the scheme has implemented a liability driven investment programme to partially protect the funding position from changes in inflation. Furthermore, some of the scheme's assets (such as equities) are real in nature and so provide some additional inflation protection, but overall, an increase in inflation will adversely impact on the funding position.

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

Notes forming part of the consolidated accounts

32. Retirement benefit schemes (continued)

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

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate (bond yields)	Increase/decrease by 0.5%	Decrease by 8.2%/increase by 9.4%
Rate of inflation	Increase/decrease by 0.5%	Increase by 8.9%/decrease by 7.9%
Rate of pensionable 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	**(78.8)**	(79.8)
Past service cost	**-**	(0.1)
Net interest credit	**10.8**	0.3
Administrative expenses	**(1.9)**	(2.0)
Components of defined benefit costs recognised within operating profit	**(69.9)**	(81.6)

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)	**(1,849.1)**	149.7
Actuarial gains and losses arising from changes in financial assumptions	**1,786.2**	254.0
Actuarial gains and losses arising from experience adjustments	**(240.0)**	(38.6)
	(302.9)	365.1

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

	2023 £m	Restated 2022 £m
Present value of defined benefit obligations	**(3,486.0)**	(4,957.7)
Fair value of scheme assets	**3,544.7**	5,299.6
Surplus in scheme	**58.7**	341.9

Notes forming part of the consolidated accounts

32. Retirement benefit schemes (continued)

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

	2023 £m	2022 £m
At 1 April	**(4,957.7)**	(5,145.4)
Current service cost	**(78.8)**	(79.8)
Past service cost	**-**	(0.1)
Interest expense on defined benefit scheme obligations	**(134.4)**	(108.9)
Actuarial gains and losses arising from changes in financial assumptions	**1,786.2**	254.0
Actuarial gains and losses arising from experience adjustments	**(240.0)**	(38.6)
Benefits paid	**138.7**	161.1
At 31 March	**(3,486.0)**	(4,957.7)

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	**(1,190.4)**	(1,939.5)
Deferred members	**(326.1)**	(582.5)
Pensioners	**(1,969.5)**	(2,435.7)
	(3,486.0)	(4,957.7)

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

	2023 £m	Restated 2022 £m
At 1 April	**5,299.6**	5,113.9
Interest income on scheme assets	**145.2**	109.2
Return on plan assets (excluding amounts included in net interest expense)	**(1,849.1)**	149.7
Contributions from sponsoring company	**89.6**	89.9
Benefits paid	**(138.7)**	(161.1)
Administrative expenses	**(1.9)**	(2.0)
At 31 March	**3,544.7**	5,299.6

Notes forming part of the consolidated accounts

32. Retirement benefit schemes (continued)

The major categories of scheme assets were as follows:

	2023 £m	Restated 2022 £m
Cash and cash equivalents	**325.4**	28.6
Equity instruments		
- Emerging markets	**86.4**	75.0
- Global	**430.0**	768.7
	516.4	843.7
Bonds		
- Fixed income	**716.2**	2,426.2
- Index-linked gilts over 5 years	**1,406.3**	1,389.1
	2,122.5	3,815.3
Other investments		
- Property	**112.5**	157.6
- Hedge funds	**220.4**	215.4
- Private equity funds	**142.0**	176.0
- Other	**104.7**	49.4
	579.6	598.4
Derivatives		
- Futures contracts	**0.8**	13.6
	3,544.7	5,299.6

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

Virtually all equity and debt instruments have quoted prices in active markets. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of the assets consist of equities, 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 Trustees implemented a liability driven investment (LDI) programme in 2012 in order to hedge the impact of changes in inflation and interest rates on the value of the scheme's obligations, which are sensitive to inflation and movements in yields in the gilt market. As a result of discussions between NATS and the Trustee the amount of interest rate and inflation hedging has increased over time, starting out at 25% in 2012 with subsequent increases to 50% in 2014 and to 65% in 2018, as measured on the Trustee funding basis. In March 2020, NATS and the Trustee agreed a further increase in the level of inflation and interest rate hedging to 75%, as measured on a long-term funding target basis of gilts + 0.5% p.a. and the trades needed to achieve this were carried out between May and August 2020. Swap transactions are executed with carefully 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.

Notes forming part of the consolidated accounts

32. Retirement benefit schemes (continued)

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

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 £1,703.9m (2022: £258.9m gain).

33. Related party transactions

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

AG is a consortium of British Airways plc, Deutsche Lufthansa AG, easyJet Airline Company Limited, the Pension Protection Fund, 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 AG have not exercised undue influence on the group either acting individually or in concert and therefore the individual transactions with each member of AG have not been disclosed in this set of accounts.

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

Contractual arrangements existed during the year between the MOD and NERL in relation to the provision of engineering, surveillance and communication services.

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the company and its subsidiaries are disclosed in the subsidiary companies' financial statements.

Transactions between the company and its joint venture and associate, which are related parties, are disclosed below and in note 34.

Notes forming part of the consolidated accounts

33. Related party transactions (continued)

Trading transactions

During the year, group companies entered into the following transactions with related parties.

	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m	**Year ended 31 March 2023 £m**	Year ended 31 March 2022 £m	**Year ended 31 March 2023 £m**	Year ended 31 March 2022 £m	**Year ended 31 March 2023 £m**	Year ended 31 March 2022 £m
LHR Airports Limited	**48.1**	41.0	**1.0**	1.0	**4.1**	4.1	**0.1**	-
Ministry of Defence (MOD)	**44.0**	39.0	**2.1**	4.2	**0.3**	4.5	**10.7**	7.1
The Airline Group Limited (AG)	**-**	-	**0.2**	0.2	**-**	-	**-**	-
Department for Transport (DfT)	**0.6**	0.5	**-**	-	**0.2**	0.1	**-**	-
Meteorological Office	**0.3**	-	**0.8**	0.6	**-**	-	**0.1**	-
European Satellite Services Provider SAS	**0.1**	0.1	**-**	-	**-**	-	**-**	-
FerroNATS Air Traffic Services SA	**-**	0.4	**-**	-	**-**	-	**-**	-
Aquila Air Traffic Management Services Limited	**14.6**	28.2	**1.1**	1.1	**1.8**	5.4	**0.2**	0.4
Searidge Technologies Inc	**-**	0.1	**-**	-	**-**	-	**-**	-

Amounts disclosed above in sales and purchases for Searidge relate to the period up to 21 December 2021, at which point Searidge became a 100% owned subsidiary of NATS.

Sales are made to related parties at the group's usual rates and purchases at market prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. No expected credit loss provisions (2022: £nil) have been made in respect of amounts owed by related parties.

Remuneration of key management personnel

The remuneration of key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24: *Related Party Disclosures*. Key management includes the Board of directors of the company and the group's principal subsidiaries. Further information about the remuneration of individual directors is provided in the audited part of the Remuneration Committee report.

	2023 £m	2022 £m
Short-term employee benefits	**11.0**	8.2
Post-employment benefits	**0.6**	0.6
Termination benefits	**0.1**	-
	11.7	8.8

Notes forming part of the consolidated accounts

34. Subsidiaries, joint ventures and associates

The group's subsidiaries at 31 March 2023, all of which have been consolidated in these accounts were:

Name of company or partnership	Principal activity	Proportion of ordinary shares and voting rights held	Country of registration	Country of operation
Direct holding:				
NATS Limited*	Corporate services	100%	England and Wales	United Kingdom
Indirect holding:				
NATS (En Route) plc*	En route air traffic services	100%	England and Wales	United Kingdom
NATS (Services) Limited*	Airport air traffic services	100%	England and Wales	United Kingdom
NATS Solutions Limited*	Airport and airfield air traffic services	100%	England and Wales	United Kingdom
NATSNav Limited*	Satellite-based navigation	100%	England and Wales	United Kingdom
NATS Employee Sharetrust Limited*	Corporate trustee of employee share plan	100%	England and Wales	United Kingdom
National Air Traffic Services Limited*	Dormant	100%	England and Wales	United Kingdom
NATS Services DMCC *Suite 1201, Platinum Tower, Plot No. PH1-I2, Jumeirah Lake Towers, PO Box 392497, Dubai, United Arab Emirates*	ATM consultancy	100%	UAE	UAE
NATS Services LLC (in liquidation) *PO Box 533, Ruwi, PC 112, Muscat, Sultanate of Oman*	ATM consultancy	70%	Oman	Oman
NATS Services (Asia Pacific) Pte. Limited *51 Changi Business Park, Central 2, #04-06, The Signature, Singapore 486066*	Airport and ATM consultancy	100%	Singapore	Singapore
NATS Services (Hong Kong) Limited *31F Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong*	Airport and ATM consultancy	100%	Hong Kong	Hong Kong
NATS (USA) Inc *The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle County, Delaware, United States*	Engineering and ATM consultancy	100%	USA	USA
NATS (Services) Canada Inc *100 King Street West, Suite 6200, 1 First Canadian Place, Toronto, Ontario, M5X 1B8, Canada*	Digital airport air traffic services	100%	Canada	Canada
Searidge Technologies Inc** *19 Camelot Drive, Nepean, Ontario, K2G 5W6, Canada*	Digital airport air traffic services	100%	Canada	Canada
NATS Services (India) LLP*** *Unit No. 216, Second Floor, Square One, C2 District Centre, Saket New Delhi, South Delhi DL 110017 India*	Airport and ATM consultancy	100%	India	India

* The registered office address of the entities registered in England and Wales is: 4000 Parkway, Whiteley, Fareham, Hampshire, PO15 7FL, United Kingdom.
** Searidge Technologies Inc was previously a 50% owned joint venture. NATS (Services) Canada Inc purchased the remaining share capital on 22 December 2021. See below.
*** NATS Services (India) LLP is a limited liability partnership, controlled and owned within the group, effective 18 January 2022.

Notes forming part of the consolidated accounts

34. Subsidiaries, joint ventures and associates (continued)

The group had one associate and one joint venture as at 31 March 2023, details are as follows:

Name of company	Principal activity	Date of acquisition	Proportion of ordinary shares held	Country of incorporation
European Satellite Services Provider SAS *18, Avenue Edouard Belin - BPI 602, 31 401 Toulouse Cedex 9, France*	Satellite based navigation	1 September 2008	16.67%	France
Aquila Air Traffic Management Services Limited *350 Longwater Avenue, Green Park, Reading, RG2 6GF, United Kingdom*	Asset provision and ATM services to UK MOD	9 October 2014	50.00%	United Kingdom

The associate and joint venture are indirectly held by NATS Holdings Limited. The investment in ESSP is held by NATSNav Limited and the investment in Aquila is held by NATS (Services) Limited.

In January 2023 the group sold its 50% share in FerroNATS Air Traffic Services SA.

Summary of acquisition of Searidge Technologies Inc

On 22 December 2021, NATS (Services) Canada Inc., a 100% owned subsidiary entity, acquired the remaining 50% of the issued share capital of Searidge Technologies Inc. (Searidge), having previously acquired 50% in April 2017. The primary reason for the combination was strategic and reflects the potential for digital towers for air traffic management. As a result of this acquisition Searidge is a 100% owned subsidiary entity and is consolidated within the group financial statements. Prior to Searidge being consolidated within the group financial statements, the share of Searidge results were recognised under the equity method of accounting.

Goodwill held in the International service line arose on acquisition of Searidge. Its carrying value has been assessed based on the expected recoverable amount on a value in use basis, based on cash flow projections over a five year period assuming compound annual sales growth of 31% (2022: 20% growth per annum), reflecting historic experience and using a 26% (2022: 20%) pre-tax discount rate. Goodwill at 31 March 2023 was impaired by £2.9m (2022: not impaired), when comparing the value in use of £8.6m to the carrying value. Goodwill will not be deductible for tax purposes.

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.

Summarised financial information relating to the associate and joint ventures

European Satellite Services Provider SAS (ESSP)

In September 2008, the group acquired 16.67% of the issued share capital of ESSP for cash consideration of €0.2m (£0.1m).

The associate is accounted for using the equity method. Pursuant to the shareholder agreement, the group has the right to cast 16.67% of the votes at shareholder meetings. The financial year end is 31 December 2022. For the purposes of applying the equity method of accounting, the financial statements of ESSP for the year ended 31 December 2022 have been used.

Although the group holds less than 20% of the equity shares of ESSP, the group exercises significant influence by virtue of representation on the Board of directors, participation in policy making decisions of ESSP and the provision of essential technical information to ESSP.

Summarised financial information in respect of ESSP is set out below. These amounts have been prepared in accordance with French GAAP and converted from the euro, ESSP's functional currency.

Notes forming part of the consolidated accounts

34. Subsidiaries, joint ventures and associates (continued)

FerroNATS Air Traffic Services SA

In January 2011, the group acquired 50% of the issued share capital of FerroNATS Air Traffic Services SA (FerroNATS) for a cash consideration of €0.1m (£0.1m). In June 2011, the group purchased an additional €0.4m (£0.3m) of share capital, maintaining a 50% holding of the issued share capital. FerroNATS was a joint venture with Serveo Services SA. In January 2023 the group sold its 50% share in FerroNATS Air Traffic Services SA.

FerroNATS draws up its accounts to 31 December and prepares its accounts in accordance with Spanish GAAP and its functional currency is the euro.

Aquila Air Traffic Management Services Limited

In October 2014, the group acquired 50% of the issued share capital of Aquila Air Traffic Management Services Limited (Aquila) for a cash consideration of £0.1m. Aquila provides air traffic management services at military airfields in the delivery of Project Marshall for the Ministry of Defence. Aquila draws up its accounts to 31 March and therefore these accounts have been used to determine its performance for the financial year. It prepares its accounts under IFRS and its functional currency is pounds sterling.

The group has recognised £4.5m (2022: £3.6m) as the carrying value of its investment in Aquila. This is less than a 50% share of Aquila's net assets of £12.4m (2022: £10.7m) at 31 March 2023. The difference is a result of impairment charges recognised due to differences in accounting policies and the uncertainty surrounding future profit forecasts.

During the year, Aquila drew down loan finance of £0.5m (net) (2022: £4.5m repayment (net)) from the group. At 31 March 2023, the loan (including interest) outstanding was £8.8m (2022: £8.0m).

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

Notes forming part of the consolidated accounts

34. Subsidiaries, joint ventures and associates (continued)

The summarised financial information above is reconciled to the carrying amount recognised in the consolidated financial statements as follows:

	2023			2022		
	Associate ESSP £m	**Joint venture FerroNATS £m**	**Joint venture Aquila £m**	Associate ESSP £m	Joint venture FerroNATS £m	Joint venture Aquila £m
Non-current assets	**1.9**	**-**	**41.8**	1.5	0.5	45.0
Current assets	**33.4**	**-**	**10.8**	32.0	7.2	21.5
Current liabilities	**(17.6)**	**-**	**(40.8)**	(17.6)	(3.4)	(55.8)
Non-current liabilities	**(0.1)**	**-**	**-**	(0.7)	-	-
Net assets of associate/joint ventures	**17.6**	**-**	**11.8**	15.2	4.3	10.7
Group share	**2.9**	**-**	**5.9**	2.5	2.1	5.3
Impairment provision brought forward	**-**	**-**	**(1.7)**	-	-	(1.7)
Impairment reversal recognised in income statement	**-**	**-**	**0.3**	-	-	-
Carrying amount of the group's interest in associate/joint ventures	**2.9**	**-**	**4.5**	2.5	2.1	3.6
Revenue	**62.2**	**6.5**	**100.8**	56.3	10.0	115.2
Profit after tax for the year	**5.2**	**0.5**	**1.1**	3.9	0.8	2.1
Group share	**0.9**	**0.2**	**0.6**	0.7	0.4	1.1
Impairment reversal recognised in income statement	**-**	**-**	**0.3**	-	-	-
Group share of profit after tax and impairment(i)	**0.9**	**0.2**	**0.9**	0.7	0.4	1.1
Dividends received	**(0.6)**	**(2.1)**	**-**	(0.6)	(0.7)	-
Other comprehensive income	**0.1**	**-**	**-**	-	-	-

(i) The Share of results of associate and joint ventures in the prior year income statement contains a £0.2m loss in relation to Searidge, relating to the period when Searidge was a joint venture entity which is not included in the above table. The £0.2m loss in Currency translation differences arising on consolidation of equity accounted foreign operations in the prior year Consolidated statement of comprehensive income also relates to Searidge.

35. Ultimate controlling party

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

Notes forming part of the consolidated accounts

36. Events after the reporting period

There were no events after the reporting period.

Company balance sheet

at 31 March

	Notes	2023 £m	2022 £m
Assets			
Non-current assets			
Investments	4	**141.0**	141.0
Net assets		**141.0**	141.0
Equity			
Share capital	5	**140.6**	140.6
Share premium account	5	**0.4**	0.4
Retained earnings		**-**	-
Total equity		**141.0**	141.0

As permitted by section 408 of the Companies Act 2006 the company has elected not to present its own income statement for the year. For the year ended 31 March 2023 the company recognised a profit of £nil (2022: £nil).

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 29 June 2023 and signed on its behalf by:

Paul Golby
Chairman

Alistair Borthwick
Chief Financial Officer

Company statement of changes in equity

for the year ended 31 March

	Share capital £m	Share premium £m	Retained earnings £m	Total £m
At 1 April 2021	140.6	0.4	-	141.0
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**-**
Dividends paid	-	-	-	-
At 31 March 2022	**140.6**	**0.4**	**-**	**141.0**
At 1 April 2022	140.6	0.4	-	141.0
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**-**
Dividends paid	-	-	-	-
At 31 March 2023	**140.6**	**0.4**	**-**	**141.0**

Notes forming part of the company accounts

1. Cash flow statement

No cash flow statement has been provided because the company does not maintain a bank account or have any cash transactions.

2. Significant accounting policies

The separate financial statements of the company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the UK.

The financial statements have been prepared on the historical cost basis. The principal accounting policies are the same as those set out in note 2 to the consolidated financial statements.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Income from subsidiaries is recognised when received.

3. Profit for the year and dividends

Profit for the year has been arrived at after charging:

	2023 £m	2022 £m
Staff costs	**-**	-
Auditor's remuneration	**-**	-

	2023 No.	2022 No.
Executive directors	**2**	2
Non-executive directors	**10**	10
	12	12

The company incurred no charge to current or deferred taxes in the year (2022: £nil).

Notes forming part of the company accounts

4. Investments

	Investments in subsidiary undertakings £m
Investments at 31 March 2023 and 31 March 2022	141.0

The company's investments in subsidiary undertakings are as set out in note 34 to the consolidated financial statements.

5. Share capital and share premium accounts

These items are disclosed in the consolidated statement of changes in equity and notes 25 and 26 of the consolidated financial statements.

6. Financial instruments

The company held no financial instruments at 31 March 2023 (2022: none).

7. Ultimate controlling party

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

Abbreviations and definitions

2022	Financial year ended 31 March 2022
2023	Financial year ended 31 March 2023
3Di	3 Dimensional Flight Inefficiency Metric
ACOG	Airspace Change Organising Group
AESOP	All-Employee Share Ownership Plan
AG	The Airline Group Limited
AIREON	Aireon LLC, subsequently Aireon Holdings LLC
AMPRPS	Annual Management Performance Related Pay Scheme
ANSP	Air Navigation Service Provider
AQUILA	Aquila Air Traffic Management Services Limited
ATC	Air Traffic Control
ATM	Air Traffic Management
CAA	Civil Aviation Authority
CAAPS	Civil Aviation Authority Pension Scheme
CANSO	Civil Air Navigation Services Organization
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CINEA	Climate, Infrastructure and Environment Executive Agency
CMA	Competition and Markets Authority
CPI	Consumer Prices Index
DB	Defined Benefit Pension Scheme
DC	Defined Contribution Pension Scheme
DfT	Department for Transport
DNV GL	DNV GL is a quality assurance and risk management company
DSESAR	Deploying Single European Sky ATM Research
EC	European Commission
ESSP	European Satellite Services Provider SAS
EU	European Union
FerroNATS	FerroNATS Air Traffic Services SA
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
GHG	Green house gas
HMRC	His Majesty's Revenue & Customs
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISO	International Organisation for Standardisation
iTEC	Interoperability Through European Collaboration
KPI	Key Performance Indicator
LHRA	LHR Airports Limited
LTIP	Long-Term Incentive Plan
MOD	Ministry of Defence
NATS	NATS Holdings Limited and its subsidiaries, together the NATS group
NATS Services	NATS (Services) Limited
NERL	NATS (En Route) plc
NESL	NATS Employee Sharetrust Limited
NHL	NATS Holdings Limited
NR23	Price control from 1 January 2023
NR28	Price control from 1 January 2028
PPP	Public Private Partnership
R&D	Research and Development
RAB	Regulatory Asset Base
RAT	Risk Analysis Tool
RP2	Reference Period 2 (2015-2019)
RP3	Reference Period 3 (2020-2024)
RPAS	Remotely Piloted Aircraft Systems
RPI	Retail Prices Index
SEARIDGE	Searidge Technologies Inc
SES	Single European Sky
SESAR	SES ATM Research
SPA	Strategic Partnership Agreement

Alternative performance measures

1 **Gearing:** Ratio of NERL's net debt (as defined by its licence) to its Regulatory Asset Base (RAB)
NATS (En Route) plc's (NERL) gearing is the ratio of its net debt (as defined by its licence) to regulatory assets. Net debt for this ratio differs from statutory net debt in three areas: (i) borrowings are recorded at face value, rather than net of remaining capitalised original issue discounts and issuance costs; (ii) leases are included, but only to the extent that they would have been treated as finance leases prior to application of IFRS 16; and (iii) it includes a value for NERL's RPI swaps that represents the historic accretion on the notional of the swaps. This value differs from the fair value of the RPI swaps within the derivatives on the balance sheet.

The regulatory asset base (RAB) represents the capital employed in the economically regulated businesses operated by NERL, and is reported annually in regulatory accounts prepared on a calendar year basis. The regulatory accounts are published at www.nats.aero. The CAA's economic regulatory framework determines the basis for measuring regulatory assets. NERL's RAB was established at the time of the Public Private Partnership in 2001. The RAB is uplifted annually by RPI inflation and increases by capital expenditure and reduces by regulatory depreciation. The RAB excludes balances relating to tax, financing and the IAS 19 pension position. The CAA sets a net debt to RAB target and bank covenants are set on a net debt to RAB basis. At 31 December 2022 the value of NERL's RAB was £1,646.5m.

	2023 £m
Net debt (per note 29)	**(803.6)**
Inclusion of items as defined in financial covenants:	
Unamortised bond discount	(41.5)
Unamortised bond issue cost and bank facility fees	(7.1)
RPI swaps stated on a bank covenant valuation basis	(72.2)
Exclusion of items as defined in financial covenants:	
Lease liabilities recognised on adoption of IFRS 16	51.8
Non-NERL cash balances	(102.5)
Net debt (as defined in NERL's finance documents)	**(975.1)**
Regulatory Asset Base at 31 March 2023	**1,865.8**
Gearing	**52.3%**

Alternative performance measures

2 **Debt Adjusted Cash Flows (DACF):** Increase/decrease in cash and cash equivalents for the year, adjusted to remove draw down or repayment of bank borrowings, bonds, index-linked swaps and advances of en route charges.

	2023 £m	2022 £m	2021 £m
Net cash generated from/(used in) operating activities	183.5	(172.5)	(264.5)
Net cash outflow from investing activities	(112.2)	(120.0)	(15.0)
Net cash (outflow)/inflow from financing activities	(59.3)	168.2	13.8
Increase/(decrease) in cash and cash equivalents during the year	12.0	(124.3)	(265.7)
Advances of en route charges	-	67.4	(67.4)
Bonds issued	(105.5)	(747.0)	-
Bonds repaid	-	290.1	41.6
Bond and bank arrangement fees	1.7	9.4	1.2
Repayment of obligations under finance leases	6.9	7.0	7.1
Repayment of bank facilities	175.0	435.0	-
Drawdown on bank facilities	(40.0)	(240.0)	-
Index-linked swap repayment	8.0	61.3	14.1
Total debt adjustments	46.1	(116.8)	(3.4)
Debt-adjusted cash flow	**58.1**	**(241.1)**	**(269.1)**

Explanatory notes

3 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.

4 The three-dimensional inefficiency score (3Di) measures the environmental efficiency of a flight by comparing its actual radar track to an optimal profile. A lower score represents better flight efficiency. NATS has made the 3Di environmental insight tool freely available to aviation stakeholders to use to track their carbon efficiency.

5 Project Marshall is a 22 year contract awarded to the Aquila joint venture to transform the military's terminal Air Traffic Control technical services. It was initiated by the MOD to modernise ATM for over 100 MOD locations, of which over 60 are airfields or ranges, including overseas. It provides the foundation to deliver efficient and cost effective terminal ATM services and ensures that this capability keeps pace with modern regulatory demands and Single European Sky standards. NATS provides services to Aquila to enable it to deliver Project Marshall.

6 Impact score is a measure of delay placing greater weight on long delays and departures in the morning and the evening peaks. Variability score is a daily excess delay score based on weighted delays exceeding pre-determined thresholds on a daily basis.

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

8 Aireon LLC provides a space-based air traffic surveillance system with global coverage capable of tracking and monitoring aircraft in real-time. This improves ATC and surveillance over regions with limited or no radar coverage and backup surveillance for regions with full radar coverage. Aireon is a private company whose investors are Iridium Communications, NAV CANADA, ENAV, IAA, Naviair and NATS.

9 Link to Pay Gap Report: https://www.nats.aero/wp-content/uploads/2023/03/PayReport2022_March-23.pdf

10 Link to NATS Slavery and Human Trafficking statement 2021: https://www.nats.aero/wp-content/uploads/2022/09/SlaveryAndHumanTraffickingStatement.pdf

11 Link to Responsible Business policy: https://www.nats.aero/wp-content/uploads/2018/03/EMP01RB.pdf

12 The non-financial & sustainability statement and the related performance reported above have been prepared in accordance with non-financial information reporting guidance from the Financial Reporting Council, the Climate Disclosure Standards Board, the Task Force on Climate-related Financial Disclosures and others. An operational control approach is taken to non-financial information using the same boundary as NATS Holdings Limited.

13 Modelled enabled ATM-related CO_2 reductions represent the saving in CO_2 emissions from improvements to the ATM network, such as technical changes which enable us to provide more fuel-efficient flight profiles, based on projections of the volume of flights likely to take advantage of the improvements. The enabled reduction in emissions is reported in full in the year in which the improvement is made.

Explanatory notes

14 Our net zero target applies to total combined scope 1 and 2 and scope 3 (categories 1, 3, 4, 6, 7) CO_2e location-based emissions by 2035, using a 2018-19 baseline. Scope 3 categories 1, 3, 4, 6, 7 describe GHG emissions covering purchased goods and services, fuel and energy related activities, upstream transportation and distribution, business travel and employee commuting (including homeworking).

Taxation

Country-by-country reporting (CBCr)

The table below sets out the scale of activities in the countries we operate in.

2023	Unrelated party revenue £m	Related party revenue £m	Total revenue £m	Profit/(loss) before income tax £m	Income tax paid (on a cash basis) £m	Income tax accrued - current year £m	Number of employees No.	Tangible and intangible assets other than Cash and Cash Equivalents £m
United Kingdom[1]	920.3	563.6	1,483.9	151.7	4.0	8.4	4,230	1,150.2
Canada	6.1	0.9	7.0	(1.9)	(0.3)	-	60	3.3
Hong Kong	4.1	0.2	4.3	0.6	0.3	-	14	0.1
UAE	-	1.6	1.6	-	-	-	9	-
Singapore	0.6	0.5	1.1	0.4	-	-	8	-
USA[2]	-	-	-	(13.4)	-	-	-	-
Other	-	-	-	-	-	-	2	-
Consolidation adjustments	(1.1)	(566.8)	(567.9)	11.1	-	-	-	(1.4)
Total	**930.0**	**-**	**930.0**	**148.5**	**4.0**	**8.4**	**4,323**	**1,152.2**

[1] The information aggregates the activities of NATS local legal entities and its branches. The group operates a single third part contract in Gibraltar which is included within United Kingdom for reasons of commercial confidentiality.

[2] NATS (USA) Inc is a holding company and loss before tax is an investment impairment.

Contacts

Talk to us

If you would like to find out more about any of the information in this report, please talk to us:

AIRLINES

Geoff Kingston
General Manager Customer Affairs

geoff.kingston@nats.co.uk

AIRPORTS

Iain McDermott-Paine
Director Airports

iain.mcdermott-paine@nats.co.uk

ASIA PACIFIC & MIDDLE EAST

Ben Kiff
Managing Director, International
Middle East & Asia Pacific

ben.kiff@nats.aero

Our Offices

Corporate Headquarters
4000 Parkway
Whiteley
Fareham
Hampshire
PO15 7FL
UK

Tel: +44 1489 616001

Dubai Offices
NATS Services DMCC
Suite 1201
Platinum Towers
Jumeirah Lake Towers
Al Sarayet St
Dubai
United Arab Emirates

PIC: Stephanie Bergin
Tel: +971 557 942 549

Hong Kong Offices
NATS Services (Asia Pacific) PTE. Ltd
2/F, Cathay Dragon House
11 Tung Fai Road
Hong Kong International Airport
Lantau
Hong Kong

PIC: Joanne Cheung
Tel: +852 2167 8650

Singapore Offices
3 Raffles Place
#06-01, Bharat Building
Singapore 048617

PIC: Catherine Tan
Tel: +65 6909 7684

India Offices
NATS Services (India) LLP
Unit 216, 2nd Floor
Square One
C2 District Centre Saket
New Delhi
South Delhi DL 110017
India

PIC: Elizabeth Arnold
Tel: +91 74289 58969

Customer website

Our dedicated customers website www.customer.nats.co.uk provides the latest news, operational information, meeting details, contacts and links to other resources.

Customer Forums

We have a number of forums for engaging with customers including our monthly lookahead sessions, Lead Operator for airspace design, Service & Investment Plan consultation as well as future price control consultations. Please get in touch for any more information.

Help.CUSTOMERHelp@nats.co.uk