NATS

NATS Holdings Limited

Annual Report and Accounts 2024

Year ended 31 March

2024

nats.aero

Company Number: 04138218

Advancing aviation, keeping the skies safe.

In brief

Financial results (year ended 31 March) £m (unless specified)	2024	2023
Adjusted revenue and regulatory allowances[a]	**1,065.8**	906.8
Adjusted profit before tax[a]	**248.3**	125.3
Statutory profit before tax	**371.5**	148.5
Debt-adjusted cash inflow[b]	**92.4**	58.1
Capital expenditure	**116.8**	113.7
Net debt[c]	**745.4**	803.6
Gearing[d] (%)	**41.9%**	52.3%
Regulatory Asset Base[a]	**2,139.2**	1,865.8
Regulatory return - adjusted[a]	**4.9%**	0.0%
Dividends	**nil**	nil

Notes: [a] Alternative performance measure (APM), see explanatory notes; [b] APM, representing cash flows excluding repayments/drawings on borrowings; [c] see note 21 to the financial statements. Net debt excludes derivative financial instruments; [d] APM, ratio of NERL's net debt (as defined by its licence) to regulatory assets[1].

Financial results

- In November 2023, the CAA published its decision on NERL's price control for NR23, which covers calendar years 2023 to 2027. While the settlement fairly recompensed NERL for revenue lost during the pandemic it did so over a longer than usual 10-year period in recognition of customers' affordability requirements. Moreover, from an operational perspective the NR23 service quality targets are extremely challenging against a backdrop of significant growth in flight volumes, alongside live operational training requirements for the next generation of air traffic controllers and the need to progress airspace modernisation and technology transformation programmes.
- The group reported an adjusted profit of £248.3m (2023: £125.3m). The result mainly reflects the increase in charges set by the NR23 price control. Statutory profit before tax of £371.5m (2023: £148.5m) includes the one-off impact from the CAA's confirmation of the Covid income shortfall amount.
- As in 2023, our result is not yet reflected in our cash flows as a result of the 10-year period agreed for recovering the Covid income shortfall. Our current financing structure reflects this, with borrowings having financed the Covid income shortfall.

Operational headlines

- We safely handled 2.41 million flights (2023: 2.26 million), representing growth of 7% on the previous year. We met all of our safety targets, with no risk-bearing airprox[5] attributed to our operation.
- Two significant but unconnected service-related issues were experienced in the year: a technical flight handling system issue which caused significant delays and cancellations and an unavoidable shortfall in ATC control tower staff at Gatwick Airport, as a result of the position we inherited following its transition back to NATS in October 2022.
- Average delay per flight at 8.8 seconds, whilst a year-on-year improvement, was outside of the CAA's target of 8.5 seconds due to the technical incident (2023: 10.2 seconds/flight against a target of 15.0). Despite delays due to the technical system issue, we accounted for less than 4% of European ATC delay while handling 23% of all European flights.
- Our 3Di score[6] was 28.3 for calendar year 2023 (CY 2022: 26.0) against the regulator's allowance range of 26.2 to 29.0.
- We were awarded an A rating from CDP (formerly the Climate Disclosure Project) and ranked #1 in the Financial Times assessment of Europe's Climate Leaders.
- We are consulting stakeholders on NATS OpenAir, a proposal for services enabling the safe integration of new airspace users, such as drones, and a charging mechanism to fund this activity.
- We were rated by Best Companies[7] as 13th in the UK's Big Companies category for 2023 following employees' responses to their anonymous b-Heard survey.

[1] A number of alternative performance measures and explanatory notes are provided on page 174 of this report. Abbreviations used in this report are provided on page 173.

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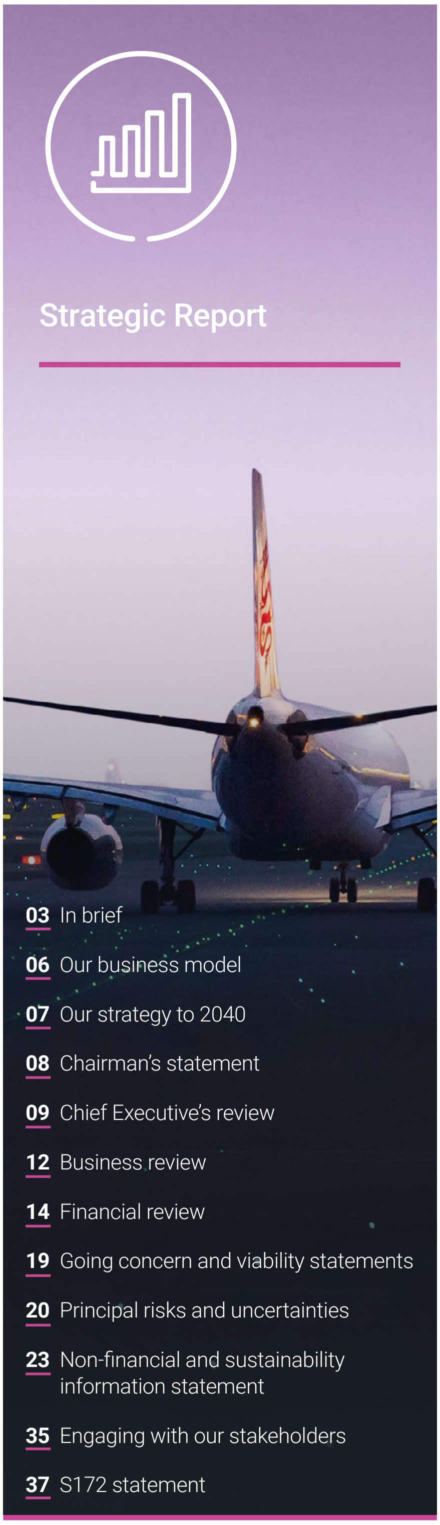
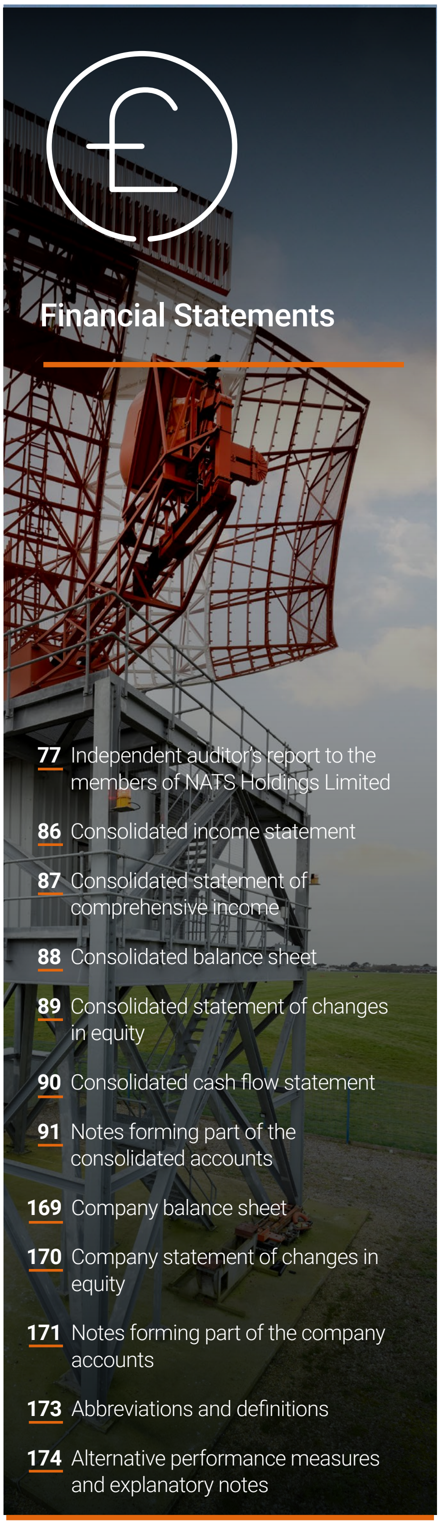


Strategic Report

Governance Report



Financial Statements

Strategic Report

Annual Report and Accounts 2024

Our business model

Our business model

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

We have a broad range of stakeholders (see page 35) and understanding their needs today and in the future shapes our strategic objectives (see page 7). We also have an important role in supporting aviation to meet its decarbonisation objectives, which we discuss on page 30.

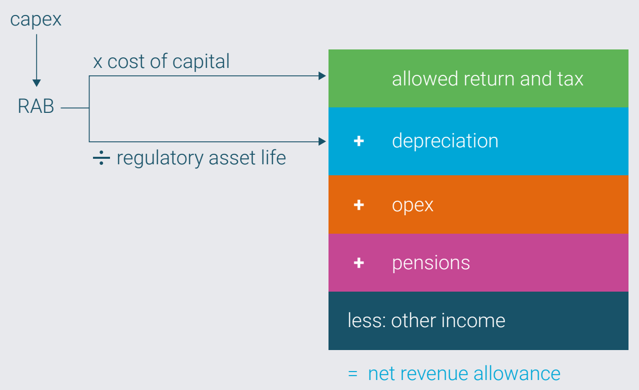
NATS (En Route) plc (NERL)

NERL is our core business and accounts for 84% of the group's revenue. It 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.

The CAA has a duty to ensure that it is not unduly difficult for NERL to finance its activities. Under the regulatory framework illustrated below, the CAA establishes revenue allowances for a price control period. These remunerate efficient investment (capex), operating costs (opex), pensions, tax and an allowed return on the capital invested in the Regulatory Asset Base (RAB) to recover the cost of capital. The RAB represents the value ascribed to the capital employed in the regulated businesses. For NR23 (2023 to 2027), the CAA set the cost of capital at 4.37% (pre-tax real). 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. The charges for the UK en route ATC service are administered by Eurocontrol, the European network manager and a non-governmental organisation of 41 member states. Charges for North Atlantic en route and other services are recovered by NERL directly from users.

The CAA also sets targets, and provides incentives, for service, environmental performance, capital investment and gearing levels. If regulatory assumptions are borne out and NERL efficiently meets its targets then NERL would earn a return at the cost of capital. It can 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, pension contributions and corporation tax rates from the level assumed and result in adjustments to charges in future periods.

The economic regulatory framework



NATS Services (NSL)

NSL is entirely separate from NERL and operates in contestable markets, servicing both UK and international customers. Together with its subsidiaries NSL accounts for 16% of the group's revenue.

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[8] 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 Searidge Technologies subsidiary is based in Ottawa. It provides digital towers and advanced airport solutions.

Our strategy to 2040

Our purpose

Advancing aviation, keeping the skies safe.

We exist to ensure the skies are a safe and efficient environment for aviation. Defined by the things we care about, our strategy is driven by our purpose, values and objectives.

Our company vision for 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 values

We are safe

Safety is our core value. Our commitment to the safety of our people, operations and positive safety culture remains consistent and unwavering. It permeates everything we do as we address an evolving working environment and the challenges brought about by the expansion of types of airspace users and new technologies.

We are courageous

We have the courage to think differently, to speak up and create a positive working environment in pursuit of our goals, and to strive for better. Our courage develops excellence in our people and in our practices. It advances our products and our services, and provides us with safe, sustainable and efficient solutions that we are proud of.

We are one team

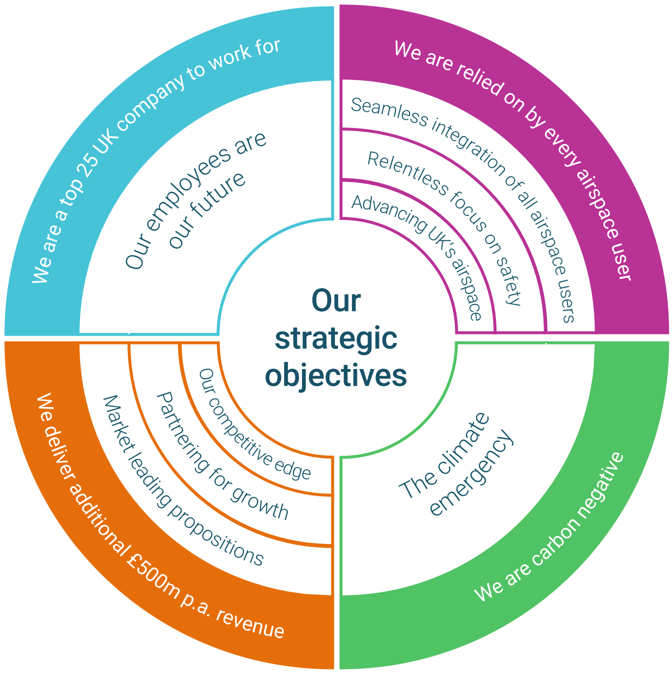
We accomplish more together. We share knowledge and collaborate, both within functions and across divisions so our successes are shared across the business. We put team goals ahead of personal ones, trust each other to deliver on commitments and support each other to develop the capabilities of the company. We are one team.

We are respectful

We value everyone regardless of background. We treat each other, customers, partners and suppliers with dignity and professionalism. We acknowledge the value each of us brings, our differences, and our contributions. We also respect the world in which we operate, always acting responsibly and hold ourselves to the highest standards.

Our strategic objectives

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 pro-active in supporting the reduction of the wider aviation industry's impact on the environment.
- **We will be delivering an additional £500m in revenue per year (in 2021 prices).** We will achieve this by providing competitive and market leading propositions to new and existing UK and international customers aligned with their strategies which we will develop by working alongside our partners.

Chairman's statement

Safety is our highest priority and this year's performance was one of our safest, underlining the group's strong safety focus and culture. This was achieved while handling a 7% growth in traffic, equating to 2.4 million flights, and over a quarter of a billion passengers.

While safety in the skies was achieved, like our peers, there will always be challenges to managing a complex airspace infrastructure. This year we experienced two unconnected service-related issues which led to flight delays causing significant disruption to airlines, airports and passengers.

A technical flight handling system issue in August necessitated a considerable reduction in flight capacity for a short period in order to ensure the skies remained safe. Whilst a very rare event, this is not the service that the public and our customers expect or that we seek to deliver. I want to take this opportunity to again apologise for what happened, as well as to thank our engineers who have made the technical changes to ensure that this issue was resolved. We have fully cooperated with the CAA's Independent Review and are committed to ensuring that we learn all we can from this incident. Further detail is set out in the CEO's report.

The second issue, which occurred in September, related to a shortfall in ATC control tower staffing at Gatwick Airport which was inherited on the transfer of this service from the previous supplier in October 2022. Since taking over the contract we have been recruiting and training air traffic controllers as quickly as possible, recognising the unique challenges presented by this busy and complex airport. This staffing shortfall resulted in air traffic delays and a number of flight cancellations. We have continued to train additional controllers to provide increased resilience during 2024.

Outside of these events our service performance has been good. We have, for example, handled 23% of all European flights while accounting for less than 4% of air traffic delays across the UK's very complex and busy airspace. Service resilience and technology enhancement has been a consistent theme of Board discussions during the year.

The UK has some of the most complex airspace in the world. Its airspace modernisation strategy seeks to safely provide more capacity, with quicker, quieter and cleaner journeys for those who fly and less noise overall for those on the ground. Achieving this requires the collaboration of industry, the government and regulator. Our implementation of systemised and Free Route Airspace over southwest England and Wales in March 2023 represented significant progress and in the last year smaller geographically focused operational changes have been made to further enhance capacity, reduce aircraft fuel burn and controller workload. There is still much to be done with each change becoming more difficult and complex. This complexity will be most pronounced in the redesign of airspace around London, encompassing upper and lower airspace above its five major airports. As an air navigation service provider, airspace change is one of the most important contributions we can make to supporting the industry's transition to net zero, in advance of a significant uptake in sustainable aviation fuels. Separately we are recognised for the progress we are making to decarbonise our estate, ranked number one in the 2024 Financial Times Climate Leaders survey and 'A' rated by CDP.

The number of unmanned aircraft in our skies is projected to grow very significantly, enabling medical and other "beyond visual line of flight" operations. Accommodating them, while avoiding disruption to existing aviation, will require new ways of managing airspace. Our approach is to integrate new airspace users alongside conventional crewed aircraft, safely and seamlessly. We will present our proposal for a new economically regulated infrastructure service to the CAA during 2025.

The CAA's review of NERL's price control for the NR23 period (2023 to 2027) was also a key focus for the Board. While the Board judged that the CAA's final decision fairly recompensed NERL for costs incurred during the pandemic it considered that the service quality targets are extremely challenging particularly given the projected significant growth in flight volumes, live operational training requirements for the next generation of air traffic controllers and the need to progress airspace modernisation and technology transformation programmes. There is a risk that these targets over-prioritise short-term performance against long-term resilience and technical progress. We will take a responsible course of action that balances these needs, but we are unlikely to meet the targets as set. However we still plan to deliver a service that is measurably as good as, or better than, our European and other international peers.

The majority of the group's revenue and profit is determined by NERL's economic regulatory framework. This year the new price control for NR23 together with inflation and the one-off impact of the CAA's confirmation of the Covid income shortfall have driven an improvement in profit before tax of £371.5m (2023: £148.5m). However, as in 2023, this is not yet manifested in our cash flow, reflecting the 10-year period agreed for recovering the Covid income shortfall. The result has also been impacted by the write down of our investment in the Aquila joint venture which is currently projecting an increase in the costs to complete its Project Marshall contract. The year's financial performance is explained by our CFO, Alistair Borthwick, in detail in the Financial Review.

The Board has not recommended the payment of a dividend during the year given the ongoing price control review. The last dividend paid by the group was five years ago, in 2019. With the CAA's final decisions on the NR23 price control and the Covid income shortfall now determined the Board expects to resume dividend payments during the 2025 financial year.

Since publishing last year's annual report, Ross Baker has joined the Board as a non-executive director appointed by our Heathrow Airport shareholder. I was pleased to welcome Ross whose deep knowledge of the aviation sector will be of benefit to the Board.

As announced in April, this is my last report as Chairman after 10 years in the role. It has been a privilege to lead the company through some of the busiest and most challenging times the aviation industry has experienced. I would like to thank my Board colleagues and all our employees, for their significant contributions during my tenure. I am proud of the progress the group has made over this period and, in particular, our vital role in maintaining this critical service during the Covid pandemic. I am confident in NATS' ability to meet the challenges ahead. I am handing over to Warren East, who has extensive experience in transport and sustainability, and I wish him and the company every success.

Dr Paul Golby, CBE FREng
Chairman

Chief Executive's review

Our exceptional safety performance delivered by our operational teams in the year was overshadowed by two unrelated issues which resulted in significant travel disruption to airlines, airports and passengers. I would like to start by reiterating my apologies to all those impacted by the events of 10 months ago. Safety was, and always will be, at the forefront of our decision making during such rare events. While we will always prioritise safety, we never want to be the cause of significant disruption and we continuously strive to ensure that does not happen. My immediate job - and that of the executive team - in the days and weeks that followed was to make sure that the solutions were in place to make sure this could not happen again. I am ensuring that we learn all we can from the events of last August to make our service performance even more resilient.

Technical Incident

On 28 August, our UK en route service suffered a technical incident caused by an extremely rare set of circumstances impacting our flight plan processing system. This required us to reduce the number of flights in UK airspace for around 6 hours in order to maintain safety at all times, which is our overriding legal duty. According to Eurocontrol, and corroborated by the CAA's independent review, this resulted in an average two-hour delay to 579 flights and is estimated to have caused airlines to cancel around 1,500 flights on the day, with more cancelled in the following days as airlines sought to recover their schedules. Despite these delays, our outstanding employees made sure that we were still able to handle 5,592 flights that day out of an anticipated 7,400.

ATC services were fully restored by late afternoon on the 28th August and we upgraded the software within days to ensure that specific technical failure cannot happen again. We undertook a major internal incident investigation in relation to its causes and our response to events on the day, to ensure we learn all we can from this. Our investigation was conducted transparently, an approach which underpins the safety of the global aviation system.

We have now implemented the majority of our investigation's recommendations which I reported to the Transport Select Committee which was seeking assurance that lessons learned had been integrated into our readiness plans for Summer 2024. We also supported the CAA's independent review panel's investigation and will carefully consider the Panel's final report recommendations when it is published.

This event demonstrates the complexity of the air traffic management network, which, as a rule, operates efficiently throughout the year despite the necessary focus on continuous safety, but it is a stark reminder of the importance of underlying air traffic infrastructure to the operations of wider stakeholders, such as airlines and airports.

Gatwick resourcing

In September, we faced a separate and unrelated service performance challenge with NATS Services' contract at Gatwick Airport. When NATS Services took over the provision of Gatwick's air traffic control and engineering services from a competitor in October 2022, it was clear to us and to the airport that we were inheriting an air traffic controller shortage with an operational capability that was not resourced for a fully resilient service for post-Covid traffic volumes. Recognising this, we agreed a recovery plan with the airport, which reflects the time required to train new air traffic controllers alongside recruiting and validating new and experienced controllers.

Our full service was available for virtually all of the year, notwithstanding traffic volume growth of 8% on the prior year. However given the level of staffing we inherited, periods of short-term unavoidable staff absence, despite the flexibility and best efforts of remaining staff, resulted in some delay and flight cancellations, as well as temporary measures by the airport to limit capacity to avoid on-the-day delay and cancellations.

Restoring and improving service performance levels is a key business priority. The recovery plan agreed with the airport at the start of the contract is being executed, with a full pipeline of trainees in the tower and at our college. While dependent on training success and the timing of staff retirements, we are doing everything within our control to appropriately resource the unit. We have improved our resilience with more air traffic controller positions for Summer 2024 compared to last year and we expect a full complement for Summer 2025.

New airspace users

The year saw good progress on regulatory matters. The CAA's decision on the NR23 price control has drawn to a close a lengthy and complex regulatory review, providing a stable baseline now for the NR23 period to 2027 with broadly the financial resources we need. However, as Paul explains in his Chair's statement, the service performance targets will be particularly challenging to meet.

Alongside its NR23 decision the CAA asked NERL to consult with stakeholders to develop a proposal for services to enable safe and efficient flight by new airspace users, such as drones operating beyond visual line of sight and advanced air mobility, and a charging mechanism to fund this activity. We established the Integrated Traffic Management Service Development Group (ISDG), for exchanging views with industry on this topic and in February 2024 we started to consult on our NATS OpenAir service proposal. We aim to submit our proposal to the CAA in Summer 2025.

For that proposal, we are seeking views on the scope of new services that enable the safe and efficient use of integrated airspace and the options for economic regulation and the charging mechanism for such services. We do not envisage that NATS OpenAir would, in the main, provide air traffic services directly to new airspace users or manage any more airspace than we already do. Rather NATS OpenAir would provide a universal data sharing and network management function that connects other commercial service providers to a secure and authenticated network.

Chief Executive's review

New airspace users (continued)

Our understanding of what future technology solutions and services will be needed to maintain a safe airspace for new and existing users is being informed by three different Future Flight projects we are supporting as part of UK Research and Innovation's Future Flight Challenge:

> Distributed Beyond Visual Line of Sight Aviation System (DBAS), a new control room concept that can be used to co-ordinate airspace users for beyond visual line of flight operations;

> Project Caelus which is enabling essential medical deliveries for NHS Scotland; and

> the Air Mobility Ecosystem Consortium which has used simulations and visualisations to assess the impact of electric vertical take-off and landings (eVTOLs) in London's airspace.

Separately, through NATS Services, we have signed a memorandum of understanding with Eve to support early flight trials and their transition to sustainable commercial operation and a commercial partnership with Altitude Angel that will provide innovative services to integrate new airspace users alongside crewed aviation safely and securely.

People

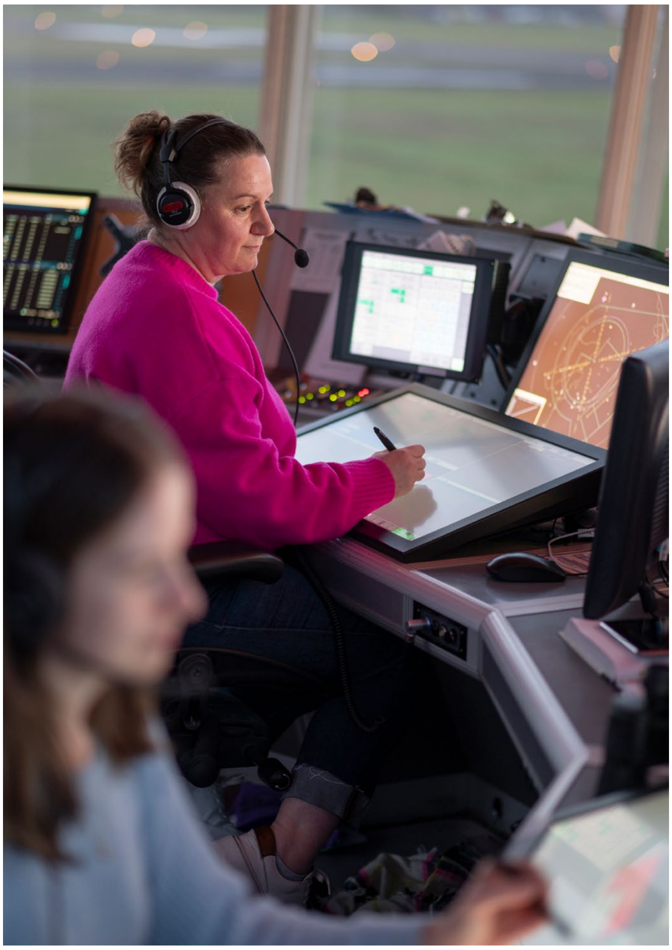
Training our next generation of air traffic controllers is key to ensuring operational resilience in the face of expected growth in air traffic volumes and as an enabler to airspace modernisation and the technical transformation of our infrastructure. In addition to providing the tactical service day-to-day we rely on operational staff to train new controllers and, outside of the summer peak, to support the development of new technology and changes to the airspace network. We have increased recruitment to balance supply and demand between newly trained controllers and those retiring from NATS. However, as trainees take approximately three years to validate and obtain their licence, we will not achieve maximum annual validation numbers until early in NR28 (our next regulatory period). To mitigate this challenge, we are continuing to review the effectiveness of our training to maximise success rates, we have increased the resources available to optimise our use of simulators and we have partnered with an external training provider. This year 73 trainees completed their initial training (2023: 74) and 75 controllers extended their validations, meaning they can control additional areas of airspace (2023: 60). We continue to lobby the regulator to review the requirement that foreign or military controllers must undertake full retraining to obtain a UK licence, which we understand to be a requirement that does not apply outside the UK.

I reported in the 2023 annual report that to enable our internal progress towards being a Top 25 employer to be benchmarked we had asked our employees how they felt about working at NATS. The survey was conducted by Best Companies, the employee engagement specialists. Based on their feedback, Best Companies rated us as "Very Good to Work For". At the time of publication of the previous annual report Best Companies had not concluded on our ranking. Subsequently they ranked us at #13, which is clearly very encouraging. Since the survey and alongside a series of employee focus groups, colleagues from across the business have been using the feedback to shape and deliver improvement plans 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.

This year we published a combined gender, ethnicity and disability pay gap report to provide a broader picture of our pay differentials and to enable us to take a joined-up, consistent approach to tackling disparities. Due to the staggered timing of pay awards to different professional groups our gender pay gaps for 2023 increased. Had we applied pay awards to all employees at the same time there would have been no change to our mean gender pay gap and an improvement of 1.6% to our median gender pay gap. More remains to be done and we are taking the right actions to address this issue over the long term.

We have taken steps to make sure we have a centrally coordinated approach to Equality, Diversity and Inclusion (EDI) and we are working together as an organisation to build an even more inclusive culture so as to ensure that we attract and foster the talent that we need. Inclusive Companies ranked us at #44 in their most recent Top 50 list. This is a significant achievement and is testament to the commitment and hard work of employees from across the business and our employee networks.

Increasing representation of women and people from ethnic minority backgrounds in STEM professions still remains a challenge. However, we are taking proactive steps to attract people from underrepresented groups through targeted advertising of our air traffic control and early careers recruitment campaigns.



Chief Executive's review

Sustainability

Our strategy recognises the role we have in helping to create a sustainable future for aviation. It sets out our ambition to minimise our direct environmental impact and to become carbon negative across our estate. Our goals are ambitious and science-based, and as Paul highlights in his Chair's statement, we have been recognised by both CDP and the Financial Times for our progress to date. We are also committed to supporting the reduction of aviation's impact on the environment thereby ensuring aviation's crucial role in the UK's economy and to prioritising work with our customers and partners to find more sustainable solutions, including providing efficient routings to minimise aircraft emissions in our airspace.

We published our 5-year Transition Plan this year, which we will update annually. It sets out the actions we will take in the short term to pivot our business to a low carbon economy while building our resilience to the impacts of climate change (see Climate-related Financial Disclosures on page 25). As an example, we are now installing solar panel arrays that will generate 20% of our electricity needs at our Prestwick and Swanwick Centres.

Airspace modernisation is the industry's most immediate means of delivering carbon reduction targets. Alongside larger airspace changes, such as West Airspace, which was deployed in 2023, we continue to make local changes to the airspace network through focused projects. Those implemented since 2021 are now contributing reductions of 33,000 tonnes of CO_2 per annum by enabling more fuel-efficient flying alongside reduced controller workload.

We are supporting the industry with projects that seek to reduce the environmental impact of flying. Notable this year was Virgin Atlantic's flight from Heathrow to New York fuelled by sustainable aviation fuel and we continue to actively support research to understand contrail production over the North Atlantic and to trial contrail avoidance solutions.

We are incentivised by the regulator to provide fuel efficient flights to airlines based on our 3Di airspace efficiency metric. For the 2023 calendar year we were within the CAA's allowance with a score of 28.3 (2022 calendar year: 26.0, within CAA allowance). We are also sharing flight efficiency data with three of our largest airline customers to identify jointly opportunities for further emissions savings. Ultimately, our aim is for all airlines using the UK air traffic network to have access to their own 3Di performance data.

Foundations for growth

We continued to make good progress in establishing the foundations for achieving our strategic revenue growth objective by expanding our work with existing customers and building new partnerships.

At the start of the year we contracted with Heathrow Airport for the delivery of equipment and systems to support a new Virtual Contingency Control Tower (VCF) to act as a back-up to the existing airport control tower. This represents a major investment for the airport and will provide resilience and help protect the nation's aviation infrastructure. The airport has also contracted to extend the use of our Strategic Airport Capacity Manager (S-ACM) tool which uses advanced analytics to provide operational insights that enable the airport and airlines to optimise schedules. S-ACM also provides a new environmental reporting metric which supports a better understanding of the environmental impact of the airport's operations.

With the capability of our Searidge investment, we will deliver a 'hybrid' digital control tower working position at Farnborough Airport. This will be the first deployment of its kind in the UK and represents the next evolution in airport air traffic management, delivering the technology enhancements of a digital solution, but within an airport's existing control tower.

With support from the British High Commission, we reached an agreement with the Aviation Authority India (AAI), provider of air navigation services across India, to facilitate closer cooperation between our two organisations. This is an important strategic enabler to securing larger scale commercial opportunities in India, including with major airport operators.

Alongside a broader strategic partnership agreement, we agreed to collaborate with the Saudi Air Navigation Services (SANS) on a capacity enhancement study at King Khalid International Airport. The collaboration will leverage NATS' expertise and digital solutions, to unlock new possibilities in airspace management and the seamless flow of air traffic in the Kingdom.

Finally, we have partnered with Indra to incorporate within its air traffic management software system the NATS and Leidos developed Intelligent Approach system for enhancing airport capacity.

Looking forward

Our immediate focus is on delivering the best possible safe service to airlines, airports and their passengers through what we expect to be a very busy summer. We have planned extensively with all our stakeholders to ensure that this is achieved. We have an operational plan to ensure that we are organised and resourced for known events (such as the Paris Olympics) and with a clear focus on the on-time departure of the first rotation each day, while also ensuring that across the company our priorities for any particular day are defined and understood, whether for ATC service or essential engineering or controller training.

Finally, I would like to acknowledge Paul Golby's 10 years of service as Chairman of the Board. Paul brought a blend of challenge and stability. His leadership of the Board and strategic guidance has helped us tackle the extraordinary challenges of the pandemic. We have a lot to thank him for and I wish him well in the future. I look forward to welcoming his successor, Warren East, in September 2024 and to working alongside him. I would also like to thank all my colleagues who have shown such dedication and commitment in delivering a very safe service through a uniquely challenging year.

Martin Rolfe, FRAeS
Chief Executive

Business review

Air traffic volumes

Over the course of the year we handled 2.41m flights, which was 7% more than the previous year driven largely by continued progress in recovery from the Covid pandemic (2023: 2.26m flights).

Summer 2023 was busy with daily flight volumes peaking at 8,000 in July and the record daily volume recorded for North Atlantic flights, now 1,805, being broken multiple times. While the industry was much better prepared for the level of passenger demand, the European network continued to face its challenges. Alongside the ongoing conflict in Ukraine, which continues to constrain European airspace, there was a relatively large amount of ATC industrial action and an unusually high number of days affected by extreme weather which required extensive cross border cooperation. In the UK, weather related delay affected both Gatwick and Heathrow airports in particular. Eurocontrol, the network manager, has included the mitigation of bad weather in preparations for Summer 2024, in an effort to bring more stability to the network.

Outlook for air traffic volumes

Demand for air travel is generally linked to the strength of the economy as well as being sensitive to wider geopolitical events. In addition, as governments respond to climate change it is inevitable that economic and societal adjustments will be necessary for achieving net-zero emissions, the impacts of which add to forecasting uncertainty. The impacts of these policies and events are not felt uniformly across all traffic that NATS handles which can lead to the impact on forecast revenue being different to that seen on overall flight volumes.

We have developed an internal forecast which, for the first time, also has regard to the potential impact on air travel demand of sustainability policies based on DfT's Jet Zero Strategy. This forecasts flight growth of c1% per annum over NR23. While growth is slower than the CAA's assumption in the NR23 price control, our business plan maintains operational resourcing and capital investment at levels aligned with the regulatory settlement.

The UK's DfT Jet Zero Strategy sets out the government's approach to achieving net zero for UK aviation by 2050, identifying sustainable aviation fuel (SAF) as one of the key enabling technologies. The UK is set to mandate the take-up of SAF starting in 2025 at 2% of total UK jet fuel demand, increasing on a linear basis to 10% in 2030 and then to 22% in 2040. With SAF currently significantly more expensive than jet fuel, policy mechanisms are expected to be put in place to encourage the production and availability of SAF in order to minimise the impact on air fares for passengers. These factors are considered in our assessment of climate transition risk discussed on page 29.

The traffic forecast assumed by the CAA for the NR23 price control was aligned with Eurocontrol's March 2023 7-year base case forecast. In February 2024 Eurocontrol published an updated forecast (STATFOR 24) which reflects a weaker economic outlook for Europe, including the UK. This forecasts flight volumes some 2% lower for the UK through NR23.

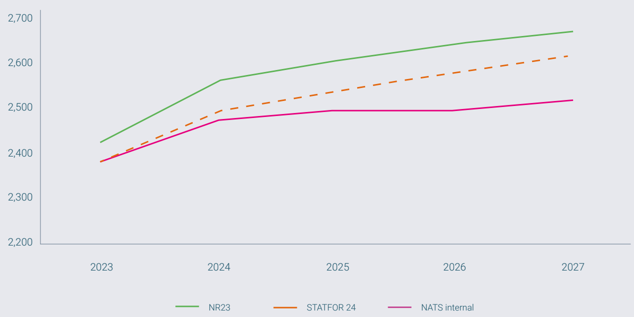
Safety Performance

Safety is our foremost priority and our primary duty. Safety must always be maintained, and this means that, if we have to, we will appropriately regulate the volume of flights in our airspace when this is necessary to ensure safety. Our service delivery, staff training and equipment maintenance and investment decisions are always made in the context of this overriding obligation.

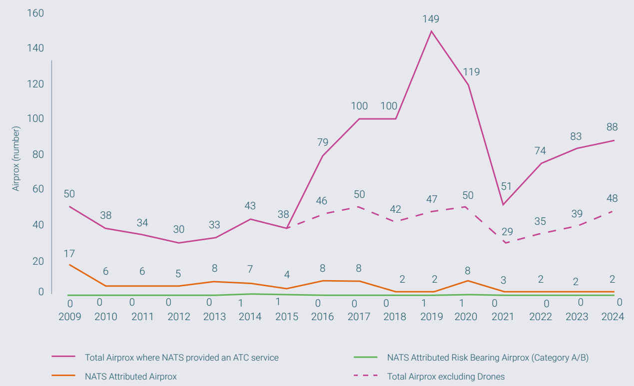
Our commitment to safety is underpinned by a robust set of metrics and targets that we use to monitor our performance and ensure that we have a focus on continuous safety improvement. These metrics and targets are aligned with the European performance scheme framework and are approved by the Board's Safety Review Committee and the CAA.

Our key target is to achieve zero NATS-attributable category A or B risk-bearing airprox, based on the independent assessment of the UK Airprox Board. This target applies across our en route ATC activities provided by NERL as well as our airport ATC operations provided by NSL. There were no NATS-attributable category A or B risk-bearing airprox in the financial year (2023: none).

UK flight forecasts
Calendar years ('000)



Airprox
Financial years ended 31 March



Business review

Safety Performance (continued)

Airprox are an important barometer of risk within the aviation sector, especially as traffic volumes are returning to pre-pandemic levels. On a 12-month rolling basis, the total number of Airprox in the airspace in which we provide our services increased in the year. However, when adjusted for traffic volumes, these were fewer than the average for the 2015 to 2019 years. The graph illustrates that unmanned aircraft systems (UAS or drones) remain a significant contributor to the overall number of Airprox, particularly around airports and heliports. In order to better understand the risks associated with this evolving airspace user, NATS is collaborating in drone detection and proximity data trials at several NATS sites around the country. These trials will help us to determine whether new safety processes and performance measures are required for detecting and preventing the illegal use of drones in flight restriction zones around airports.

We also measure our safety performance using the Risk Analysis Tool (RAT[9], as a proxy measure for safety risk) which assesses the severity of safety events and enables us to drive the appropriate safety culture across the whole business.

This financial year we recorded a total of 526 points (2023: 673) which, despite an increase in the volume of flights this year, is a further improvement on the previous year's record low level. RAT events in the year included two severity B events against our target of less than 10 for RAT A or B events. All serious events are subject to an additional level of scrutiny by the Safety Review Committee, ensuring that appropriate mitigating actions have been agreed and implemented.

The strategic safety goals set by the Corporate Strategy continue to drive our work, with initial focus on the implementation of continuous improvements in safety management. In support of this objective, we intend to formalise risk registers across the business. This is expected to provide improved clarity and visibility of the management of operational safety risks, helping the organisation prioritise its resources and better communicate risk related information to the accountable managers to support effective decision making. In the longer term, we expect this to provide a better and more dynamic understanding of the relationship between NATS top level risks and local change risk assessments.

Safety management

We are subject to an extensive safety regulatory framework that includes requirements under UK regulations overseen by the CAA and retained EU regulations overseen by the European Union Aviation Safety Agency (EASA). This framework is anchored in our safety management approach that covers systems, procedures and personnel.

To ensure that we work effectively to understand, maintain and improve safety performance in a consistent way, we have a formalised Safety Management System (SMS). The application of the SMS goes hand-in-hand with all of our activities so that safety is considered at every stage. This integration of safety in everything we do means that we can deliver safety and efficiency improvements across the company. The SMS is continually evolving to meet the needs of the business, incorporating lessons learned, changing regulation and the evolving use of airspace, including UAS and new industry concepts. We have also continued to enhance our SMS training.

Safety culture

Safety is our core value underpinned by our strong safety culture, which is essential as its positive values, behaviours and beliefs ensure we make the right decisions when we need to.

This also recognises that every colleague has a personal responsibility for safety no matter what role an individual performs, and this impacts the safety of our business and our people. We monitor the rate of reporting of safety events, which has exceeded pre-Covid levels and is a positive indicator of an effective reporting culture supported by a just investigation ethos.

We undertake a company-wide safety culture survey every two years which enables the company, and its Board, to assess the current strength of our safety culture and highlight areas for improvement. The 2023 survey identified three company-wide actions: bringing the safety culture and individual safety behaviour to life through an engaging campaign, ensuring resourcing plans are communicated effectively and the development of a fatigue risk management system with a focus initially on operational staff. The next survey is being planned for November 2025.

Technology transformation

Our strategy to replace our legacy operational systems with the latest modern, resilient technical solutions will, through a range of new capabilities, enable us to safely manage increasing volumes and complexity of traffic. We are continuing to invest in sustaining our existing assets during this transition period, commencing the modernisation of our surveillance system, delivering world-first capacity management tools at Heathrow and Gatwick airports and the ongoing development of future airspace changes in support of the industry's focus on the Airspace Modernisation Strategy.

We have continued to make further progress to finalise our new underpinning infrastructure. For example, the deployment of our back-up voice system in October on its own separate resilient network provides a step-change in capability and resilience when compared to its aged predecessor. Our focus has shifted to the ongoing development and testing of applications which will be progressively deployed onto our infrastructure over time. The early versions of these applications are into critical final testing and validation necessary before we commence the detailed training of our operations teams to enable a successful transition. We expect to deliver the first phase of our new controller tools and workstations on its existing architecture at our Prestwick centre in early 2026. A sequential approach to capability enhancement will allow us to continue to learn from the integration and use of these applications and technology.

The restructured and decoupled delivery plan, which allows each part of the programme to progress independently, has proved effective. However, we continue to face a number of ongoing skills-shortages which once resolved will enable us to scale-up our delivery capacity in due course. As an example, we have implemented and partnered with large-scale technology-industry leaders to enable us to leverage their capabilities and to operate our new technical infrastructure.

Financial review

Results overview

£m (unless specified)	2024	2023	Change
Revenue and regulatory allowances	**1,189.0**	930.0	259.0
Adjusting items	**(123.2)**	(23.2)	(100.0)
Adjusted revenue and regulatory allowances	**1,065.8**	906.8	159.0
Profit before tax	**371.5**	148.5	223.0
Adjusting items	**(123.2)**	(23.2)	(100.0)
Adjusted profit before tax	**248.3**	125.3	123.0
Operating cash flows	**200.1**	183.5	16.6
Cash flows from investing activities	**(112.3)**	(112.2)	(0.1)
Cash flows from financing activities	**(81.7)**	(59.3)	(22.4)
Net increase in cash and cash equivalents	**6.1**	12.0	(5.9)
Adjusting items	**86.3**	46.1	40.2
Debt-adjusted cash flows	**92.4**	58.1	34.3
Capital expenditure	**116.8**	113.7	3.1
Net debt (statutory basis)	**(745.4)**	(803.6)	58.2
Gearing (%)	**41.9%**	52.3%	(10.4%)
Regulatory Asset Base (RAB)	**2,139.2**	1,865.8	273.4
NERL's regulatory return - adjusted profit basis (%)	**4.9%**	0.0%	4.9%
Dividends	**nil**	nil	n/a

The group reported a statutory profit before tax of £371.5m (2023: £148.5m). The significant increase on the previous year is mainly a reflection of the NR23 price control and the CAA's assessment of the income shortfall owing to NERL for the Covid period (2020 to 2022), recognised as variable consideration in the prior year. These factors were partly offset by a share of losses and the impairment of a loan to NATS Services' Aquila joint venture as a result of an increase in the costs it is currently projecting to complete Project Marshall.

Alternative performance measures

In order to provide better insight for managing our financial performance, we have adopted a number of non-IFRS measures: adjusted revenue and revenue allowances, adjusted profit before tax, debt-adjusted cash flows (DACF), net debt, the regulatory asset base (RAB), regulatory return (adjusted) and gearing. These alternative performance measures (APMs) are not defined by international financial reporting standards (IFRS) and should be considered in addition to, and are not intended to be a substitute for, IFRS and statutory measures. A reconciliation of the APMs to IFRS measures is provided at page 174.

Financial review

Putting profit and cash flows in context

a. NR23 price control

This year's statutory profit before tax reflects a full year's impact of NR23, which applied from 1 January 2023. The regulatory framework, explained on page 6, is a typical cash-based model of UK economic regulation adopted by the CAA when determining NERL's price control. At each price control review, the CAA re-sets the level of revenue for a five-year period which it considers appropriate to enable NERL to recover its costs, continue to invest in the airspace infrastructure and earn a reasonable return while operating efficiently and providing targeted levels of service performance for customers. This process of re-setting revenue allowances can result in a step change (up or down) in NERL's results in the first year of the price control.

In this first full year of NR23, the 'cliff edge' impact is pronounced as the prior year's result reflected the temporary price control put in place during Covid. The practical effect of which was that NERL's charges were set initially as if Covid had not occurred but with the CAA taking a view subsequently on the appropriate recovery of revenue allowances based on the shortfall between NERL's flight income and its actual costs. Furthermore, the actual costs NERL incurred during Covid reflected the actions it had taken to reduce its operating costs and pause capital investment to conserve cash. By contrast, the revenue allowances for NR23 reflect the scaling back-up of NERL's activities to support post-Covid air traffic volumes and to deliver its NR23 business plan. The CAA's revenue allowances also take account of the higher inflationary environment, an allowed return calculated on an average RAB that now includes the Covid income shortfall and the increase in defined benefit pension cash contributions from 1 January 2023.

The latter, being paid at 85.3% of pensionable pay, are based on the funding deficit and ongoing cost of benefits calculated at 31 December 2020 when real gilt yields were close to their historic low. The timing of that measurement means that these contributions are significantly higher, unprecedentedly so, than the charge to the income statement of 22.4% of pensionable pay measured under international accounting standards. This IAS 19 charge reflects the higher interest rate environment since 2022 which has significantly reduced the cost of pensions. After taking a rebate of pension costs under the pass-through mechanism into account, the combination of a lower IAS 19 charge and the different basis for pensions alone accounts for an increase in profit of £41.1m.

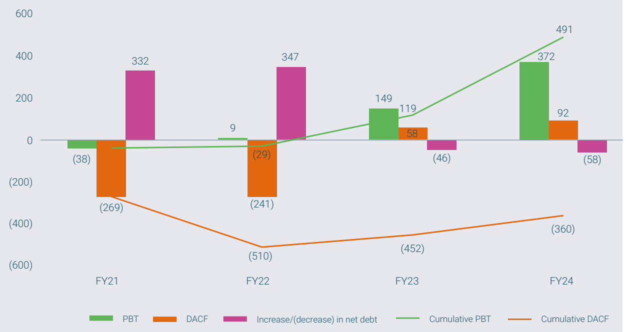
b. The Covid income shortfall

The outcome of the CAA's retrospective reconciliation for determining the Covid income shortfall was accounted for in the prior year as variable consideration, constrained at an amount highly probable of not being reversed subsequently. In November 2023 the CAA confirmed the value of the shortfall at an amount higher than the variable consideration previously recognised. Accordingly, the results reflect an additional regulatory allowance of £123.2m for Airspace ATC services provided during Covid (2023: £23.2m). The measure of Adjusted profit before tax of £248.3m (2023: £125.3m) excludes this allowance to enable a better understanding of the group's underlying performance for the service provided in the financial year.

c. Debt adjusted cash flows

As in the prior year, our statutory profit before tax is not yet supported by the equivalent level of cash flow generation. This reflects recovery of the Covid income shortfall over an extended 10-year period to 2032, starting from January 2023. The related amount recoverable under the regulatory agreement is reflected in our financial position and will endure for the remainder of this recovery period. As a result, we will continue to utilise significantly increased but manageable levels of debt to deliver the NR23 plan. The term and structure of our debt was aligned in 2023 to match our expected cash flows to 2033 and provides efficient and stable funding over the extended period for recovering the Covid income shortfall. 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.

Financial Performance
Four financial years ended 31 March



The chart above shows our statutory results before tax (PBT), our debt adjusted cash flows[2] (DACF) and the change in net debt in each of the last four years. DACF 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. The scale of the shortfall in income receipts, particularly in 2021 and 2022, is borne out by our DACF across this period.

In the later years of NR23 we expect DACF to exceed profit before tax, which will be reflective of underlying performance, while operating cash flows benefit from the ongoing recovery of the income shortfall.

Financial review

NERL's regulatory return – adjusted profit basis

NERL's regulatory return for calendar year 2023 adjusted for the one-off impact of the CAA's confirmation of the Covid income shortfall was 4.9% (2022 calendar year: 0.0%) compared with the CAA's NR23 cost of capital assumption of 3.2%. Operating costs were £61.0m lower than CAA's final determination assumption. This reflects the fact that the CAA sets annual revenue allowances assuming operating costs relating to the calendar year's actual CPI inflation. However, the impact of CPI on NERL's costs tends to lag by a year as these are generally indexed according to the prior year's inflation. While NERL has been able to contain temporarily some of the inflationary pressures on its cost base, its expectation is that the level of inflation currently projected on costs in 2024 and going forward will exceed the level assumed by the CAA in those years. Accordingly NERL currently expects higher operating costs against the CAA's target for the later years of NR23. The savings in 2023 are therefore not anticipated to be repeated, and overall costs over the price control period to be more aligned with the CAA's final determination assumption in its entirety. This factor was partly offset by lower revenue for an expected rebate of pension costs in future price controls.

On an unadjusted basis NERL's regulatory accounts will report a return of 11.2% largely due to the Covid shortfall income being included in this single year, as explained previously.

Revenue and regulatory allowances

	2024 £m	2023 £m
Airspace	**998.4**	754.7
Airports	**154.1**	132.6
Defence	**11.1**	15.6
Other UK business	**17.3**	14.5
International	**8.1**	12.6
Total	**1,189.0**	930.0

Overall, revenue and regulatory allowances at £1,189.0m (2023: £930.0m) were £259.0m higher than the prior year. By service line the significant factors contributing to this increase were:

Airspace: revenue and regulatory allowances were £243.7m (32.3%) higher.

UK en route revenue at £807.7m (2023: £670.0m), improved by £137.7m mainly due to the increase in revenue allowances set for NR23 outlined above. In addition, regulatory allowances of £136.5m, increased by £95.5m (2023: £41.0m), includes the recognition of £123.2m of Covid income shortfall, recognised as variable consideration in the prior year as explained above.

Revenue for the North Atlantic en route ATC service increased by £10.5m to £54.2m (2023: £43.7m) reflecting a 13.7% increase in the charge per flight for NR23 as well as a 9.2% growth in flights volumes to 528,350 (2023: 483,802 flights).

Airports: revenue was £21.5m (16.2%) higher for the year. This reflected inflation uplifts to our ATC contracts and growth in engineering project income as airport operators continued to invest in enhancing their infrastructure. Revenue also included a full year's service to Gatwick Airport which had returned to our ATC contract portfolio in October 2022.

Defence: revenue was £4.5m lower (28.8%). This is mainly related to the asset provision contract element of Project Marshall, expected to complete in 2025.

Other UK business: revenue at £17.3m increased by £2.8m (19.3%) due to new contracts and price indexation of existing contracts which enable developers to mitigate the impact of windfarms on ATC radar data.

International: revenue was £4.5m lower (35.7%) as demand is recovering more slowly than we expected after Covid, with fewer opportunities coming to market this year for the airport enhancement programmes we offer. We remain optimistic of the prospects in our international target markets, and we have developed strong partnerships to ensure we are well placed in 2024/25 and beyond.

Operating costs

Operating costs increased by £48.5m or 6.4%, mainly reflecting inflationary pressures on staff and non-staff costs and asset impairment charges.

	2024 £m	2023 £m
Staff costs	**(495.5)**	(485.9)
Non-staff costs (net)	**(184.9)**	(163.2)
	(680.4)	(649.1)
Depreciation and amortisation (net)	**(104.6)**	(94.2)
Asset impairment charges	**(19.4)**	(9.7)
Goodwill impairment charge	**-**	(2.9)
Operating costs	**(804.4)**	(755.9)

Staff costs were £9.6m higher at £495.5m (2023: £485.9m) with CPI-linked pay awards and additional overtime and headcount to support both operational resilience and our technology transformation programme being mitigated by increased internal capitalised labour and lower defined benefit pension costs. The number of employees in post at 31 March 2024 increased by 283 to 4,606 (2023: 4,323).

Non-staff costs increased by £21.7m to £184.9m (2023: £163.2m). This reflected additional costs required for data infrastructure, hosting and cyber security in line with the modernisation of our technical infrastructure, as well as the costs required to deliver the Airports engineering projects above.

Depreciation and amortisation increased by £10.4m to £104.6m (2023: £94.2m), following the deployment of a new back-up voice communication system and a new system to monitor the performance of airspace infrastructure assets. Asset impairment charges of £19.4m (2023: £9.7m) were recognised for a data integration system and assets relating to an airport transformation programme which are no longer considered to be commercially viable, and to write down the value of network infrastructure test equipment, following an assessment of potential alternative uses.

Financial review

Results of joint ventures and associate

	2024 £m	2023 £m
Aquila joint venture	**(29.5)**	0.9
Other associate and joint venture	**1.2**	2.4
Results of joint ventures and associate	**(28.3)**	3.3

The Aquila joint venture in which NATS Services is invested is projecting an increase in the costs to deliver its Project Marshall contract, which completes in 2037. As a result we have recognised our share of losses up to the carrying value of our investment of £4.5m at 1 April 2023 and impaired the outstanding shareholder loan of £18.8m. We have also made a provision for a liability of £6.2m for the legal obligation to enable Aquila to draw on the shareholder loan facility up to its limit of £25m. Alongside our joint venture partner we are continuing to provide financial support to Aquila, as well as underwriting its performance under the contract and working with the management team on measures to improve its financial outlook and to protect our financial interests.

Net finance income and fair value movements on financial instruments

	2024 £m	2023 £m
Net finance income/(costs)	**28.9**	(1.8)
Fair value movement on financial instruments	**(13.7)**	(27.1)
Net financing income/(costs) and fair value movements	**15.2**	(28.9)

The net finance income of £28.9m (2023: net finance cost of £1.8m) principally related to unwinding the discount applied to regulatory allowances for the Covid income shortfall, which is being recovered over NR23 and NR28. This is alongside additional interest income earned on cash holdings. These factors more than offset bond and other debt interest costs.

A fair value charge of £13.7m (2023: £27.1m) was also recognised in the year. This included £9.0m for the change in market value of the RPI swap liabilities (2023: £13.7m) and a charge of £4.7m (2023: £13.4m) on revaluing the group's equity investment in Aireon[10] based on its most recent business plan projections.

Taxation

The tax charge of £94.0m (2023: £32.3m) represents an effective rate of tax of 25.3%. This is slightly higher than the headline rate of 25%.

The tax charge consists of a current tax charge of £74.6m and a net deferred tax charge of £19.4m. The deferred tax charge arises mainly from the deferred tax liabilities on capital expenditure.

We achieved Fair Tax Mark accreditation in the year. 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 178.

The group also pays other taxes such as employer's national insurance contributions (£47.4m), business rates (£5.9m) and the apprenticeship levy (£1.9m), which are significant operating costs. The group's tax strategy can be viewed at www.nats.aero.

Balance sheet

	2024 £m	2023 £m
Goodwill	**42.6**	42.7
Tangible and intangible fixed assets	**1,109.6**	1,114.5
Right-of-use assets	**36.4**	37.7
Investments	**24.3**	29.7
Pension scheme surplus	**13.5**	58.7
Regulatory allowances recoverable	**799.0**	731.2
Regulatory allowances payable	**(54.8)**	(141.6)
Cash and cash equivalents	**166.2**	160.2
Derivatives (net)	**(80.0)**	(80.1)
Borrowings	**(864.9)**	(911.4)
Lease liabilities	**(46.7)**	(52.4)
Deferred tax liability	**(205.5)**	(197.9)
Other net balances	**(24.9)**	(42.6)
Net assets	**914.8**	748.7

The increase in net assets reflects the statutory profit after tax, partly offset by the reduction in the defined benefit pension scheme's IAS 19 funding surplus to £13.5m (2023: £58.7m - see below).

Capital investment

	2024 £m	2023 £m
SESAR deployment	**43.1**	47.9
Airspace modernisation	**8.9**	7.8
Infrastructure	**17.1**	9.8
Operational systems	**26.8**	29.5
Other	**10.2**	7.7
Regulatory capex	**106.1**	102.7
Other non-regulatory capex	**10.7**	11.0
Capital investment	**116.8**	113.7

Financial review

We continued to make a significant investment in our critical airspace infrastructure (regulatory capex in the table above). In particular, we introduced a back-up voice communication system which significantly enhances our operational system resilience. Overall, we expect to invest c£630m over NR23 to replace ageing infrastructure and systems, continuing our strategy towards their consolidation into a single platform which will provide improved tools and standardised operations, which are critical to future service quality and airspace modernisation.

Defined benefit pensions

The group operates a final salary defined benefit pension scheme with 1,480 employee members at 31 March 2024 (2023: 1,550). The scheme was closed to new entrants in 2009 and a defined contribution scheme was put in place which now has 2,336 members (2023: 2,108) - the costs of this scheme increased by £8.5m in the year reflecting the growth in members and staff pay awards. 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 £39.6m (2023: £69.9m) reflected a reduction in the accrual rate to 22.4% (2023: 44.9%) 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 2023	58.7
Charge to income statement*	(39.6)
Actuarial gains/(losses):	
- on scheme assets	(315.0)
- on scheme liabilities	168.3
Employer contributions*	141.1
At 31 March 2024	**13.5**
Represented by:	
Scheme assets	3,384.6
Scheme liabilities	(3,371.1)
Surplus	**13.5**

*including salary sacrifice

At 31 March 2024, the scheme's assets exceeded its liabilities by £13.5m (2023: £58.7m) as measured under International Accounting Standards (IAS 19) using best estimate assumptions.

The real yield on AA corporate bonds used to value RPI-linked pension obligations increased by 20 basis points over the 12-month period. In addition, demographic assumptions were updated to reflect actual mortality experience and future improvements in life expectancy in line with the CMI's 2022 projections. These had the effect of reducing the value of pension liabilities which reduced by £114.9m over the year. The fair value of the scheme's assets reduced by £160.1m.

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 are currently undertaking a formal valuation of the scheme as at 31 December 2023, which is not yet complete. Until that valuation is agreed, the schedule of contributions remains based upon the Trustees 31 December 2020 valuation, which reported a funding deficit of £171.9m (equivalent to a funding level of 97%). Alongside assessing the funding deficit, 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. During calendar year 2023 the company paid deficit contributions of £27.2m and it will pay £27.8m in calendar year 2024.

Net debt, liquidity and cash flows

	Cash and cash equivalents £m	**Borrowings (including lease liabilities) £m**	**Net debt £m**
Balance at 31 March 2023	160.2	(963.8)	(803.6)
Cash flow	6.1	75.5	81.6
Non-cash movements	(0.1)	(23.3)	(23.4)
Balance at 31 March 2024	**166.2**	**(911.6)**	**(745.4)**

At 31 March 2024, the group's net debt was £745.4m (2023: £803.6m). It comprised £864.9m in bonds less unamortised costs and fees, and £46.7m of lease liabilities recognised under IFRS 16. These were partly offset by £166.2m of cash and cash equivalents.

Net debt reduced during the year with NERL recovering £91.6m (2023: £6.4m) of the Covid income shortfall from its charges.

At 27 June 2024 the group had available liquidity of around £540m. 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.

At 31 March 2024, the group had access to liquidity of £566m comprising cash of £166.2m and undrawn committed bank facilities of £400.0m. At 27 June 2024, the group had access to cash and undrawn bank facilities of around £540m.

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 28 June 2025, 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 20 to 22.

The severe traffic volume scenarios modelled were: an immediate 15% reduction in air traffic volumes for a 12-month period, as a proxy for a traffic shock such as a major geopolitical incident and subsequent recession, being the most severe traffic scenario; a low case internal traffic forecast of 5.9% fewer flights than the NR23 decision assumed; a 20% loss of airport contract income from smaller airports in our portfolio, in the event of the financial collapse of an airport; an unplanned increase in operating costs; an increase in the financial support provided to our investments and unremunerated increases in defined benefit pension contributions. Finally, a combination scenario was also performed of lower air traffic volumes, higher operating costs and higher pension contributions. Under the most severe scenario the group maintains adequate liquidity (of £334m) and headroom (NERL gearing at 51%) 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, before mitigation, severe reductions in traffic volumes to 50% of expected levels or significant unplanned expenditure, which in this event would be broadly equivalent to the annual staff cost. 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.

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 20 to 22, and the effectiveness of currently available mitigating actions.

In particular, the directors assessed the solvency and liquidity risks arising from a traffic shock 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 2027.

The Board considers that there is greater certainty around forecasting assumptions over a three-year period than a longer period, having regard to the NR23 price control settlement which covers the period to 31 December 2027.

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 shock to air traffic volumes and the reasonably possible mitigating actions available to the group to manage its financial resources;

> Joint venture funding: a scenario of additional unplanned financial support to Aquila beyond the group's legal obligation to enable it to fulfil its Project Marshall contract;

> Defined benefit pensions: the requirement to agree a new schedule of contributions following completion of the Trustee's formal valuation at 31 December 2023. The directors consider that NERL's contributions will be recovered through the NR23 price control, and future price controls, 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; and

> 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, including refinancing bank facilities expiring in May 2026.

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. In addition, in light of events in the year, the Board has had particular regard to risks impacting service resilience, operational resourcing and relating to technology enhancement.

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 page 19. A summary of risk management and internal control processes is on page 52.

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, 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.

Strategy: general economy, geopolitical issues and uncertainty of air travel demand

The demand for air travel can be sensitive to macro-economic and geopolitical conditions. Factors including conflict in the Middle East and Ukraine, 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 during a price control period. The regulatory framework includes a traffic risk mechanism which enables NERL to recover shortfalls of income through future charges. A general duty on the CAA and Secretary of State to ensure that NERL does not find it unduly difficult to finance its licensed activities provides mitigation against severe traffic shocks, as has been the case with Covid, resulting in a redetermination of the price control. NATS Services contracts for the provision of ATC services to airport operators are at fixed underlying prices for a contract term. The financial strength of airport operators is monitored for the impact of reductions in air travel demand.

Strategy: regulatory settlement

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

The CAA issued the NR23 price control, which sets charges from January 2023, in year. Despite including operational service targets viewed as very challenging by NERL, the overall determination was deemed to be acceptable.

The NR23 decision also included a reconciliation of costs and revenues for the period January 2020 to December 2022 for the purpose of setting NERL's revenue shortfall in relation to the shortened RP3 control period. The extended recovery period of 10 years had been anticipated in the re-financing activity that completed in March 2023 so raised no concerns in terms of NERL's financeability.

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.

Principal risks and uncertainties

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 Climate-related Financial Disclosures section on page 25.

Operational: business continuity and resilience

A catastrophic event, many of which are outside of our control such as adverse weather, another pandemic, terrorist attack or conflict, 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.

A major incident investigation was undertaken following the technical failure on 28 August 2023. Our business continuity and resilience processes have been amended to reflect the recommendations of that review. The further recommendations of the CAA's independent panel review are also being considered.

Operational: systems security

The threat of disruptive cyber-attacks (such as denial of service) on critical infrastructure continues to remain elevated given ongoing conflict in the Middle East and Ukraine. 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 also 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. Effectiveness of security controls is assured through ISO 27001 certification and regulatory compliance. 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: air traffic controller resource availability

While we retained our skilled air traffic controllers during Covid to support the recovery 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. Training recommenced when pandemic restrictions lifted in 2022. While we have sufficient resources today to meet our regulatory commitments, 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 Operations Leadership Team 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. A new resource agreement has also been reached with the trades unions to increase resilience through additional air traffic controller attendances over the critical summer period.

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.

Regular dialogue takes place with trades unions on a range of challenging issues including air traffic controller supply, the impact of high inflation and the cost of living crisis on our employees and employee pay. We strive for constructive relationships with our trades unions, and these relationships enabled us to agree three-year pay deals for grades negotiated by PCS and Prospect which run to December 2025. 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 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.

Our capital programme developed following extensive customer consultation is reflected in our NR23 business plan.

Principal risks and uncertainties

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 are currently undertaking their next formal valuation based on the position 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), the risk of default by counterparties to financial transactions, and fluctuations in interest and foreign exchange rates. A detailed description of each of these risks and specific mitigations are set out in note 21 to the financial statements.

Non-financial and sustainability information statement

Responsible business

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 aspect 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 focusses on employee and environmental matters, being the material non-financial matters, and provides information thereon necessary for an understanding of the company's development, performance and position. Our gender, ethnicity and disability pay gap report[11] and a slavery and human trafficking statement[12] 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[13] 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 diverse employee networks 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.

This year we have taken steps to make sure we have a centrally co-ordinated approach to Equality, Diversity and Inclusion (EDI), ensuring we are working together to build an even more diverse organisation. Our strategic focus for EDI covers four key pillars of activity; Attract, Engage, Lead and Educate. Each of these pillars has clearly defined measures to ensure progress and delivery.

We continue to set and track performance against a set of meaningful goals to promote greater diversity and inclusion. These targets track the proportion of women, people from minority backgrounds and those with disabilities across our recruitment, talent and succession plans. Increasing representation of women and people from ethnic minority backgrounds in STEM professions remains a challenge, not just for NATS, but we have taken proactive steps to attract people from underrepresented groups, to ensure that as a business we have access to the widest possible talent pool.

b. Environment policies and outcome

Our sustainability strategy encompasses initiatives across our business and estate to reduce greenhouse gas (GHG) emissions, resource use, energy and pollution, while enhancing biodiversity protection, climate change resilience and sustainable procurement. 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 reducing aviation's environmental impacts.

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.

Non-financial and sustainability information statement

b. Environment policies and outcome (continued)

In terms of the core air traffic service we provide, 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 through the design and management of airspace across the UK, developing innovative solutions in partnership with our key suppliers and airport and airline customers for mutual benefit. As an example, we continue to develop and deploy solutions to enhance airport and airspace performance, including Intelligent Approach and Digital Towers.

We co-chair and participate in European and global groups to set standards, produce guidelines for ANSPs to reduce their environment impact and engage with customers on future tools and airspace changes. We are involved in industry groups and R&D initiatives to investigate solutions to aviation's impacts. Under the Single European Sky ATM Research programme we are involved in projects to avoid contrail induced cirrus (non-CO_2 impacts) and have been active in continuing to support trials in the year.

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, including support to the UK Sustainable Aviation coalition.

Reducing the impacts of our business, and improving sustainability is key to achieving this and it can also reduce costs as we consume fewer resources and work in more efficient ways.

Finally, we continue to support the government's goal to accelerate the development of renewable energy from wind power by working with technology partners to enable 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.

Our enterprise risk management framework describes sustainability risk categories linked to the delivery of our sustainability strategy; physical sustainability risks (e.g. as a result of increased frequency and severity of extreme weather events); transitional sustainability risks (e.g. indirect policy, legal, market and reputational risks); net zero and carbon negative risks; improvements to our environmental performance; achieving compliance with multiple requirements; and the associated impacts of those risks.

Metrics and targets

a. Employee matters

Gender pay reporting has established benchmarks against which we monitor the impact of our actions to address the imbalance of gender and ethnicity over the longer term. This year, we have further broadened our pay gap reporting to include publication of our disability pay gap for the first time. We did see a small deterioration in median gender pay gap this year, however this reflected the staggered timing of pay awards for different pay groups, which have varying gender splits. Had all pay awards been applied at the same time, our median pay gap would have improved by 1.6%. We recognise it takes time to create sustainable change, but we can see examples of an increase in overall diversity (gender, ethnicity and disability) in Senior Leadership roles and 34% of our 2023 early careers intake were from an ethnic minority background, up from 18% in 2022.

Our objective remains to bring the best diverse talent into our organisation and support individuals to reach their full potential.

b. Environment

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 29% reduction in scope 1 and 2 emissions and the same level of reduction across limited scope 3 emissions (categories 1,3,4,6,7).

In both cases we have reduced emissions by 35% compared to a 2019 baseline, resulting from site consolidation, energy efficiency and emissions reduction measures. The installation of roof mounted solar panels to self-generate renewable electricity at our Swanwick air traffic control centre was near completion by the year end. This is the first of three large-scale solar installations at our main Swanwick and Prestwick centres, covering roof, ground and adjoining land which, subject to final planning decisions, will generate approximately 13-21% of the energy consumption of these sites.

We also installed 100 electric vehicle charging points across our main sites to support lower transportation emissions. We procured 99.6% of our electricity from green electricity and 100% of NATS direct gas procurement is low carbon biogas.

In relation to airspace emissions, 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. For the 2023 calendar year, we achieved a 3Di score of 28.3 within the CAA allowance range.

Non-financial and sustainability information statement

b. Environment (continued)

The cumulative impact since 2006 of strategic airspace changes which improve aircraft flight profiles and reduce fuel burn is avoiding 33,000 tonnes of CO_2 emissions per annum.

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.

Climate-related Financial Disclosures

While every sector and industry could experience financial impacts from climate-related risks and opportunities, the Climate-related Financial Disclosures 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.

Our company strategy recognises the contribution that air traffic control can make in creating a sustainable future for aviation. It sets out our ambition to minimise our direct environmental impact by being carbon negative by 2040, in addition to achieving net zero carbon emissions across our estate by 2035. Our strategy also supports DfT's targets of net zero flying by 2050, with domestic flights and airport operations net zero by 2040, through measures including optimising flight paths to reduce aircraft fuel burn and CO_2 emissions and delivering airspace modernisation.

Achieving our carbon targets also supports our other strategic objectives. Innovation in the delivery of carbon reduction can help us realise opportunities that support our objective to generate increased revenue and positively impact our objective to be relied on by all airspace users as we create integrated safe, efficient airspace for all.

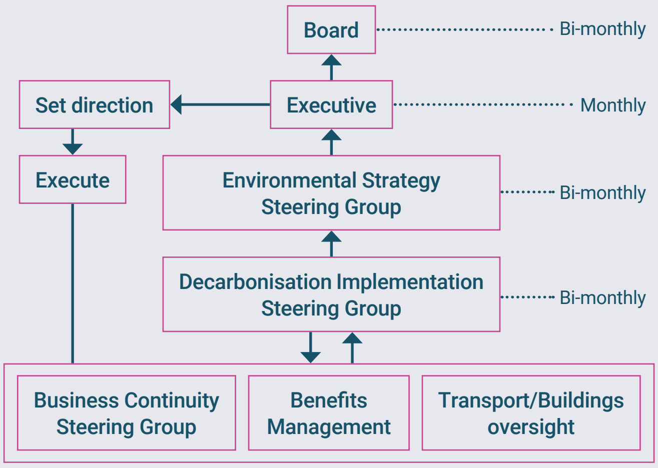
For current and future employees, being able to deliver solutions to our carbon challenges will be something we can be truly proud of. Alongside inclusion, career development and wellbeing, our environmental ambitions are, therefore, a core part of us being a Top 25 UK company to work for.

We explain below how we identify, assess, manage and review climate-related risks and opportunities impacting the group, covering the eight requirements of the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, as well as our energy use and greenhouse gas emissions under the Streamlined Energy and Carbon Reporting framework.

Governance

1) **a description of the governance arrangements of the company in relation to assessing and managing climate-related risks and opportunities;**

Sustainability: governance and meeting cadence



Our Board is responsible for setting and leading our climate-related strategy and goals, and has oversight of climate-related risks and opportunities impacting the group (risk governance is explained on page 52).

The Board delegates responsibility to various committees (see pages 49 to 73). The remit of its committees is reviewed periodically to ensure alignment with climate change risks and opportunities and the monitoring of progress against decarbonisation targets.

Our Board members bring a variety of skills and experience of ESG and climate change matters from their own qualifications as well as other external board appointments, including from within the aviation and economically regulated entity sectors.

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). This includes progress against the company's near-term 1.5°C aligned science-based targets, our sustainable-finance linked targets and commitments to achieve net zero by 2035 and carbon negative by 2040, as well as consideration of physical and transition climate-related risks. 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.

Non-financial and sustainability information statement

Governance (continued)

The ESSG meets bi-monthly and is chaired by the Director of Safety and Sustainability. Its members include the CFO, Chief Operations Officer, Technical Services Director, Director Supply Chain, Director of Sustainability and the Communications Director.

The ESSG sets direction for sustainability activities across NATS. Its scope covers environmental impacts from airspace users of our air traffic control service and from our estate as we deliver our services, as well as climate-related risks and opportunities faced by the group. The ESSG receives progress reports from the Decarbonisation Implementation Group, whose primary objective is to manage and monitor performance towards our net zero and carbon negative objectives. 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 all scope 1 and 2 emissions from NATS' estate and selected scope 3 emissions. The ESSG is also supported by other oversight groups, whose roles are described in the figure above.

Strategy

2) a description of:

i. the principal climate-related risks and opportunities arising in connection with the operations of the company, and

ii. the time periods by reference to which those risks and opportunities are assessed;

3) a description of the actual and potential impacts of the principal climate-related risks and opportunities on the business model and strategy of the company;

4) an analysis of the resilience of the business model and strategy of the company, taking into consideration different climate-related scenarios;

Scenario analysis

We use scenario analysis to assess material climate-related financial risks and opportunities and we have considered 1.5°C, 2-3°C and 4°C warming scenarios to provide a view of potential transition and physical risks. Scenario analysis improves our understanding of NATS' climate risk exposure and is integral to climate risk assessment under our risk management framework.

To assess transition risks and opportunities, we have tested the resilience of our business strategy against three scenarios with differing pathways to net zero:

- an incremental transition that assumes current policies and trends in aviation with a high degree of residual emissions being offset or removed outside of the aviation sector;
- an orderly transition with a focus on supply-side decarbonisation solutions, such as sustainable aviation fuels (SAF); and
- a disorderly transition with a greater emphasis on demand reduction measures.

These scenarios are described more fully in the figure below.

Incremental Transition
2-3°C warming by 2100

A slow piecemeal transition following business as usual market and policies. Investments from the public and private sector continues but there are delays in the implementation of innovations with a high degree of residual emissions requiring to be offset or removed outside of the aviation sector.

Key Assumptions:

- Technological Change - Slow Pace
- Policy Reactions - Current Policies

Key Events:

- 74% increase in UK terminal passenger volumes by 2050 (from 2018 levels)
- 10% SAF uptake by 2050
- Carbon emission trading schemes (ETS and CORSIA) assumed to continue beyond 2036, with a cap reset
- A formalised carbon offsetting market begins to take shape in the short/medium term

Main Sources:

Jet Zero (Current Trends Scenario), IEA (Stated Policies Scenario), NGFS (Current Policies Scenario)

Orderly Transition
1.5°C warming by 2050

A rapid but 'smooth' transition, achieving emission reductions in line with the Paris Agreement. Policy acts as a strong lever for change, technological innovations are successful and encourage investment. This scenario assumes a greater focus on supply-side decarbonisation solutions such as SAF and zero/low-emission aircraft.

Key Assumptions:

- Technological Change - Moderate Pace
- Policy Reactions - Immediate and Smooth

Key Events:

- 70% increase in terminal passengers by 2050 (from 2018 levels)
- UK SAF plants operational by 2026
- 50% SAF uptake by 2050
- Zero emission aircraft introduced in 2035

Main Sources:

Jet Zero (High Ambition Scenario), IEA (Net Zero By 2050 Scenario), NGFS (Orderly Below 2°C)

Non-financial and sustainability information statement

Scenario analysis (continued)

Disorderly Transition

1.5°C warming by 2050 featuring volatility

A disjointed and non-linear pathway. Climate policy responses are uncoordinated or delayed. The implementation of new technology slows, motivating investment away from the industry. This scenario places a greater emphasis on demand reduction measures.

Key Assumptions:

- Technological Change - Fast Pace
- Policy Reactions - Immediate and Divergent

Key Events:

- Terminal passenger volumes by 2050 assumed at 2018 levels
- 5% SAF uptake by 2050
- ETS and CORSIA extended in 2035 with no cap reset, driving up offsetting costs
- Demand reduction measures, such as a frequent flyer levy, in the near term to allow for slower commercial scaling up of supply-side solutions

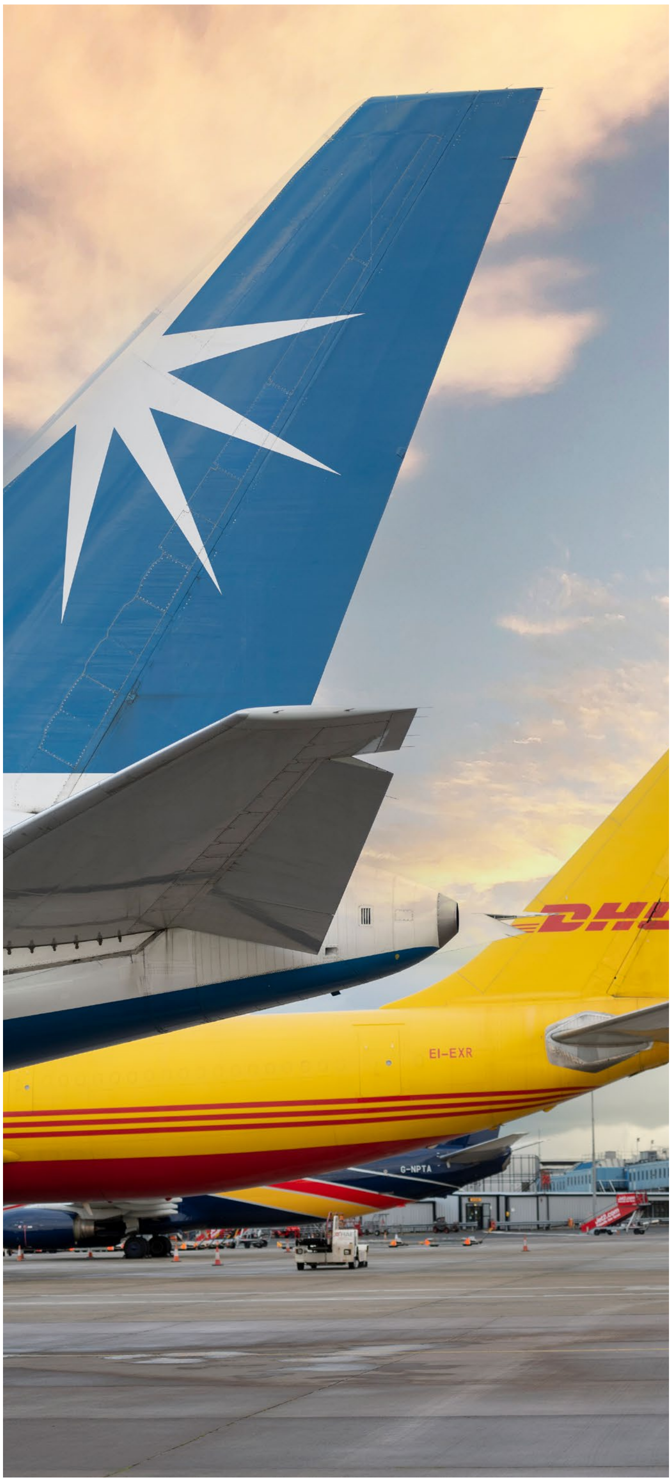
Main Sources:

Chatham House (Scenario G), IEA (Delayed Transition Scenario), NGFS (Disorderly Divergent Net Zero)

The timeframes we have used to assess climate-related risks and opportunities are:

- Short (one to two years): in line with our annual budget and shorter-term planning horizon;
- Medium (to 2030): broadly reflecting the 5-year price control and our longer-term business planning, enabling us to adjust course if appropriate;
- Long (to 2050): spanning our 2035 net zero and 2040 carbon negative targets.

Our assessment of physical and transition climate risks is summarised in the table on pages 32 and 33.



Non-financial and sustainability information statement

Climate-related physical risks

We have considered the potential for asset damage or operational risks from acute physical risks from an increase in the frequency of extreme weather events and from chronic physical risks arising from changing long-term climate trends.

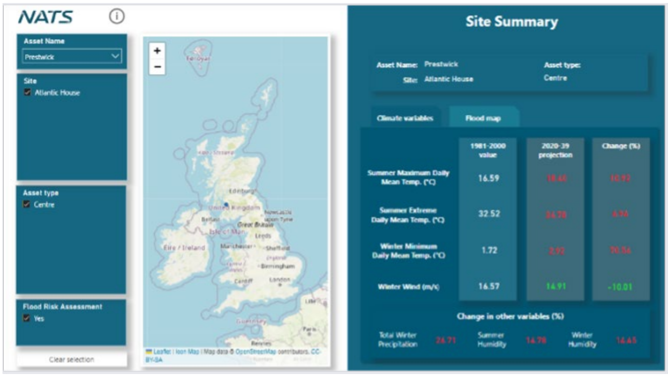
Our exposure to short term physical risks is reflected in the weather extremes we have experienced in recent years, which we have been able to mitigate with limited operational service disruption. For example: high winds from Storm Dennis in 2020 caused damage to a surface movement radar at Stansted Airport; Storm Arwen in 2021 resulted in the loss of communications and surveillance from a radar following a generator failure; and in summer 2022 some of the cooling systems failed at Swanwick due to extreme heat, subsequently mitigated with additional cooling infrastructure. The significant windstorm of 2024, Storm Isha, did not result in a service impact from, or damage to, our infrastructure. However it did disrupt air travel over the whole of the UK and Ireland leading to many go-arounds on final approach and diversions to alternative airports. In addition to safely managing these operational impacts, our industry communication cell (ATICCC) provided updates to airport and airline customers to help them plan their operations and minimise the need for mass diversions. Aside from impacts to assets and our service, the safety of our employees is a priority during extreme weather events.

Recent weather events also 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 the latter we proactively protect our assets and operational service. Alongside system resilience, asset design and restoration management minimise engineering related delay impacting our operational service.

We assessed physical risks over a medium-term horizon using a bottom-up approach that applied desktop GIS of a high emission reasonable worst-case scenario from the Met Office's UK Climate Projections (UKCP18, RCP8.5 ~ >4°C global warming) plotted onto the locations of 206 assets across the UK and Gibraltar. These assets represent the critical air traffic control and engineering assets providing services for civil and military customers. In addition, for 24 sites potentially most vulnerable to flooding, we prepared flood risk reports based on fine resolution flood risk modelling for 1 in 100 year and 1 in 1,000-year events at both 2030 and 2050 time horizons. This site-specific climate and flood risk modelling data has been summarised in a dashboard, an example of which is below, helping our engineers and estate managers to understand potential physical risks to individual assets and sites.

Over the long-term time horizon our assessment is supported by UK climate maps of temperature, precipitation and wind speeds and climate variable histograms based on the 4°C global warming scenario.

We do not own similar infrastructure overseas, given the nature of our activities currently. However, as we deliver our strategy to grow the business new critical assets will be subject to climate risk assessment.



Our analysis indicates that, at the flood return periods considered, more frequent extreme weather events such as storms could result in surface water and fluvial flooding at some sites leading to asset damage and operational service risks. As a result, we are planning a more detailed review of the resilience of the drainage capacity at our two air traffic control centres to surface water and the potential for attenuation storage systems, as well as possible flood protection measures against local fluvial flooding. Also, we own a small number of assets supporting the service at some airports which may be at risk of fluvial flooding. In these cases we will be seeking to understand the wider mitigations being considered by the customer, government agencies and providers of other infrastructure services.

With respect to other weather-related risks, our design criteria for asset replacements utilise industry best practice standards, climate projections and expected future capacity requirements to ensure resilience to wind (such as by using radomes to protect radars from extreme weather) and changes in operating temperatures.

More broadly than our day-to-day operational service delivery, resilience and asset management, we work with government and industry proactively to remain vigilant for emerging physical risks. We are an active member of the European Aviation Climate Change Adaptation (EACCA) group, chaired by the Airports Council International (Europe) and Eurocontrol. This group has prepared CEO level engagement materials on physical risks as well as operationally focused summer and winter seasonal guidance notes for airports and air navigation service providers. The seasonal guidance alerts stakeholders at airports and ANSPs to the latest physical risks to be aware of and how to mitigate those risks.

We are currently updating our adaptation report for DEFRA, to reflect the actions we've taken since our 2021 report. We are also supporting the Department for Transport with their emerging climate adaptation strategy for the UK transport sector: 'Fit for a changing climate? Adapting the UK's transport system'.

Non-financial and sustainability information statement

Climate-related transition risks and opportunities

Climate-related financial disclosures identified several categories of climate-related risks and opportunities, including those arising from policy and legal actions, technological change, market factors and reputational risks and our assessment was made on this basis.

We have quantified transition risk when published sources have enabled us to model the impact of climate-related assumptions on the demand for air travel. Otherwise, we have qualitatively graded the impact and likelihood of material risks and opportunities in line with the NATS risk management framework. Our assessment is based on internal analysis, market data and involved a team of multi-disciplinary senior business leaders spanning the group's activities, supported by external subject matter experts. It captured a long list of risks and opportunities, which was further refined to those deemed most material to the group's business, strategy and financial plans.

a. Policy and legal risks

The most material risks to revenue relate to policy decisions which affect air flight volumes, either from supply-side measures or those that directly curtail the demand for air travel, such as frequent flyer levies. The focus of current policies, which also underpin the Orderly Transition scenario, is on supply-side measures that remove carbon from aviation through more efficient aircraft and operations, including airspace modernisation, carbon emission trading scheme, carbon removals and mandates for the take-up of sustainable aviation fuel (SAF).

Our long-term traffic forecast to 2040 takes account of the DfT's Jet Zero Strategy "High Ambition" pathway assumption for SAF take-up. Our modelling assumes that air fares will increase to reflect the higher cost of SAF relative to jet fuel, leading to a reduction in passenger demand and lower flight volumes. We have quantified the estimated impact as a £20m reduction in NERL's revenue in the latter years of NR23, relative to the CAA's price control assumption. The projection applies to both the Incremental Transition and Orderly Transition scenarios. We believe the risk would be heightened in a Disorderly Transition, particularly in the long term, with a greater emphasis on demand reduction measures. We will be looking for the regulator's traffic forecasts at subsequent price control reviews to reflect sustainability policies.

b. Reputational risks

Airspace modernisation is one of the sector's operational measures for supporting its net zero targets, providing more fuel-efficient flight paths estimated to mitigate up to 4% of UK aviation emissions. 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. There is also a significant dependency on airports to agree and deliver their respective changes to lower airspace, as well as public acceptance of airspace change proposals.

While significant aspects of airspace modernisation are outside our control, as operator of the UK's airspace infrastructure, we may face reputational risk if stakeholders perceive the coordinated response to be slower than expected, particularly as the cost of carbon rises. This could also have knock-on implications for our strategic objective to be a Top 25 employer and our ability to attract and retain talent, resulting in higher operating costs to do so.

c. Market risks

We track the public's perception of aviation annually by partnering with Ipsos to produce the Aviation Index. The 2023 survey shows that the public sees improving the environmental performance of aviation as a top priority for the industry, ahead of improving flight times, increasing airport capacity and reducing noise for example. This survey provides us with a metric to monitor changes in attitudes to climate change and early warning of a hardening of attitudes that could result in a reduction in the propensity to travel by air, resulting in lower revenue. This risk is likely to be most prominent in a Disorderly Transition over a long-term horizon.

NATS relies on access to capital markets and to banks to finance its activities, including short term bank facilities and bonds expiring in 2031-2033. There is a moderate risk in a Disorderly Transition scenario that access to, and the cost of, funding we require in the medium and long term may be impacted by general sentiment towards the aviation sector's progress in reducing emissions and airspace modernisation, or if NATS is not perceived to be on track to meet its decarbonisation strategy.

d. Technology-related risks

Our net zero target by 2035 and our strategic objective to be carbon negative by 2040 are dependent on the development of technical and cost-effective solutions for the removal of carbon as well as reliable alternatives to our fossil fuel back-up power sources. Additional capital investment may be required in the short and medium term to support the development of market or internal solutions.

e. Opportunities

Our strategic objective to grow revenue by £500m by 2040 assumes the development of services to new users of airspace. As the economy transitions to net zero this is likely to include a growth in demand from low emission unmanned aerial vehicles and the potential for new sources of income, such as data provision.

We are also well placed to support existing customers with their transition to net zero with tools and services that enable lower emissions. Our Intelligent Approach tool reduces emissions on final approach enabling more sustainable capacity growth by airports and our demand capacity balancing tool which is used by Heathrow Airport now includes an environmental parameter for airfield modelling, alongside capacity. Our experience of managing flow movements on the ground and enhancing airfield efficiency provides unique insights to optimise airport operation and maintenance and we are developing a new range of products at helping customers reduce emissions, such as Greener Ground, based around a combination of sensors, mobile communications, advanced analytics and artificial intelligence.

Non-financial and sustainability information statement

e. Opportunities (continued)

Also, Green Aviation Insights is aiming to provide a global benchmark of environmental impact providing data-driven insights to enhance collaborative improvement efforts across the ANSP network.

We expect to realise cost efficiencies over the medium term from the energy-efficiency improvements we are making to our estate, such as the installation of solar arrays at our air traffic control centres. Also, the shift to low emission energy reduces our sensitivity to changes in the cost of carbon in future and enhances our business resilience.

Finally, achieving our net zero target and carbon negative strategic objective will also be a positive contributor of employee satisfaction, aligned with our objective to be a Top 25 employer, and enhance our reputation with wider stakeholders, including providers of finance.

Overall, none of the transition scenarios tested threaten the resilience of the group's business model and strategy and we are well placed to take advantage of opportunities which arise from the transition to a low carbon economy.

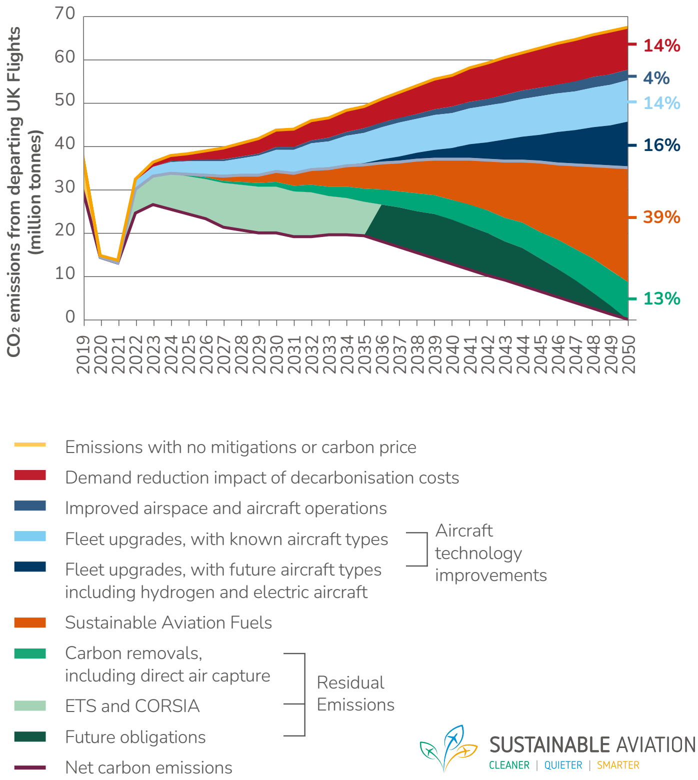
Our decarbonisation strategy

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 (which excludes airline emissions) to net zero by 2035 and being carbon negative by 2040. Our near-term target to reduce the emissions from running our business by 41% by 31 March 2026 against a 2019 baseline has been validated by the Science-based Targets initiative for which NATS was awarded 'Business Ambition' status - the highest achievement possible.

By 2030, we are targeting a 65% reduction in emissions from a 2019 baseline of 40,321 tonnes. We are then seeking to minimise our emissions as far as practicably possible by 2035, at least to no more than 10% of our 2019 baseline. To achieve net zero, any residual GHG emissions will be compensated by removals. This either relies on developing technologies which capture and store carbon emissions deep underground or a range of nature-based solutions that remove and store carbon from the atmosphere. Achieving our 2040 strategic goal to become carbon negative will mean that our GHG removals from the atmosphere exceed our residual emissions.

Our strategy also supports the UK government's Jet Zero strategy to achieve net zero aviation emissions by 2050, with domestic flights and airport operations net zero by 2040, alongside broader international aviation commitments. Air traffic management and operational improvements are likely to reduce CO_2 emissions from UK aviation by around 4.6% by 2050 relative to 2016, in line with independent assessments of the contribution air traffic control can make to overall aviation emissions reduction. This is embedded in the Sustainable Aviation decarbonisation road map shown in the figure below.

Our contribution is represented in the NR23 price control plan 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.



Risk management

5) **a description of how the company identifies, assesses, and manages climate-related risks and opportunities;**

6) **a description of how processes for identifying, assessing, and managing climate-related risks are integrated into the overall risk management process in the company;**

Sustainability and climate change is a principal risk to our business and is fully embedded within our overall Enterprise Risk Management framework (ERM). The approach for identifying, assessing, and managing climate-related risks is described above. Risk owners have been appointed to monitor and develop mitigation plans for material risks. This process is consistent with the approach to all other risks, outlined on page 52.

Physical risks and opportunities are assessed, monitored and managed by NERL and NSL, as the group's two principal operating subsidiaries, and reported to the ESSG. Transition risks and opportunities are identified at a group level initially with input from experts and monitored and managed at subsidiary level as appropriate. Risks are reassessed periodically for material changes in the group's operating environment, which may arise from consultation on a new price control, government sustainability policy or a science-based assessment of the rate of climate warming relative to the company's scenarios.

Non-financial and sustainability information statement

Risk management (continued)

The Audit Committee and Board receive updates on top enterprise risks, including climate-related risks, at each of their meetings.

Climate-related risks are embedded in the directors' consideration of their duties under S172 (see page 37), our going concern and viability assessments (see page 19) and consideration of the carrying value of certain balance sheet items, such as the carrying values of our ATC infrastructure assets, NERL's goodwill and the group's equity investments.

The ERM sets out the categories of risk we face. This is a tool for business areas to identify and assess each risk based on its potential impact and likelihood of occurrence and to 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.

Metrics and targets

7) **a description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets; and**

8) **the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based.**

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 in this respect relate to service performance, net zero and physical and transition risk monitoring. These are set out in the table on page 34 together with the disclosure of Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions and energy use under the Streamlined Energy and Carbon Reporting (SECR) requirements.

Our target for this financial year was to have reduced our estate GHG emissions by 29% against the 2019 baseline, and we have achieved 35% (2023: target 24%, achieved 39%).

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.

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

As we develop our understanding of the physical and transition climate risks we will continue to 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), ISO 14001 (environment management) and ISO 14064 (GHG verification). The Audit Committee oversees all verification and assurance activity.

Supporting information

The Non-financial and Sustainability Information Statement and the environment metrics reported on page 34 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.

Non-financial and sustainability information statement

Risk or opportunity	Time horizon	Potential impact	Mitigations in place or planned
Physical risks from extreme weather events (acute risks) and changing long-term climate trends (chronic 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 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.	Design tolerances reflecting projected weather impacts, 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.
Opportunities linked to resilience against physical climate impacts			
Supporting customers with the specification and installation of airport engineering equipment	Medium and long term	Additional revenue from engineering project services or solutions mitigating climate impacts to airport infrastructure (remote/digital towers).	Ongoing assessment of physical risks to customer sites and targeted commercial activities.

Non-financial and sustainability information statement

Risk or opportunity	Time horizon	Potential impact	Mitigations in place or planned
Transition risks			
Policy and legal: measures impacting air travel demand directly (e.g. air passenger duty, frequent flyer taxes) or indirectly (e.g. SAF mandates, carbon emission trading)	Medium and long term	Lower air traffic volumes and revenue than assumed by the price control. Direct demand measures having medium impact in incremental scenario and high impact in disorderly scenario. Indirect measures having high impact in both incremental and disorderly scenarios.	The price control includes an uncertainty mechanism which mitigates against the loss of revenue due to unforeseen reductions in traffic volumes from the level forecast by the economic regulator. Traffic forecasts are re-set for each price control to have regard to the anticipated demand for air travel. A coordinated industry-wide airspace modernisation that supports the sector's transition to net zero.
Reputational: public perception of the aviation sector's impact on climate change and pace of emission reduction; or regulator and customer perception of pace of NATS contribution	Medium and long term	Medium impact in all transition scenarios from a loss of revenue as consumers reduce air travel or opt for lower carbon transport. Medium impact in incremental and disorderly scenarios from higher costs of employee retention and recruitment of new talent.	
Market: capital market concerns at the pace of either the aviation sector's transition to net zero, or NATS own transition to net zero	Medium and long term	Medium impact in incremental and disorderly scenarios from higher cost of funding.	Undertaking actions to facilitate the achievement of our net zero target and our carbon negative strategic objective, alongside coordinated industry-wide airspace modernisation.
Technology: 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 with high impact in disorderly scenario and medium impact in incremental and orderly scenarios.	Energy avoidance and conservation measures, photovoltaic arrays at main sites reducing scope 2 emissions and minimising exposure to electricity price fluctuations, supply prioritisation.
Technology: supply-demand of carbon sequestering and offsetting	Medium and long term	High impact in disorderly scenario from potential increase in cost to achieve net zero and carbon negative strategic objectives.	Taking early actions in service of meeting decarbonisation targets. A price control which allows the recovery of the efficient costs of achieving decarbonisation.
Transition opportunities			
NATS ATC solutions offer resilience and support emission reductions	Short, medium and long term	Increased revenue from solutions supporting sustainable capacity growth (Intelligent Approach), reduced airborne holding (XMAN), ground and air operations (Greener Ground, Green Aviation Index).	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. We have rated financial impacts of transition risks, broadly indicative of a reduction in revenue or an increase in costs, as High (£10m-£100m p.a.), Medium (£1m-£10m p.a.) and Low (<£1m p.a.).

Non-financial and sustainability information statement

Environmental performance and greenhouse gas emissions

Description	FY 2023/24 (or CY 2023)	FY 2022/23 (or CY 2022)
Service performance and resilience		
3Di (calendar year)	**28.3**	26.0
Environmental performance^		
Scope 1 emissions (location-based tonnes CO_2e)	**2,548”**	2,895”
Scope 1 emissions (market-based tonnes CO_2e)	**97”***	2”
Scope 2 emissions (location-based tonnes CO_2e)	**11,057”**	10,587”
Scope 2 emissions (market-based tonnes CO_2e)	**84”**	114”
Scope 3 categories 1, 3, 4, 6 and 7 emissions (tonnes CO_2e)	**12,792”**	11,287”
Total scope 1, 2 and 3 categories 1, 3, 4, 6, 7 (tonnes CO_2e) – location based	**26,397”**	24,769”
Scope 3 category 11 emissions (tonnes CO_2e)	**25,175,227”**	23,365,760”
Scope 4 modelled enabled ATM-related CO_2 increase / (reduction) in tonnes[14]	**18,915”**	(56,317)”
Water supply and treatment (m^3)	**35,800”**	34,142”
Energy consumption (gas + electricity) MWh	**64,988”**	64,243”
Transportation: owned and leased vehicle fuel consumption (as reported within scope 1) KWh	**810,057**	528,895
Transportation: business travel (scope 3) from employee-owned vehicles and hire cars KWh	**614,568**	1,066,645
CO_2e intensity metrics		
Total scope 1 + 2 emissions (location-based tonnes CO_2e)	**13,605”**	13,482”
Total scope 1 + 2 emissions (market-based tonnes CO_2e)	**180”**	116”
Total scope 1 + 2 intensity metric (location-based tonnes CO_2e per £m of revenue)	**11.4”**	14.4”
Total scope 1 + 2 intensity metric (market-based tonnes CO_2e per £m of revenue)	**0.2”**	0.1”
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: -29% Actual: -35%”**	Target: -24% Actual: -39%”
Percent change in CO_2e against 2018-19 baseline (scope 1 and 2 emissions)**	**-34%”**	-35%”
Percent reduction of CO_2e against 2018-19 baseline (scope 3 categories 1, 3, 4, 6, 7)**	**-35%”**	-43%”
Physical and transition climate risk monitoring		
Aviation Index: Percent of public that feel emission reduction should be most prioritised for improvement (calendar year)	**54%**	62%

^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
* increase in scope 1 emissions reflects Gatwick Airport site at which green gas is not procured
** Our absolute near-term science-based emission targets apply to total combined i) scope 1 and 2 and ii) 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?
Airspace Users, Airports and Other Customers	A safe ATC service is essential for airspace users and airports to which we provide our services and expertise, and for the travelling public. Their requirements are key drivers of our business plan, defining both the demand for the ATC network and the infrastructure that enables access to airspace and integration of users. It also determines our staffing and capital investment. We operate a joint and 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, most recently NR23. We reflect on their feedback and update our plans accordingly before review by the CAA. We engage biannually with airspace users, and separately with individual airport customers, on our service performance, our charges, cost efficiency and our capital investment plans. We have discussed preparations for summer 2024 across Europe with Eurocontrol (the network manager), airlines and airports and other key stakeholders and hold discussions with the industry ahead of weather events. We are consulting the industry on our initial proposals for NATS OpenAir, a new air traffic management service enabling an integrated airspace for both existing and new types of airspace users.
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. We conduct employee opinion surveys to understand how colleagues feel and where we can improve. The March 2023 b-Heard survey is 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 consulted stakeholders on our plan for NR23 ahead of determining the charges, safety, service performance and capital investment targets and incentives. We engaged with them and provided feedback on the balance of service targets and incentives, risk mechanisms and financial resources. The CAA appointed an independent panel to review the technical issue we faced in August 2023. We shared the results of our internal investigation into the incident and the Executive and Board supported the panel's review. 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.
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 preparations for Summer 2024.
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 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, the principal risks it faces and ESG matters. 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 ISO44001 accredited and hold CIPS Platinum standard of assurance.

S172 statement

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. In doing so the directors 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. The directors also 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 75.

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 4,606 employees and 143 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 23.

Engaging with employees: the Board received reports from the Executive on the actions being taken to address the three b-Heard survey topics employees felt most strongly about: opportunities for personal growth, strength of leadership and support for local communities. The survey is the baseline for our strategic objective to be a Top 25 UK company to work for by 2040. The CEO, CFO and Director of Operations engaged directly with employee representatives at the annual trades union conference. Through the year, the CEO, CFO and wider Executive team also engaged with employees on the group's strategy, the NR23 price control decision, the August 2023 technical incident and other business developments.

ATCO resourcing: the Board continued to assess the impact of the shortfall in resources NATS inherited following the transfer of the Gatwick Airport ATC contract in October 2022. The Board reviewed the staffing resilience plan and assured themselves that short term increases in staff workload from covering sickness and pending training and validation of new ATCOs was not increasing stress unacceptably and/or risking an increase in safety incidents.

The Board assessed progress with training the next generation of air traffic controllers given the importance of these skills for operational resilience as air traffic volumes grow and for enabling airspace modernisation and the technical transformation of our infrastructure. The Board recognised the increased recruitment required to balance supply and demand between newly trained controllers and those expected to be retiring during NR23 and the actions to maximise training success rates.

The Board also considered the plans in place to meet the high demand for air travel in summer 2024 given its importance to customers, passengers and the wider European network.

Health and wellbeing: the Board maintained its focus on the safety and wellbeing of all colleagues, including employee mental health. This included mandatory training to provide a safe working environment, access to an employee assistance programme, peer support and wellbeing-related benefits. The safety survey included questions on wider health and safety considerations.

Diversity and Inclusion (D&I): D&I continued to be a Board focus with progress made in the year explained in the Chief Executive's review. In particular the Board set a target for equal gender recruitment. The Board also reviewed the Pay Gap reports published in April 2023 and April 2024 and noted some improvement which reflects the focus on gender and ethnic diversity in our recruitment processes and early careers campaign, as well as the disability pay gap included in the 2024 report.

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.

August technical incident (see page 9): this was a matter of significant focus for the Board, which considered service resilience, technical resilience and safety performance, the service impacts on airline and airport customers and passengers, communications with the Department for Transport and the CAA and the responses from stakeholders. The Board's Transformation Review Committee assessed the cause of the technical incident and the remedial actions taken. The TRC and Safety Review Committee assured themselves that the overriding priority had been to maintain safety. The TRC oversaw NATS Major Incident Report and its recommended improvements. The Executive and NERL's Board supported the CAA's independent panel investigation, meeting with the panel to enable questions to be asked directly of NERL. The panel also met separately with Paul Golby (NATS Chair) and Greg Bagwell (Safety Review Committee Chair and member of the Transformation Review Committee). The Board studied the independent panel's Interim report.

Gatwick Airport staffing (see page 9): a key priority for the Board since NATS took on the ATC contract in October 2022 has been addressing the inherited shortfall in essential operational ATCO staff resources and restoring and then improving service performance. Following a period of short-term staff absence which adversely impacted the inherited staffing levels and service performance, the CEO met the boards of Gatwick Airport and easyJet plc to discuss the plan to restore ATCO staffing levels agreed with the airport at the start of the contract. The Gatwick CFO attended the Board's meeting in January 2024. The Board reviewed the resource plan for summer 2024 and progress with ATCO training and validations.

S172 statement

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

NR23 price control (see page 9): a Board sub-committee comprising Paul Golby, Martin Rolfe, Alistair Borthwick, Harry Bush, Mike Campbell and David Smith met regularly during the financial year to oversee the CAA's proposals for NR23 and the balance of safety, service performance and investment priorities that benefit airspace users and the flying public, and returns to shareholders. The Board assessed the CAA's final decision and were very concerned with residual challenging service targets and the level of investment returns proposed. However, overall, the Board accepted the balance of operational and financial resources having regard to the interests of members, employees, airspace users, passengers and wider society.

Strategy review (see page 7) and annual business plan alignment: the Board held a strategy workshop which reviewed the progress to embed the four strategic objectives into business plans and, in March 2024, it approved the group's budget for 2025 and the three-year business plan, aligned to the strategy. Significant attention in the year was given to post-Covid challenges to technical engineering capacity, to be mitigated by greater contracted resources, and the alignment of capital investment priorities with available engineering capacity.

Traffic forecast (see page 12): the Board reviewed and approved NATS' internal long term forecast to 2040 for business planning. It reflects the macro-economic outlook and the DfT's Jet Zero sustainability strategy policies. The Board's understanding of the volume of air traffic in future is relevant to its assessment of the balance between, and allocation of resources to maintaining safety performance, service performance and resilience, ATCO resourcing and training plans and infrastructure investment, which determine future airspace capacity for airspace users. The Board was also concerned with the impact on shareholder returns during NR23 from the projected loss of income from volumes below those assumed by the price control.

The Strategic report was approved by the Board of directors on 27 June 2024 and signed by order of the Board by:

R C-Cole

Richard Churchill-Coleman
Secretary

Governance Report

Annual Report and Accounts 2024

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. In May 2024, Paul was appointed as inaugural Chair of the National Energy System Operator which is to be fully established later in the year as a new independent public body responsible for planning and operating the UK's electricity and gas networks. 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.

Ross Baker

Ross is Chief Customer Officer of Heathrow Airport. Previously he was Heathrow's Director of Operations and before that, Director of Strategy. Prior to joining Heathrow in 2011, Ross held a mix of advisory and aviation industry roles.

At Bain & Company, he advised on a range of strategic, commercial and operational engagements. Prior to Bain, Ross spent a decade with British Airways where he held operational and commercial management roles, in the UK and overseas.

Ross has been the Executive Chairman of Heathrow Express since 2017 and is a Trustee of The Air League, the UK's leading aviation and aerospace charity. Ross graduated with an MA (Hons) degree in Politics from The University of Edinburgh. Ross is a member of the NATS Audit Committee.

Directors of NATS Holdings

Director's biographies

Non-Executive directors

Dr Harry Bush CB

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

Mike Campbell

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

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

Gavin Merchant

Gavin joined Universities Superannuation Scheme (USS) in 2011 and is Head of Asset Management, Direct Equity with responsibility for managing the performance of investments within the infrastructure and renewables portfolios. Gavin serves on a number of portfolio company boards for USS. Gavin has worked in the infrastructure sector in the UK and Australia for over 25 years. Immediately prior to joining USS, Gavin was a Director at Equitix Limited having worked at Merrill Lynch. 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 operations 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 eight years were in the commercial organisation specifically in Sales and Revenue Management. She then moved to the operational side of the business and has undertaken a number of senior management roles in Customer Service and Operations. In July 2021, Louise was appointed into her current role as Head of Worldwide Airports, with responsibility for British Airways' operation and customer service at all British Airways served airports outside of London. Louise is a director of AG and a member of the Audit Committee.

Directors of NATS Holdings

Director's biographies

Officer

Richard Churchill-Coleman, 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

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 the 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 2023 to the date of approval of the accounts, there were the following changes to directors: Kathryn Leahy resigned on 4 June 2023 and was replaced by Ross Baker on 30 November 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;
- Chief Operations Officer;
- Safety and Sustainability Director;
- Managing Director, NATS Services;
- Human Resources Director;
- Technical Services Director;
- Communications Director; and
- General Counsel.

The responsibilties 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.

NATS governance framework

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 nine 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.

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 21st March 2024 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 Bart Prudon and Ross Baker.

NATS governance framework

The Board's Committees

The Board has established five standing committees which operate within approved terms of reference.

These are the:

> Audit Committee;

> Nomination Committee;

> Remuneration Committee;

> Safety Review Committee; and

> Transformation Review Committee.

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

	Number of meetings attended / Number of eligible meetings					
	Board	**Audit**	**Nomination**	**Remuneration**	**Safety Review**	**Transformation Review**
Paul Golby	9/9	6/7	1/1	4/4	4/4	9/9
Martin Rolfe	9/9	4/7	1/1	3/4	3/4	8/9
Alistair Borthwick	9/9	7/7	-	-	-	-
Maria Antoniou	9/9	-	1/1	4/4	-	-
Greg Bagwell	9/9	-	-	-	4/4	9/9
Harry Bush	9/9	7/7	-	-	-	-
Mike Campbell	9/9	-	1/1	4/4	-	9/9
Kathryn Leahy	0/1	-	-	-	-	-
Gavin Merchant	9/9	-	-	4/4	-	-
Bart Prudon	8/9	-	-	-	4/4	-
David Smith	9/9	7/7	-	-	-	8/9
Louise Street	7/9	4/6	-	-	1/1	-
Ross Baker	3/3	1/1	-	-	-	-

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 49 to 73. 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 and David Smith. The committee met once in November 2023 to consider the CAA's Final Decision on NR23.

Meetings with shareholders

There was no formal shareholders meeting held in the year, which is not unusual for the company given the shareholder appointees on the Board, but the Chair, CEO and CFO met informally with shareholders throughout the year.

NATS governance framework

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 ten years. His contract was extended in 2023 for a further year, to provide continuity ahead of the CAA final decision on NR23, and will expire on 31 August 2024. Warren East has been appointed as his successor and will start on 1 September 2024.

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 2025. 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 2024 was as follows:

Name	Date of appointment	Years of service to 31/3/24
Paul Golby	1/9/14	9 years 7 months
Maria Antoniou	1/8/16	7 years 8 months
Greg Bagwell	1/10/22	1 year 6 months
Ross Baker	30/11/23	4 months
Harry Bush	27/5/14	9 years 10 months
Mike Campbell	26/5/17	6 years 10 months
Gavin Merchant	20/3/14	10 years
Bart Prudon	30/3/23	1 year
David Smith	1/10/22	1 year 6 months
Louise Street	29/11/18	5 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 formal meetings noted under the 'Meetings with shareholders' section above.

Reports from Board Committees

Audit Committee report

The role of the Audit Committee

The Audit Committee met seven times during the year. Of these meetings, four considered routine business and one was to determine the outcome of a mandatory re-tender of the statutory audit, which will result in a change of statutory auditor for the year ending 31 March 2025 (see below).

The committee is chaired by David Smith. There were three other non-executive director members in the period of this report: Harry Bush, Louise Street who served until January 2024 and Ross Baker who replaced Louise in January 2024. 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 through targeted training and briefing at Committee meetings.

The Chair, CEO, CFO, Director Group Financial Control, Director of Assurance and Risk, Head of Business Risk, the responsible partner from our outsourced internal audit provider 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, tax compliance 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:

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 the recovery of pension costs are to be 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. The CMA recognised that the CAA would need to undertake a retrospective reconciliation of NERL's actual income and costs to determine the value of the Covid revenue shortfall due to NERL for this three-year period alongside its redetermination of a new five-year price control for the period 2023 to 2027 (NR23). The CAA's final decision on the NR23 price control and the retrospective reconciliation was published in November 2023. For the prior year, the company was required to estimate variable consideration at the amount of licence revenue to which it expected to be entitled for the services it provided in that financial year, giving consideration to the risk of potential reversal in making that estimate. Following the CAA's final decision on the retrospective reconciliation that estimation uncertainty was removed and the value of the amount recoverable under regulatory agreement was aligned with the CAA's decision in the results and financial position at 31 March 2024.

Reports from Board Committees

Revenue recognition (continued)

After review, the Committee was satisfied with management's assessment of the impact of the CAA's retrospective reconciliation as well as the NR23 price control decision. The Committee also considered the clarity of the explanation of the results provided in the financial review section of this report (see page 14).

Also, during the year the Chair of the Board received a request for further information from the Financial Reporting Council (FRC) on the basis of recognition of amounts recoverable from or payable under NERL's regulatory agreement. The Committee deliberated in detail on the specific points of enquiry, as well as other matters raised by the FRC, and reviewed the CFO's response. The Committee, and wider Board, had regard to the FRC's enquiry letter in the preparation of the financial statements. In particular, the Audit Committee considered the additional disclosure provided in note 3 to the financial statements of the company's relevant significant judgements, having regard to the company's specific circumstances of NERL's regulatory framework, made in developing an accounting policy based on IFRS 15 by analogy including the basis for referring to the definitions of assets and liabilities in the 2001 Framework and concluding that these are satisfied.

Aquila joint venture

The Committee reviewed the latest projections from the Aquila joint venture of the outlook for its Project Marshall contract. The Committee considered the circumstances and evidence for unavoidable costs which the joint venture faced under its Project Marshall contract, which exceeded the economic benefits it was expected to receive under it. It also reviewed the consequential impact on NATS as a shareholder in the joint venture. The Committee considered the recoverability of the shareholder loan and the carrying value of the group's investment in the joint venture in the context of the joint venture's losses. The Committee challenged the basis for the impairment of the outstanding shareholder loan balance and the likelihood of unavoidable costs being incurred by virtue of Aquila's right to draw up to the limit of the shareholder loan facility of £25m. The Committee concluded that it was appropriate to recognise a share of losses, a liability for the obligation to fund up to the facility limit and an impairment of the outstanding loan to the joint venture at an aggregate of £29.5m, and was satisfied with the disclosure at note 34.

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 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 £6m at 31 March 2024, 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 15%.

Assets in the course of construction

The company holds material balances in assets in the course of construction which reflects the nature of its capital investment programme. Assets are held at cost during development and depreciated when in the location and condition necessary to be capable of operating as intended. The Committee received reports on the process undertaken by management to review the carrying value of these assets and the impairment charge of £19.4m recognised in the year.

Reports from Board Committees

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 previous financial 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 the company's Board approved business plan cash flow projections, which are based on the CAA's NR23 price control, are achievable 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: 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. The Committee evaluated management's judgement in setting a 7.5% RAB premium for fair value less costs of disposal and for the value in use terminal value. This was within the range of 5-10% of an independent professional assessment undertaken in the year which the Committee had reviewed.

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.

Going concern and viability

The Committee also reviewed the evidence supporting the assessments of going concern and viability (see page 19), including the company's March 2024 business plan, the level of available liquidity and the net debt to RAB covenant, the company's long-term forecast for air traffic volumes, the funding position of the defined benefit pension scheme and the recovery over an extended period of the Covid income shortfall determined by the CAA, 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.

Other matters

The Committee received presentations during the year on the work being undertaken to comply with mandatory climate-related financial disclosures and reviewed and commented on the detailed disclosures at page 25.

During the year, the Committee reviewed the half-year financial statements for the period to 30 September 2023, 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 has been reviewed for the current financial year, with the recruitment of a Head of Internal Audit to bolster internal capability and return to the previous co-source model with a blend of internal and external resources.

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, 2nd 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.

Reports from Board Committees

c. External audit

BDO LLP was re-appointed as external auditor on 29 June 2023 for the year ended 31 March 2024. The Committee reviewed the performance and the continuing independence of BDO periodically during the year and at its June 2024 meeting. As explained in last year's annual report, this marks ten years of service for BDO. As a result, in line with the requirements of the Code, the Committee led a mandatory tender for the audit service during the year. The Committee designed its process according to the FRC's best practice guidance for an effective tender process. The Committee considered a range of firms and invited proposals from BDO, two Big-4 firms and another mid-tier firm. The Committee established a Steering Group that included the Chair of the Committee. The Steering Group reviewed the tender proposals and put forward BDO and EY to present to the Committee and the Chair of the Board at its January 2024 meeting. The two firms presented and responded to questions. Following that process, EY was put forward to the Board as the preferred candidate and the Board endorsed this. Each of the bidders received feedback on their proposal and the decisions that had been taken. A resolution to appoint EY as auditor for the financial year ending 31 March 2025 will be put to shareholders.

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 most significant 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 the most significant enterprise risks, risk categories and which strategic objectives they relate to. Each of the 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.

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 remains 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 two further non-executive directors: Mike Campbell and Maria Antoniou. The Committee meets when considered necessary by its members and may invite executives and advisors to attend meetings as appropriate.

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

Main activities of the Committee during the year

The Committee met once during the year to oversee the recruitment of a Chief Operations Officer and a Technical Services Director, both members of the executive management team.

As reported last year the succession search for Chief Operations Officer and Technical Services Director started in 2023. The Committee approved the role profiles and the appointment of Heidrick & Struggles as search agency in 2023, based on their previous experience of delivering similar searches, their knowledge of the industry, and ability to identify diverse candidates.

The Committee considered both long and short-listed candidates prepared by Heidrick & Struggles. Following initial interviews by Martin Rolfe and Alistair Borthwick, further interviews were undertaken by the Chair and Greg Bagwell for the Chief Operations Officer role and by the Chair and Mike Campbell for the Technical Services Director role.

The Committee then reviewed the feedback from the interview process and endorsed the proposed appointments, following which the Remuneration Committee approved appropriate remuneration packages. Kathryn Leahy was appointed Chief Operations Officer on 30 October 2023 and Kuldeep Gharatya as Technical Services Director on 6 November 2023.

The Chair's contract is due to expire on the 31 August 2024. Under the SPA, The Airline Group is entitled to appoint the Chair (subject to final approval of the Secretary of State for Transport). This recruitment process started in January 2023. An external search agency, MWM, was appointed. Members of the Committee assisted The Airline Group with the recruitment process. Warren East was appointed as Chair-designate in February 2024 and will take over as Chair on 1 September 2024.

The Committee's terms of reference require it to give due regard to the benefits of diversity, including gender, on the Board. During the year there were two female directors on the Board, representing 17%. 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 2024.

As a Board, we evaluate the performance of NATS through several different lenses which mirror the perspectives of our various stakeholders. Within the Remuneration Committee, we ensure that a balanced view is reflected appropriately in the pay of the executive team. Performance in this last year has been strong in a number of areas, but not in all.

Safety is always our first priority and the organisation's performance in this sphere has been excellent. Financial performance has continued to improve as traffic volumes have returned to pre-pandemic levels and some of the issues from that period have been resolved.

However, the Committee has been acutely sensitive to the service performance issues resulting from two unconnected issues in the year. To this end, a significant amount of time has been spent reviewing the outturn of the 2023/24 Annual Management Performance Related Pay Scheme (AMPRPS). The Committee felt that the formulaic outcome did not appropriately reflect the overall business context and, while safety was maintained, the experience of the travelling public during the two unconnected service-related issues in the year. Therefore, the Committee exercised discretion, of which the Executive Directors were in agreement, to adjust downwards the outcome on both the company performance outturn and personal performance outturn to take account of the disruption caused by the service-related issues in the year. Further detail regarding the outturn is provided on page 63.

Looking ahead, the Committee also carefully reviewed the metrics to ensure these remain appropriate and sufficiently capture and therefore assess our executive directors on the impact of significant events. The Committee was also mindful of the need to carefully balance the outcome experience of our customers and the travelling public with the incentive outturn for the senior team, and continue to support our ability to attract, retain and develop high calibre talent, ensuring the business remains safe, competitive and innovative.

The next sections highlight the key remuneration decisions made by the Committee over the course of the year.

Other remuneration decisions for 2023/24

- In April 2023, as described in last year's report, the Committee agreed a base salary increase of 6.5% for the CEO and CFO, in line with the increases applied to the wider management team. The pay award was implemented in May 2023 and backdated to 1 April 2023. Market increases for executive teams were often lower than the wider workforce in 2023, however the Committee deemed the same level of award was appropriate given due consideration to individual performance.
- Payment of the second (and final) instalment of the CFO's retention and incentive arrangement in July 2023.
- Overseeing the parameters of the wider management team pay review for 1 April 2023 (management pay had previously been frozen during the Covid period from April 2019 to end December 2021), taking into consideration the level of pay increases seen externally as well as individual performance.
- Approving the final rules and targets to enable granting of the new LTIP plan for executives aligned with the NR23 regulatory period, which includes both financial and ESG related performance conditions.
- Vesting in June 2023 of the second (and final) tranche of the Transitional LTIP, which was awarded in 2021/22 and covered the period 1 April 2021 – 31 March 2023.

Remuneration for 2024/25

For the 2024/25 financial year, the Committee will operate the remuneration policy as set out below. The highlights include:

- Agreeing the executive director and executive team pay awards for 1 April 2024, and overseeing the parameters of the wider management team pay review, with the budget allocation and application carefully taking into consideration external market pay increases, internal pay dynamics and individual performance.
- A revised set of targets for the 2024/25 AMPRPS incentive plan which incorporate measures linked directly to supporting the company strategy, including targets that focus on financial performance and business growth, customer service and ESG related areas such as improving diversity and emissions reduction. There are safety overrides to ensure that no additional reward is delivered to our executives if a safe service is not delivered. Additionally, an underpin on the NERL delay measure linked to significant events has been reinstated since traffic levels have returned to a more predictable level following the Covid recovery period.
- A revised target weighting structure for the NATS Services (NSL) leadership team 2024/25 AMPRPS, ensuring this is fit for purpose in incentivising performance in support of the ambitious NSL business strategy.
- Vesting of the first payment opportunity of the new NR23 LTIP.

Maria Antoniou
Chair of Remuneration Committee

Reports from Board Committees

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 Chair 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 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 executive directors and other members of the executive team;
- exit arrangements for executive directors and other members of the 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 their own remuneration.

Activities in the year

During the 2023/24 financial year, the Committee met four times and its main activities were to:

- Review and approve the executive director and executive team salary increases effective 1 April 2024 and discuss the allocation to apply for the wider management team pay review;
- Review and approve the 2023/24 AMPRPS incentive arrangements (payments due in June 2024);
- Review and approve the 2024/25 AMPRPS targets for executive directors, the executive team and Personal Contract Group;
- Review and approve the final rules and performance targets for the NR23 LTIP;
- Review and approve the vesting of the second tranche of the Transitional LTIP; and
- Conducting the annual review of the Committee's Terms of Reference.

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 2023/24 were £49,750.

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, for example, in having a high degree of public accountability) 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 62 to 65 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 61.

Reports from Board Committees

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 policy table

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

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.	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 for the CEO and 55% of base salary for the CFO.	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 policy table (continued)

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 was based on five strategic priorities which focussed on the ongoing recovery of NATS for the period 1 April 2021 to 31 March 2023. The first tranche of the award vested in June 2023, and the second tranche will vest in June 2024. The NR23 LTIP award, which covers the new five-year regulatory period from 1 January 2023 to 31 December 2027, follows 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 misleading information or assumptions; > the relevant individual has committed serious misconduct; and the employment of the relevant individual could have been or was terminated as a result thereof; > the Company is censured by a regulatory body or suffers a significant detrimental impact on its reputation and the relevant individual was responsible for, or had management oversight over, the actions, omissions or behaviour that gave rise to that censure or detrimental impact; > the Company or entities representing a material proportion of the Group becomes insolvent or otherwise suffers a corporate failure that the relevant individual should be held responsible (in whole or in part) for that insolvency or failure; 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. The provisions of this clause have not been used in the last financial year nor the last five years.

Reports from Board Committees

Service contracts

Executive directors

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

Exit payment policy

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

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

Non-executive directors

Charges for the services of non-executive directors are determined in agreement with the relevant sponsoring body: the DfT in the case of the Partnership directors and The Airline Group (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 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 2024

This part of the directors' remuneration report summarises the emoluments of executive and non-executive directors for the 2023/24 financial year.

Remuneration earned by directors for the year ended 31 March 2024 (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	**2024 £'000**	2023 £'000	**2024 £'000**	2023 £'000	**2024 £'000**	2023 £'000	**2024 £'000**	2023 £'000	**2024 £'000**	2023 £'000	**2024 £'000**	2023 £'000	**2024 £'000**	2023 £'000	**2024 £'000**	2023 £'000	**2024 £'000**	2023 £'000
Chairman																			
Dr Paul Golby CBE	1	**181**	171	**14**	13	**-**	-	**195**	184	**-**	-	**-**	-	-	-	**-**	-	**195**	184
Executive directors																			
Martin Rolfe	2, 3, 4, 5	**508**	477	**14**	14	**76**	72	**598**	563	**106**	281	**-**	-	**459**	555	**565**	836	**1,163**	1,399
Alistair Borthwick	4, 5, 6	**373**	340	**37**	28	**56**	51	**466**	419	**69**	167	**150**	150	**243**	-	**462**	317	**928**	736
Non-executive directors																			
Maria Antoniou		**49**	47	**-**	-	**-**	-	**49**	47	**-**	-	**-**	-	**-**	-	**-**	-	**49**	47
Greg Bagwell	1	**49**	23	**2**	-	**-**	-	**51**	23	**-**	-	**-**	-	**-**	-	**-**	-	**51**	23
Richard Keys	1	**-**	24	**-**	2	**-**	-	**-**	26	**-**	-	**-**	-	**-**	-	**-**	-	**-**	26
Iain McNicoll CB CBE		**-**	24	**-**	-	**-**	-	**-**	24	**-**	-	**-**	-	**-**	-	**-**	-	**-**	24
David Smith	1	**49**	23	**4**	-	**-**	-	**53**	23	**-**	-	**-**	-	**-**	-	**-**	-	**53**	23
Michael Campbell	7	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Dr Harry Bush CB	7	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Gavin Merchant	7	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Hugh McConnellogue	7	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Bart Prudon	7	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Louise Street	7	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Ross Baker	8	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Kathryn Leahy	8	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
		1,209	1,129	**71**	57	**132**	123	**1,412**	1,309	**175**	448	**150**	150	**702**	555	**1,027**	1,153	**2,439**	2,462

*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, Greg Bagwell, David Smith and, in the prior year, to Richard Keys represent the reimbursement of travel costs.
2. Martin Rolfe's 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 2024 sacrificed £10,000 of his salary under the company's salary sacrifice arrangements (2023: nil). These contributions are reported in his salary above. The company did not make any employer contributions.
4. Martin Rolfe and Alistair Borthwick were eligible for the pension cash alternative payment scheme in lieu of employer pension contributions. Under the pension cash alternative payment scheme, Martin Rolfe received £76,265 for the year (2023: £72,132), Alistair Borthwick received £55,913 for the year (2023: £51,300).
5. As explained above, Martin Rolfe and Alistair Borthwick received a payment in June 2023 for fulfilling the performance conditions of the transitional long-term incentive plan (LTIP) for the period 1 April 2021 to 31 March 2023. A final payment under this LTIP is due in June 2024.
6. 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 this financial year in this respect, as well as the prior year, and is included in Other awards. His benefits include a car allowance, medical and dental benefits and reimbursement of work-related travel from Prestwick to London and Hampshire.
7. These directors are appointed by The Airline Group which charged NATS a total of £233,596 (2023: £221,505) for the services of the director.
8. Ross Baker was appointed by LHRA in November 2023, replacing Kathryn Leahy who resigned from the Board in June 2023. Neither Ross nor Kathryn received any fees from NATS for their services.

Reports from Board Committees

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

	Annual base salary		
	Year ended 31 March 2023	Year ended 31 March 2024	% change
Martin Rolfe	£477,405	£508,436	6.5%
Alistair Borthwick	£350,000	£372,750	6.5%
Partnership directors:			
Base fee	£38,000	£40,363	6.2%
Fee for chairs of Board sub-committees	£8,450	£8,970	6.2%
Chair	£170,074	£180,618	6.2%

As discussed in last year's report, a base salary increase of 6.5% was implemented in May 2023 for the CEO and CFO and backdated to 1 April 2023. Increases were agreed by the Committee taking into consideration our annual benchmarking exercise, external pay practice as well as individual performance. The Committee also agreed to an increase to the base fees for non-executives, including the Chair of 6.2%.

Airline Group (AG) appointed directors

AG directors receive no remuneration for their services to the NATS Board. However, a payment of £233,596 for 2023/24 (£221,505 for 2022/23) 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

Alistair Borthwick received the second and final instalment (£150,000) of his retention incentive in June 2023. The Remuneration Committee had 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.

Reports from Board Committees

Annual Management Performance Related Pay Scheme (AMPRPS) incentive for the year ended 31 March 2024 (audited)

The maximum potential award under the AMPRPS for 2023/24 for the CEO was up to 70% of salary and 55% of salary for the CFO. AMPRPS awards are determined based on company performance and personal performance. As set out in the Chair's letter, whilst safety was prioritised throughout the year, the Committee was extremely mindful of the disruption caused by the service-related issues in the year when determining the final outturn.

The Committee recognised that the company's overriding priority for safety was maintained at all times during the two unconnected service performance issues. However, following its review and taking into account the experience of our stakeholders, the Committee decided to exercise downward discretion on both the company and personal performance outturn of the scheme. As a result, for the 2023/24 scheme, the final financial, customer focus and strategic priorities targets (the company element of the scheme weighted at 75% of the maximum opportunity) resulted in an AMPRPS outturn of 13.57% of maximum for executive directors (see table below). This is a significantly reduced company payout compared with previous years (for example, 2022/23: 61.1%).

Financial measures	**Weighting %[1]**	**Threshold (40%)**	**Target (75%)**	**Stretch (100%)**	**Outcome £m**	**Payable %**
NERL Underlying Controllable Operating Costs	26.87%	506	497	470	503.3	13.57%
NSL EBITDA	6.72%	17.2	18.2	22.2	(13.2)	0%
By 2040 - Every airspace user relies on our services	**Weighting %[1]**	**Threshold (20%)**	**Target (50%)**	**Stretch (100%)**	**Outcome (seconds)**	**Payable %**
NERL Average seconds of delay per flight (en route)	11.19%	n/a	9.7	9.1	8.8	*Formulaic outturn payable = 11.19%* **Actual amount payable** (after Committee discretion exercised) = 0%
NSL Average seconds of staffing and engineering delay per arrival (UK airports excluding Gatwick until staffing levels are normalised)	5.60%	2.0	1.8	1.6	2.1	0%
First TATC apprentices have commenced initial training and we have achieved 90 first validations across Operations	11.19%		By end of March 2024		73 first validations	0%

By 2040 - We will be carbon negative	**Weighting %[1]**	**Target date**	**Outcome**	**Payable %**
To achieve a target 3Di score of 27.59 or below	7.84%	By end December 2023	28.3	0%
By 2040 - We will be a Top 25 UK Company to work for	**Weighting %[1]**	**Target date**	**Outcome**	**Payable %**
Achieve a 50:50 gender diversity for new recruits to the business	5.60%	By end March 2024	32% female	0%

[1]These weightings were revised mid-year following the withdrawal of a ninth measure that assessed the CAA Singapore (Changi) tender, as the timescales for the tender process have been moved by the customer. The weighting on this measure was proportionately spread across the remaining measures.

Reports from Board Committees

Annual Management Performance Related Pay Scheme (AMPRPS) incentive for the year ended 31 March 2024 (audited) (continued)

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, bad debt, bonus scheme costs, changes in accounting treatment for above the line tax credits and CAAPS costs charged directly to NATS.

NSL's EBITDA was 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, bad debt, bonus scheme costs, 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.

As indicated in the table above, the NERL service performance target would have paid out in a formulaic sense as the average seconds of delay per flight over the year was 8.8 seconds. However, as discussed, the Remuneration Committee exercised downward discretion, of which the Executive Directors were in agreement, to apply a zero payout on this element, reflecting the experience for customers and the travelling public during the two unconnected service performance issues in the year.

With regards to validations, as indicated in the table above, the target set at the beginning of the year was for 90 first validations. However, to maximise operational resilience, the business prioritised extension validations over first validations during the year (achieving the highest combined total for the last 5 years). As a result, the validations target as originally set was not met. Whilst it was recognised by the Committee that management's actions were in the best interests of the company and delivered greater service flexibility, the Committee did not feel it was appropriate to consider any positive discretion on this element.

Personal performance (weighted at 25% of the maximum opportunity) was assessed against objectives that covered areas including, but not limited to, the conclusion of the NR23 regulatory process, recruitment and validation of new operational staff across centres and airports, and progress towards integrating new users into our airspace. Measurement is based on the NATS Personal Performance Rating System, however, as described above the Remuneration Committee exercised downward discretion in reducing the personal performance rating percentage for executive directors, reflecting the experience for customers and the travelling public during the two unconnected service performance issues. The personal performance outturn for the executive directors was originally 18.75% for the CEO and 22.5% for the CFO. Following the Committee's application of downward discretion, the final personal performance outturn was 16.25% for the CEO and 20% for the CFO. An overall summary table is provided below:

		Company performance element % payable		Personal performance element % payable		
Director	Opportunity (% of salary)	Formulaic outturn	Final outturn following exercise of discretion	Original outturn	Final outturn following exercise of discretion	Total AMPRPS payable June 2024 (£)
Martin Rolfe	70%	24.76% out of 75%	13.57% out of 75%	18.75% out of 25%	16.25% out of 25%	106,122
Alistair Borthwick	55%	24.76% out of 75%	13.57% out of 75%	22.5% out of 25%	20% out of 25%	68,818

Reports from Board Committees

Long-term incentive payments

LTIP arrangements are standard components of executive remuneration practice and are established for executive directors and other members of the executive team 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, the latter has been applied for the new NR23 LTIP described on page 68. 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)

In June 2023, the first tranche of the Transitional LTIP award vested following the Committee's assessment of performance which was measured over the period 1 April 2021 to 31 March 2023. As disclosed last year, performance under the Transitional LTIP award 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 were:

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%	Complete[1]	20%
Gain a NERL licence extension from 10 - 15 years	15%	Complete	15%
Successful Gatwick transition by October 2022, with five months of successful operation	15%	Complete	15%

[1] 1An interim assessment was reported in the 2022/23 report. Following conclusion of the NR23 settlement, the Committee agreed the final performance assessment of 100%. This was applied to the vesting amounts in June 2024 and meant an adjustment was required to top up the previous vesting amount in June 2023.

Since the two vesting dates for this LTIP are in June 2023 and June 2024, the equivalent vesting amounts have been and will be included in the single figure table in this report and the 2024/25 director's remuneration reports respectively; this is in line with the Company's decision going forward to move to reporting LTIP figures when they are paid (vest) rather than when the performance period ends (discussed further on page 68).

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 the legacy 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.

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. 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).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 2022/23 when HMRC approved a share valuation and there have been subsequent valuations since. Nigel previously exercised his Cycle 6 awards and these have been disclosed accordingly in the relevant years. For his outstanding Cycle 7 award, following the latest share valuation, a Total Shareholder Return value was confirmed as £7.37 per share. Nigel exercised his right to tranche A of Cycle 7 of the award, amounting to £117,898 which was paid in March 2024. Cycle 7 tranche B and C shares remain un-exercised, and Nigel has two remaining windows upon which to do this in July 2024 and January 2025 respectively.

Payments for loss of office

There were no payments made for loss of office during the financial year.

Reports from Board Committees

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 six years.

Date	Method of calculation adopted	25th percentile pay ratio (Chief Executive: UK employees)	50th percentile 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
April 2024	Option A	15:1	11:1	7:1

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

Percentile	Base salary (£'000)	Total Remuneration (£'000)	Ratio of CEO total remuneration to percentile
25th	65	76	15
50th	88	108	11
75th	129	162	7
CEO	508	1,163	1

The 25th, 50th 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 50th percentile 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.

Financial years ended 31 March	2020		2021	2022	2023	2024
Earned for the year (£'000s)	2,047		535	713	1,399	1,163
AMPRPS (% of maximum entitlement)	86.0%		0%	50%	83.6%[1]	29.8%
LTIP (% of maximum entitlement)	Cycle 7 71.7%	RP2 100%	n/a	n/a	100%[2]	100%[3]

[1]Updated to reflect total combined outturn value i.e., including the personal element, as reported last year.

[2]As discussed on page 65, the 2023 value has been updated in this report to reflect the final performance assessment agreed by the Committee.

[3]As discussed on page 65, this relates to the Transitional LTIP which had a performance period that ended on 31 March 2023.

Reports from Board Committees

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 price of an employee share is currently valued by HMRC at £5.45 per share which applies for the period 1 January 2024 to 30 June 2024. Details of the shares held by directors during the year are set out below.

		Indicative share value	
Director	Total holding (no. of shares)	At 31 March 2024 (£5.45 per share)	At 31 March 2023 (£3.70 per share)
Martin Rolfe	1,024	5,581	3,789

There were no dividend payments or awards of employee shares made during the 2023/24 financial year. In March 2024, employees, including executive directors, were offered the option to participate in an award of 250 partnership shares at fair value (being the lower of the share price at the start of the accumulation period of £5.45 and the end of the accumulation period) by deductions from gross salary over a six-month accumulation period ending August 2024. Participants will also receive one free matching share for every partnership share purchased. The CEO is participating in this offer.

Implementation of the remuneration policy for the year ending 31 March 2025

This part of the directors' remuneration report sets out how the remuneration policy will be applied for the financial year ending 31 March 2025.

Executive directors

Base salaries

	Annual base salary (effective from 1 April)		
Director	2023	2024	% change
Martin Rolfe, CEO	£508,436	£528,774	4%
Alistair Borthwick, CFO	£372,750	£391,388	5%

Base salaries for Martin Rolfe and Alistair Borthwick have increased by 4% and 5% respectively, effective from 1 April 2024. Increases were agreed by the Committee taking into consideration our annual benchmarking exercise and individual performance; the CEO and CFO awards are below those of the wider 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.

Reports from Board Committees

Annual incentive scheme

An AMPRPS award will be in place for 2024/25, with the following opportunity levels:

- CEO – 70% of base salary.
- CFO – 55% of base salary.

Performance measures will continue to be aligned to the company strategy and will include financial, service performance and ESG related measures (combined weighting of 75%), as well as personal performance measures (25% weighting). The 2024/25 scheme also incorporates a return of an underpin in relation to NERL delay performance, (C4), where no payment on this element will be possible should a significant event occur in the year that exceeds the defined points score.

Long-term incentive plan (LTIP)

A new LTIP award (the NR23 LTIP) was approved by the Remuneration Committee aligned to the new five year regulatory period beginning 1 January 2023. The final performance conditions were approved in March 2024, which enabled the plan to be formally granted in April 2024.

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)	Target (60% Vesting of Payment Opportunity)	Stretch (100% Vesting of Payment Opportunity)	Weighting (% of maximum of Payment Opportunity)
NERL Regulatory Return[1]	2.55%	3.19%	3.83%	60%
NSL Profitable Revenue Growth[2]	£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[3] (scope 1 and 2)	Reduction of 41% - 46.9%	Reduction of 47% - 52.9%	Reduction of 53% or more	10%
CDP Score – Climate Change[4]	To achieve and maintain an A- rating throughout the Performance Period			5%

[1] The target values have been updated since the 2022/23 report to reflect the final NR23 regulatory settlement.
[2] With straight-line vesting between Threshold and Stretch.
[3] With straight-line vesting between Threshold and Target and straight-line vesting between Target and Stretch.
[4] This Performance Condition is binary; either the CDP rating has been achieved and maintained (100% vesting) or not been achieved (0% vesting).

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

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.

Chair

The current Chair will be in position until 31 August 2024, having served in the role for the last ten years. There is no further salary increase due for the final period of his appointment.

A new Chair has been appointed and will be in position from 1 September 2024. The agreed base fee will be £188,240, with no further review due for the three-year contract duration.

Partnership directors

Fees with effect from 1 April 2024	2023	2024	% change
Base fee	£40,363	£41,980	4%
Fee for chairs of Board sub-committees *	£8,970	£9,330	4%

*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 2024 would increase to £243,205.

LHR Airports (LHRA) appointed director

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

Maria Antoniou
Chair of the Remuneration Committee

Reports from Board Committees

Safety Review Committee report

The role of the Safety Review Committee

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

> Monitor and review the effectiveness of the safety and security arrangements in place in the Group;

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

> Review the Group's safety performance;

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

> Monitor the implementation of safety enhancement programmes; and

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

The Committee is chaired by Greg Bagwell with two other non-executive director members Louise Street and Bart Prudon. 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.

At least two of the following four members of NATS Executive team are required to attend routine meetings: the CEO, Safety and Sustainability Director, Chief Operations Officer 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 ATCO resourcing, training bottlenecks as well as licence recognition options to help ensure there are no ATCO shortages in the next ten years.

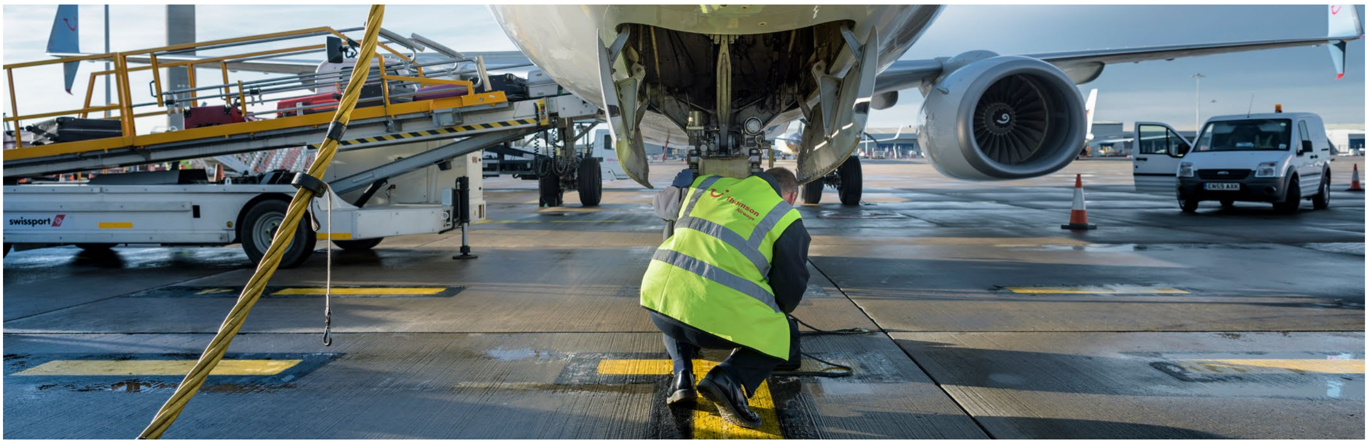
> Safety performance

The SRC carefully monitors the group's safety performance and progress towards its targets. The NR23 reporting period (2023 to 2027) commenced with a new set of NR23 safety performance targets approved by the SRC in 2022. Despite a 12% rise in traffic in the 2023 calendar year compared to the 2022 calendar year, NATS has exceeded all safety performance targets and reported the strongest annual NATS RAT rate since the RAT scheme was adopted in 2015. In addition to the main targets, NATS continues to have a strong reporting rate and had the lowest rate of Runway Incursions compared to all previous years going back to 2015.

> Safety risk management

SRC continues to steer NATS to be more forward-looking and focused on risks on the horizon as well as in current operations. NATS has provided an overview of the residual risks with a view to delve further into specific risks in 2024. The Committee regularly reviewed information on safety occurrences along with recommendations and updates on serious events. A deep dive into Level Busts (an unauthorised vertical deviation of more than 300 feet from the level set by ATC) was brought to CAA's attention during CAA's regular attendance at the SRC meeting to highlight the concerning trend in the aviation sector.

With the rising traffic levels, the committee was seeking assurance that NATS was effectively managing its risks. Focus topics discussed included: level busts; a drone study; runway excursions; compliance monitoring; ATCO licensing, ATCO training currency and competence; infringements of military areas; and airspace infringements. Current progress with the issues and future plans for improvements were studied and challenged for each topic.



Reports from Board Committees

Safety Review Committee report (continued)

The role of the Safety Review Committee

> Safety workshops

A safety workshop in 2023 provided the SRC with an update on the NATS Safety Risk Profile to inform the members of current NATS Safety Risk Management principles and practices including a demonstration of how data is monitored and utilised to support NATS' ATC Accident Risk.

> Safety culture

The NATS Safety Culture Survey was conducted in March 2023 over a five-week period. There was an 83% response rate with over 80% favourable responses which compares well with most other ANSPs which report an average of 40 to 50% favourable responses. A review of the 4,000 free-form comments have been distilled into three common themes – fatigue, resourcing and 'safety behaviours'.

> Physical and personnel security

External threat and incident management:

Penetration testing in Autumn 2022 indicated there was an overall good deterrent effect at both Swanwick and Prestwick sites with a satisfactory level of physical protection. The Committee discussed the potential for environmental protestors and NATS provided assurance that contingency plans were in place.

NATS security procedures were robust following the technical incident of 28 August and the increased media attention as well individuals who visited national security sites attempting to cause disruption. The security staff had been trained to deal with such incidents and dealt with matters professionally.

Insider threat activities

Insider threat risks are regularly considered with a positive level of referrals from colleagues, which enables a review of indicators of behaviour. 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.

The overall security risk had heightened during 2023 given the geopolitical environment. 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 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;
- Chief Operations Officer;
- Managing Director, NATS Services;
- Safety and Sustainability Director;
- General Counsel; and
- Human Resources Director.

During the year the Committee took advice from Paul Taylor, special adviser to the Committee who attended meetings by standing invitation.

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 financial year, the following have been the key areas of focus by the Committee:

28 August technical incident

On 28 August 2023, NERL experienced a failure of the automated flight planning system which resulted in significant operational impact. The failure was triggered by a flight plan with a unique set of attributes being fed into the automated flight planning system, resulting in the system going into maintenance mode. While the incident was managed safely, there was significant impact to customers and heightened media attention. Since the incident, there has been considerable focus on applying lessons learned and minimising the probability of a similar incident reoccurring. Threads of activity have included:

- Ongoing prioritisation of safety;
- Software changes made within 21 days to prevent the unique combination of six attributes causing the exception, to ensure no reoccurrence of a similar incident;
- New procedures to reduce the impact should a similar incident occur, including supplier contact;
- Enhancements to the command and control structure, its supporting technology, training, decision-making escalation and processes;
- Improved customer communication, including pre-warning and post-incident support;
- Review of media response during and following the incident.

Alongside the applying of lessons learned, NERL has been assisting the CAA Independent Review Panel with their enquiries. NATS supports the Panel's suggestion of a multi-agency rehearsal of the management of an incident of this nature and scale, which is best practice in other sectors. The CEO and the Chief Operations Officer assured the Transport Select Committee that NATS would take the lead on this.

The TRC has provided oversight of the learning from the incident, offered counsel and feedback in the preparations of the investigation, both for the internal major incident investigation and the CAA's independent review.

Reports from Board Committees

Transformation Review Committee report (continued)

Portfolio Reprioritisation

The technology transformation programme was reviewed in the year to ensure that delivery priorities were being set appropriately, as newer technologies were taking longer to implement than the portfolio plan assumed. In part this reflected the resourcing challenges faced by the portfolio and reliance on the same resources for delivery of different programmes.

The portfolio's delivery priority was determined to be safety and service resilience activities, followed by future improvements and airspace change.

The review also established three areas of focus for portfolio deliverability:

- Prioritisation of demand using a consistent assessment criteria;
- Improvement in delivery capability by addressing resource constrained activities;
- Strengthen the portfolio oversight with appropriate controls and governance.

The Committee were consulted on the change in the portfolio prioritisation and provided input to management informed by insights from its independent advisor.

The reprioritisation of the portfolio sits alongside the regular review and focus on system resilience, which determines critical sustainment activities. The Committee will continue to oversee the direction of the portfolio and the progress for its delivery.

DP En Route (DPER)

Linked closely with the requirement for the portfolio prioritisation activity, the DPER programme has experienced some schedule challenges. The primary cause of delays has been the increased demand for critical resources across the portfolio which, alongside the focus on minimising operational risk during the summer, has impacted delivery timescales.

The TRC has continued to review the DPER programme progress at each meeting over the last year to provide Board-level oversight.

Airspace Change

Progress of the planned airspace changes has also been monitored by the Committee, with particular focus on the Scottish, Manchester and London terminal manoeuvring areas.

The Committee also considered NATS' input to the proposal by the DfT and the CAA to establish a Single Design Entity (SDE) as the body responsible for all design work needed to deliver airspace change and modernisation across the UK in the future. The SDE would strengthen the delivery model and address the challenge of coordinating multiple stakeholders on airspace design.

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

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. 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.

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 2024.

The Governance report set out on pages 40 to 73 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 (2023: nil). The Board recommends a final dividend for the year of nil (2023: nil).

Directors and their interests

The directors of the company at the date of this report are set out on pages 40 to 43. Changes in the Board during the year and to the date of this report as explained on page 45.

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 67.

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 wellbeing 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 hosts a quarterly executive open session for the whole organisation and a separate quarterly update for the wider management team. The CEO also hosts a monthly call with his senior leadership team. His weekly written update on the company's intranet has a 75% readership. 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 March 2023 and its feedback is shaping 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 and Sustainability Director.

Business relationships

We explain on pages 35 to 38 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 page 19.

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

Following the mandatory re-tender of the audit explained in the Audit Committee's report, the Board has resolved to appoint EY as statutory auditor for the financial year ending 31 March 2025.

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

Richard Churchill-Coleman
Secretary
27 June 2024

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

Registered in England and Wales
Company No. 04138218

Financial Statements

Annual Report and Accounts 2024

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 2024 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 2024 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 material accounting policy information. 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 2024 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 10 years, covering the years ended 31 March 2015 to 31 March 2024. 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 the 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 2024 through to at least June 2025.
- 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

Conclusions relating to going concern (continued)

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's 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 voluntary 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% (2023: 99%) of Group profit before tax
- 99% (2023: 99%) of Group revenue
- 99% (2023: 99%) of Group total assets

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

Key audit matters

	2024	2023
Recognition of licence fee revenue and amounts recoverable under regulatory agreement	No	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

In respect of the recognition of licence fee revenue and amounts recoverable under regulatory agreement, following the CAA publishing their final determination of the licence fee in November 2023 the level of estimation and judgement in this area has reduced. Accordingly, this is no longer considered a key audit matter.

Materiality

Group financial statements as a whole

£13.7m based on 5.0% of adjusted profit before tax (2023: £6.8m based on 0.9% of operating costs).Profit before tax was adjusted for the COVID income shortfall of £123.2m and the impairment of loan to joint venture of £18.8m and provision for the related undrawn loan facility of £6.2m (see note 34), which are one off items.

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 Recognition of licence fee revenue and amounts recoverable under regulatory agreement 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.

Climate change

Our work on the assessment of potential impacts of climate-related risks on the Group's operations and financial statements included:

- Enquiries and challenge of management to understand the actions they have taken to identify climate-related risks and their potential impacts on the financial statements and adequately disclose climate-related risks within the annual report;
- Our own qualitative risk assessment taking into consideration the sector in which the Group operates and how climate change affects this particular sector;
- Review of the minutes of Board and Audit Committee meetings and any other relevant party and other papers related to climate change and performed a risk assessment as to how the impact of the Group's commitment as set out in the Climate-related Financial Disclosures on pages 25 to 34 may affect the financial statements and our audit.

We challenged the extent to which climate-related considerations, including the expected cash flows from the initiatives and commitments have been reflected, where appropriate, in the Directors' going concern assessment.

We also assessed the consistency of management's Climate-related Financial Disclosures included as Statutory Other Information on pages 25 to 34 with the financial statements and with our knowledge obtained from the audit.

Based on our risk assessment procedures, we did not identify there to be any Key Audit Matters materially impacted by climate-related risks.

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

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.

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 £383.9m (2023: £420.6m) and within property, plant and equipment is £148.3m (2023: £181.8m). 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 fixed assets and checking the appropriateness of their conclusions through discussions with project managers, outside of the group finance team, to gain an understanding of the capital projects. > Testing a sample of capitalised projects that included verifying the appropriateness of the labour rates being used and the amount of labour time being capitalised per project to supporting payroll information. > In considering the feasibility of individual projects we held discussions with 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 £3,371.1m (2023: £3,486.0m) 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 £3,384.6m (2023: £3,544.7m) 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 £370.1m (2023: £362.4m) 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.

	Group financial statements		Parent company financial statements	
	2024	**2023**	**2024**	**2023**
Materiality	£13.7m	£6.8m	£2.8m	£2.8m
Basis for determining materiality	5.0% of adjusted profit before tax	0.9% of operating costs	2% of total assets	2% of total assets
Rationale for the benchmark applied	In November 2023 the CAA published their final licence fee entitlement decision in respect of both the price control period being calendar years 2020 to 2022 and the next price control period from 1 January 2023 – 31 December 2027. As a result of this certainty regarding the licence fee and return to the pre-COVID-19 regulatory framework we now consider adjusted profit before tax to be the most appropriate measure on which to base materiality. Profit before tax was adjusted for the COVID income shortfall of £123.2m, the impairment of loan to joint venture of £18.8m and provision for the related undrawn loan facility of £6.2m (see note 34), which are one off items.	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.	This was considered the most appropriate benchmark as the Parent Company does not trade.	
Performance materiality	£10.3m	£5.1m	£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 20% and 90% (2023: 29% and 86%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £2.8m to £12.6m (2023: £1.7m to £5.4m). In the audit of each component, we further applied performance materiality levels of 75% (2023: 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 £274,000 (2023: £136,000). 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 19; 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 19.

Other Code provisions

> Directors' statement on fair, balanced and understandable as set out on page 74;

> Board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out on page 20;

> The section of the annual report that describes the review of effectiveness of risk management and internal control systems as set out on page 52; and

> The section describing the work of the audit committee as set out on page 49.

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

Based on:

> Our understanding of the Group and the industry in which it operates;

> Discussion with management, those charged with governance and the Audit Committee; and

> Obtaining and understanding of the Group's policies and procedures regarding compliance with laws and regulations.

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.

The Group is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be Single European Sky (SES) legislation, the Bribery Act and the Data Protection Act.

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

Auditor's responsibilities for the audit of the financial statements (continued)

Non-compliance with laws and regulations (continued)

Our procedures in respect of the above included:

> Enquiries of management, those charged with governance and the Audit Committee regarding any non-compliance with laws and regulations;

> Review of minutes of meetings of those charged with governance for any instances of non-compliance with laws and regulations;

> Review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;

> Review of legal confirmation letter responses obtained from the Group's key legal advisors;

> Review of financial statement disclosures and agreeing to supporting documentation;

> Involvement of tax specialists in the audit; and

> Review of legal expenditure accounts to understand the nature of expenditure incurred.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

> Enquiry with management, those charged with governance and the Audit Committee, regarding any known or suspected instances of fraud;

> Obtaining an understanding of the Group's policies and procedures relating to:

>> Detecting and responding to the risks of fraud; and

>> Internal controls established to mitigate risks related to fraud.

> Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;

> Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;

> Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and

> Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the areas most susceptible to fraud to be management override of controls and revenue recognition.

Our procedures in response to the above included:

> Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation;

> Testing a sample of journal entries posted as part of the financial statement preparation and consolidation process;

> Performing testing to identify journal entries impacting revenue which did not follow the expected business process; and

> Assessing significant assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to 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

27 June 2024

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	2024 £m	2023 £m
Revenue from contracts with customers	4	**1,041.8**	863.6
Regulatory allowances under-recovered	4	**136.5**	41.0
Other revenue	4	**10.7**	25.4
Total revenue and regulatory allowances		**1,189.0**	930.0
Staff costs	7	**(495.5)**	(485.9)
Services and materials		**(86.2)**	(81.8)
Repairs and maintenance		**(53.8)**	(45.5)
External research and development		**(0.8)**	(0.7)
Depreciation, amortisation and impairment of property, plant, equipment, intangible and right-of-use assets	6	**(124.2)**	(104.3)
Goodwill impairment	6, 12	**-**	(2.9)
Change in expected credit losses	17	**-**	0.8
Other operating charges		**(51.8)**	(39.2)
Other operating income		**7.7**	3.2
Loss on disposal of non-current assets		**(0.2)**	(0.2)
Deferred grants released	6	**0.4**	0.6
Net operating costs		**(804.4)**	(755.9)
Operating profit	6	**384.6**	174.1
Profit on disposal of joint venture		**-**	1.3
Share of results of associate and joint ventures	34	**(9.5)**	2.0
Impairment of loan to joint venture	34	**(18.8)**	-
Investment income	8	**54.4**	28.4
Fair value movement on financial instruments	9	**(13.7)**	(27.1)
Finance costs	10	**(25.5)**	(30.2)
Profit before tax		**371.5**	148.5
Tax	11	**(94.0)**	(32.3)
Profit for the year attributable to equity shareholders		**277.5**	116.2

Consolidated statement of comprehensive income

For the year ended 31 March

	Notes	2024 £m	2023 £m
Profit for the year after tax		**277.5**	116.2
Items that will not be reclassified subsequently to profit and loss:			
Actuarial loss on defined benefit pension scheme	32	**(146.7)**	(302.9)
Deferred tax relating to actuarial loss on defined benefit pension scheme	24	**11.4**	67.8
Current tax relating to actuarial loss on defined benefit pension scheme	11	**25.3**	3.7
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of hedging derivatives		**(1.7)**	2.6
Transfer to income statement on cash flow hedges		**0.2**	(1.0)
Exchange differences arising on translation of foreign operations		**(0.2)**	2.2
Currency translation differences arising on consolidation of equity accounted foreign operations	34	**(0.1)**	0.1
Deferred tax relating to items that may be reclassified subsequently	24	**0.4**	(0.3)
Other comprehensive loss for the year, net of tax		**(111.4)**	(227.8)
Total comprehensive income/(loss) for the year attributable to equity shareholders		**166.1**	(111.6)

Consolidated balance sheet

At 31 March

	Notes	2024 £m	2023 £m
Assets			
Non-current assets			
Goodwill	12	**42.6**	42.7
Other intangible assets	13	**706.5**	691.8
Property, plant and equipment	14	**403.1**	422.7
Right-of-use assets	15	**36.4**	37.7
Investment	16	**24.3**	29.7
Interests in associate and joint ventures	34	**3.5**	7.4
Loans to joint ventures	34	**-**	8.8
Retirement benefit asset	32	**13.5**	58.7
Trade and other receivables	17	**15.3**	15.1
Amounts recoverable under regulatory agreement	17	**575.3**	631.1
Derivative financial instruments	20	**0.1**	1.5
		1,820.6	1,947.2
Current assets			
Trade and other receivables	17	**210.5**	188.2
Amounts recoverable under regulatory agreement	17	**223.7**	100.1
Current tax assets		**14.4**	1.7
Cash and cash equivalents	21	**166.2**	160.2
Derivative financial instruments	20	**2.0**	1.6
		616.8	451.8
Total assets		**2,437.4**	2,399.0
Current liabilities			
Trade and other payables	22	**(163.5)**	(162.6)
Amounts payable under regulatory agreement	22	**(9.3)**	(91.4)
Borrowings	18	**(104.0)**	(45.0)
Lease liabilities	19	**(6.8)**	(8.0)
Provisions	23	**(4.4)**	(2.4)
Derivative financial instruments	20	**(13.9)**	(12.7)
		(301.9)	(322.1)
Net current assets		**314.9**	129.7
Non-current liabilities			
Trade and other payables	22	**(82.7)**	(84.6)
Amounts payable under regulatory agreement	22	**(45.5)**	(50.2)
Borrowings	18	**(760.9)**	(866.4)
Lease liabilities	19	**(39.9)**	(44.4)
Deferred tax liability	24	**(205.5)**	(197.9)
Provisions	23	**(18.0)**	(14.2)
Derivative financial instruments	20	**(68.2)**	(70.5)
		(1,220.7)	(1,328.2)
Total liabilities		**(1,522.6)**	(1,650.3)
Net assets		**914.8**	748.7
Equity			
Called up share capital	25	**140.6**	140.6
Share premium account	26	**0.4**	0.4
Other reserves	27	**(32.6)**	(31.2)
Retained earnings		**806.3**	638.8
Equity attributable to the shareholders		**914.7**	748.6
Non-controlling interest	28	**0.1**	0.1
Total equity		**914.8**	748.7

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 27 June 2024 and signed on its behalf by:

Paul Golby
Chairman

Alistair Borthwick
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 March

	Equity attributable to equity holders of the group						
	Share capital £m	Share premium account £m	Other reserves (note 27) £m	Retained earnings £m	Sub-total £m	Non-controlling interest £m	Total equity £m
At 1 April 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**
At 1 April 2023	**140.6**	**0.4**	**(31.2)**	**638.8**	**748.6**	**0.1**	**748.7**
Profit for the year	-	-	-	277.5	277.5	-	277.5
Other comprehensive loss for the year	-	-	(1.4)	(110.0)	(111.4)	-	(111.4)
Total comprehensive (loss)/income for the year	**-**	**-**	**(1.4)**	**167.5**	**166.1**	**-**	**166.1**
At 31 March 2024	**140.6**	**0.4**	**(32.6)**	**806.3**	**914.7**	**0.1**	**914.8**

Consolidated cash flow statement

For the year ended 31 March

	Notes	2024 £m	2023 £m
Cash flows from operating activities			
Cash generated from operations	29	**255.5**	187.5
Tax paid		**(55.4)**	(4.0)
Net cash generated from operating activities		**200.1**	183.5
Cash flows from investing activities			
Interest received on short-term investments		**8.4**	3.0
Purchase of property, plant and equipment and other intangible assets		**(111.8)**	(118.8)
Proceeds on disposal of joint venture		**-**	1.4
Dividends received from joint venture and associate		**0.5**	2.7
Loans to joint ventures	34	**(12.4)**	(12.5)
Repayments of loans to joint ventures	34	**3.0**	12.0
Net cash outflow from investing activities		**(112.3)**	(112.2)
Cash flows from financing activities			
Interest paid		**(2.8)**	(19.1)
Interest received on derivative financial instruments		**8.5**	7.3
New bonds issued		**-**	105.5
Bond arrangement fees		**-**	(1.3)
Drawdown of bank loan under the £400m revolving facility		**-**	40.0
Repayment of bank loan under the £400m revolving facility		**(65.0)**	(175.0)
Principal paid on lease liabilities		**(10.1)**	(6.9)
Interest paid on lease liabilities		**(1.1)**	(1.4)
Index-linked swaps payments		**(10.8)**	(8.0)
Bank facility fees		**(0.4)**	(0.4)
Net cash outflow from financing activities		**(81.7)**	(59.3)
Increase in cash and cash equivalents during the year		**6.1**	12.0
Cash and cash equivalents at 1 April		**160.2**	148.0
Exchange (losses)/gains on cash and cash equivalents		**(0.1)**	0.2
Cash and cash equivalents at 31 March		**166.2**	160.2
Net debt (representing borrowings and lease liabilities, net of cash and cash equivalents (see notes 21 and 29))		**(745.4)**	(803.6)

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 75. 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 above.

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 the 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.

At 31 March 2024, the group had access to liquidity of £566m comprising cash of £166.2m and undrawn committed bank facilities of £400.0m. At 27 June 2024, the group had access to cash and undrawn bank facilities of around £540m.

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 28 June 2025, 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 20 to 22.

The severe traffic volume scenarios modelled were: an immediate 15% reduction in air traffic volumes for a 12-month period, as a proxy for a traffic shock such as a major geopolitical incident and subsequent recession, being the most severe traffic scenario; a low case internal traffic forecast of 5.9% fewer flights than the NR23 decision assumed; a 20% loss of airport contract income from smaller airports in our portfolio, in the event of the financial collapse of an airport; an unplanned increase in operating costs; an increase in the financial support provided to our investments and unremunerated increases in defined benefit pension contributions. Finally, a combination scenario was also performed of lower air traffic volumes, higher operating costs and higher pension contributions. Under the most severe scenario the group maintains adequate liquidity (of £330m) and headroom (NERL gearing at 51%) 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 reductions in traffic volumes and significant unplanned expenditure. 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:

> IFRS 17: *Insurance Contracts,* effective 1 January 2023 sets out the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard.

> IAS 1 (amendments): *Disclosure of Accounting Policies,* effective 1 January 2023 requires an entity to disclose their material rather than their significant accounting policies.

> IAS 8 (amendments): *Definition of Accounting Estimates,* effective 1 January 2023 clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates.

> IAS 12 (amendments): *Deferred tax related to Assets and Liabilities arising from a Single Transaction,* effective 1 January 2023 requires companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences, and will require the recognition of additional deferred tax assets and liabilities.

> IAS 12 (amendments): *OECD Pillar Two Rules,* effective immediately require large multinational enterprises within the scope of the rules to calculate their GloBE (Global Anti-Base Erosion Proposal) effective tax rate for each jurisdiction in which they operate. They will be liable to pay a top-up tax for the difference between their GloBE effective tax rate per jurisdiction and the 15% minimum rate.

Notes forming part of the consolidated accounts

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): *Classification of Liabilities as Current or Non-Current* (effective on or after 1 January 2024)
- IAS 1 (amendments): *Classification of Non-Current Liabilities with Covenants* (effective on or after 1 January 2024)
- IFRS 16 (amendments): *Lease Liability in a Sale and Leaseback* (effective on or after 1 January 2024)
- IAS 7 and IFRS 7 (amendments): *Supplier Finance Arrangements* (effective on or after 1 January 2024)
- IAS 21 (amendments): *Lack of exchangeability* (effective on or after 1 January 2025)
- IFRS 18: *Presentation and Disclosures in Financial Statements* (effective on or after 1 January 2027)
- IFRS 19: *Subsidiaries without Public Accountability: Disclosures* (effective on or after 1 January 2027)

The group is currently assessing the impact of these new accounting standards and amendments.

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

Basis of consolidation

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

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

Revenue recognition

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

Airspace

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

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

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.

Notes forming part of the consolidated accounts

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.

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.

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, following the CAA's November 2023 decision on the retrospective reconciliation of NERL's flight income and costs during Covid, the amount of revenue and regulatory allowances to which NERL plc is entitled for the period from 1 January 2020 to 31 December 2022 are realised profits.

Notes forming part of the consolidated accounts

Operating segments

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

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

Operating profit

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

Goodwill (see note 3)

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. For goodwill held by NERL, which was recognised following the public private partnership transaction, fair value less costs of disposal is assessed by reference to the RAB of the economically regulated activities and costs of disposal. For goodwill acquired in a business combination, fair value reflects market transactions for similar assets. In assessing value in use, the estimated future cash flows (with a terminal value, as a proxy for future cash flows, which for NERL represents the RAB) are discounted to their present value using 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 7.5% was determined for 2024 (2023: 5%), reflecting market precedent transactions and an independent assessment undertaken in 2024 - 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 to be 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.

Notes forming part of the consolidated accounts

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.

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

Leases

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

> the lessee has the use of an identified asset, which entitles it to the right to obtain substantially all of the economic benefits that arise from the use of the asset; and

> the lessee has the right to direct the use of the asset, either through the right to operate the asset or by predetermining how the asset is used.

Measurement at inception

At the lease commencement date the lessee will recognise:

> a lease liability representing its obligation to make lease payments; and

> an asset representing its right to use the underlying leased asset (a right-of-use asset).

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

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

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

Ongoing measurement

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

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 discount rate applicable on the modification date. 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 and low-value 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.

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. When 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. 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.

Notes forming part of the consolidated accounts

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 the currency of the primary economic environment in which they operate (their "functional currency"), 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, at the earlier of the date the defined benefit scheme is amended or any associated restructuring cost is recognised to the extent that the benefits are already vested.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories, 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.

Notes forming part of the consolidated accounts

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, 12 month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

Cash and cash equivalents

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

Financial liabilities

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

Fair value through the profit or loss

Financial liabilities at fair value through 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.

Notes forming part of the consolidated accounts

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.

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.

3. Critical judgements and key sources of estimation uncertainty

When preparing financial statements management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses during the reporting period. Actual outcomes in future could differ from these estimates. Information about those estimates and assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are explained below.

Recognition of regulatory assets and liabilities (see notes 17 and 22)

There is no IFRS currently that specifically applies to the recognition of regulatory assets and liabilities that arise under NERL's regulatory agreement, though the IASB is developing such a standard (see below). Accordingly the company has made significant judgements in developing and applying an accounting policy for the recognition of amounts recoverable and payable under the regulatory agreement which provides information that is relevant to the decision-making needs of users of the financial statements and is reliable in representing faithfully the financial position, financial performance and cash flows of the company and reflects the economic substance of NERL's specific regulatory framework.

In developing an appropriate accounting policy the company has referred to, and considered the applicability of, first the requirements in IFRSs dealing with similar and related issues and second, as the company does not apply IFRS 14: *Regulatory Deferral Accounts*, the definitions, recognition criteria and measurement concepts in the 2001 Framework for the Preparation and Presentation of Financial Statements. The company considered that the definitions of assets and liabilities in the 2001 Framework were met, and therefore developed an accounting policy based on IFRS 15: *Revenue from Contracts with Customers* by analogy, which is explained in note 2 to the financial statements.

Notes forming part of the consolidated accounts

Recognition of regulatory assets and liabilities (see notes 17 and 22) (continued)

Unlike other economically regulated sectors, such as water and power, air travel is a discretionary consumer expense and thus it is susceptible to a greater volatility of demand. The consumer demand for air travel has a direct bearing on the volume of flights in UK airspace and therefore the income that NERL earns from the flights that it handles. As the UK's sole provider of en route ATC services NERL is obliged to make its service available to meet any reasonable level of demand. When establishing a price control, the economic regulator makes a forecast of the volume of flights and sets a charge for NERL's ATC service accordingly. In order to provide protection against the volatility in flight volumes relative to the price control forecast, NERL's licence includes a traffic risk sharing mechanism which limits its exposure to flight volumes, and its associated impact on NERL's income. Other risk mechanisms also apply to inflation and the impact of unforeseen financial market conditions on defined benefit pension contributions, with service performance also incentivised. When considering whether the definitions of assets and liabilities under the 2001 Framework are met, it is the judgement of the directors that the company specific traffic risk sharing mechanism, alongside the wider economic regulatory framework and its specific characteristics, are important features that provide it with control of the future economic benefits arising from amounts recoverable and obligations for amounts payable, under the regulatory agreement, without controlling the volume of flights in future. These mechanisms are further reinforced by the duties on the CAA and the Secretary of State under the Transport Act 2000 to ensure that it is not unduly difficult for NERL to finance its licensed activities, the regulatory commitment to the regulatory asset base as a store of future value and, in particular, commitments made by the CAA in the NR23 price control review on the recovery of the Covid income shortfall. The company also considers that, in light of NERL's specific regulatory framework, there are not significant risks and uncertainties in relation to the recovery of such amounts in future.

The company is aware of the IASB's Exposure Draft: *Regulatory Assets and Regulatory Liabilities*, which may have a significant impact on the accounting by economically regulated entities when it is implemented as an IFRS, in which event, the company will consider its applicability to its specific circumstances.

Retirement benefits (see note 32)

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 2024 the funding position of the scheme reported in the financial statements was a surplus of £13.5m (2023: £58.7m) on liabilities of £3,371.1m (2023: £3,486.0m).

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. A summary of the main assumptions and sensitivities are set out in note 32 to the consolidated accounts. Actual outcomes may differ materially from the assumptions used and may result in volatility in the net pension scheme position.

The group recognises an IAS 19 funding surplus as it is satisfied that the practical effect of the trust deed and rules, alongside UK legislation, mean the group has an unconditional right to a refund assuming the gradual settlement of the scheme's liabilities over time until all members have left the scheme. The trustees have no discretion under the trust deed and rules to enhance member benefits in the event of a trustee funding surplus.

Net investment in Aquila joint venture (see note 34)

The Aquila joint venture is projecting a material increase in the costs to deliver its Project Marshall contract, which completes in 2037. Based on the information available at the balance sheet date, the group has recognised its share of the losses up to the carrying value of the investment brought forward at 1 April 2023 of £4.5m, impaired the outstanding shareholder loan of £18.8m and recognised a liability of £6.2m for the company's legal obligation arising under the £25.0m shareholder loan facility agreement.

Long term contract accounting for the Project Marshall contract represents a significant accounting estimate for Aquila in relation to the costs to complete the contract, alongside management judgement and assumptions as to the future operating environment. The conditions leading to an increase in costs to complete Project Marshall are considered, in some cases, to have existed in one or more prior periods, arising from a combination of potential errors and/or changes in assumptions in forecasts of the contract outturn. However, the departure of the Aquila management team responsible for preparing those forecasts has prevented an informed assessment of their intentions and assumptions and presents a significant limitation in establishing reliably the period-specific effects of potential errors on comparative information for one or more prior periods and distinguishing such effects from subsequent changes in estimates. The quantum and timing of such conditions cannot be reliably determined which, in turn, impacts NATS own impairment review considerations of its net investment in the joint venture. Therefore, in accordance with IAS 8, the impairment of the group's net investment has been reported in the year ended 31 March 2024 as it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period.

The joint venture is assessing the actions available to mitigate the increase in costs. The Project Marshall contract has a contractual mechanism for re-basing inflation at specified dates in the future. The potential benefit of this has not been factored into the contract revenue forecast.

The final contract outcome may differ materially to management's estimate depending on the actions taken by the joint venture and contract re-pricing in the future.

Notes forming part of the consolidated accounts

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 up to 2027. 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 £24.3m as at 31 March 2024 (2023: £29.7m). 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 15.0% (2023: 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 to £6m change in fair value. The valuation is also sensitive to the discount rate. A 1% change in discount rate would result in a c.£3m change in fair value.

Impairment of goodwill, intangible, tangible and right-of-use assets (see notes 12 to 15)

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.

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 (RAB – see below), 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 7.5% (2023: 5%). This reflected market precedent transactions in the year and the result of an independent assessment which had regard to the CAA's NR23 regulatory settlement and the outlook for air traffic volumes.

There is an uncertainty in respect of the judgement on the RAB premium. As a sensitivity, the removal of the 7.5% RAB premium would not result in a goodwill impairment charge.

Should the actual outcomes in respect of these matters differ to the NR23 regulatory settlement, further impairment charges may be required which would materially impact operating results in future periods. See notes 12, 13, 14 and 15.

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 in the process of being extended, it has been assumed that they will be extended, under the Landlord and Tenants Act 1954, for a period of 15 years which is aligned with the NERL's Air Traffic Services licence termination notice period.
- 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:

	2024 £m	2023 £m
Revenue from contracts with customers	**1,041.8**	863.6
Regulatory allowances under-recovered	**136.5**	41.0
Other revenue: EU funding passed to UK en route customers (see note 4a)	**7.7**	22.7
Other revenue: rental and sub-lease income	**3.0**	2.7
Total revenue and regulatory allowances (see operating segments)	**1,189.0**	930.0

a) Total revenue and regulatory allowances disaggregated by operating segment

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

The performance of operating segments is assessed based on service line revenue and contribution. Service line contribution represents the total revenue and regulatory allowance under-recovered and costs which are directly attributed to a service line. Costs which are not directly attributed to a service line include: costs managed outside of service lines, depreciation and amortisation (net of government grants), goodwill impairment, expected credit losses, 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, 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 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:

	2024			2023		
	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	**725.1**	**-**	**725.1**	576.5	-	576.5
London Approach services	**15.7**	**-**	**15.7**	13.5	-	13.5
Infrastructure services to the MOD	**44.2**	**-**	**44.2**	41.4	-	41.4
Services for North Sea helicopters	**9.3**	**-**	**9.3**	8.8	-	8.8
Other income	**2.7**	**-**	**2.7**	4.4	-	4.4
	797.0	**-**	**797.0**	644.6	-	644.6
North Atlantic air traffic services:						
Services to oceanic en route customers	**54.2**	**-**	**54.2**	43.7	-	43.7
Intercompany revenue	**25.1**	**(25.1)**	**-**	14.0	(14.0)	-
Airspace	**876.3**	**(25.1)**	**851.2**	702.3	(14.0)	688.3
UK Airports	**168.6**	**(14.5)**	**154.1**	155.3	(22.7)	132.6
Defence Services	**12.1**	**(1.0)**	**11.1**	16.6	(1.0)	15.6
Other UK Business	**20.4**	**(3.1)**	**17.3**	17.5	(3.0)	14.5
International	**10.0**	**(1.9)**	**8.1**	12.7	(0.1)	12.6
Total revenue from contracts with customers	**1,087.4**	**(45.6)**	**1,041.8**	904.4	(40.8)	863.6
Regulatory allowances under-recovered						
Airspace						
UK air traffic services:						
Services to UK en route customers	**133.5**	**-**	**133.5**	41.6	-	41.6
London Approach services	**3.0**	**-**	**3.0**	(0.6)	-	(0.6)
Total regulatory allowances under-recovered	**136.5**	**-**	**136.5**	41.0	-	41.0
Other revenue: EU funding passed to UK en route customers						
Airspace	**7.7**	**-**	**7.7**	22.7	-	22.7
Other revenue: rental and sub-lease income						
Airspace	**4.1**	**(1.1)**	**3.0**	3.5	(0.8)	2.7
	4.1	**(1.1)**	**3.0**	3.5	(0.8)	2.7
Total revenue and regulatory allowances	**1,235.7**	**(46.7)**	**1,189.0**	971.6	(41.6)	930.0

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

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 2024, £7.7m (2023: £22.7m) of European funding was passed to airspace users. Accordingly, an equivalent amount was released from contract liabilities to offset the cost of the discount.

Regulatory allowances under-recovered includes £123.2m following confirmation by the CAA of the Covid income shortfall, recognised at 31 March 2023 as variable consideration (2023: £23.3m, based on CAA's initial proposals, published October 2022, for the Covid income shortfall).

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

	2024			2023		
	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	**725.1**	**-**	**725.1**	576.5	-	576.5
London Approach services	**15.7**	**-**	**15.7**	13.5	-	13.5
Services to oceanic en route customers	**54.2**	**-**	**54.2**	43.7	-	43.7
Revenue from contracts with customers	**795.0**	**-**	**795.0**	633.7	-	633.7
Regulatory allowances under-recovered	**136.5**	**-**	**136.5**	41.0	-	41.0
Other revenue: EU funding passed to UK en route customers	**7.7**	**-**	**7.7**	22.7	-	22.7
Total regulated income	**939.2**	**-**	**939.2**	697.4	-	697.4
Non-regulated income						
Airspace						
Infrastructure services to the MOD	**44.2**	**-**	**44.2**	41.4	-	41.4
Services for North Sea helicopters	**9.3**	**-**	**9.3**	8.8	-	8.8
Other income	**2.7**	**-**	**2.7**	4.4	-	4.4
Intercompany revenue	**25.1**	**(25.1)**	**-**	14.0	(14.0)	-
UK Airports	**168.6**	**(14.5)**	**154.1**	155.3	(22.7)	132.6
Defence Services	**12.1**	**(1.0)**	**11.1**	16.6	(1.0)	15.6
Other UK Business	**20.4**	**(3.1)**	**17.3**	17.5	(3.0)	14.5
International	**10.0**	**(1.9)**	**8.1**	12.7	(0.1)	12.6
Revenue from contracts with customers	**292.4**	**(45.6)**	**246.8**	270.7	(40.8)	229.9
Other revenue: rental and sub-lease income	**4.1**	**(1.1)**	**3.0**	3.5	(0.8)	2.7
Total non-regulated income	**296.5**	**(46.7)**	**249.8**	274.2	(41.6)	232.6
	1,235.7	**(46.7)**	**1,189.0**	971.6	(41.6)	930.0

Airspace services are economically regulated activities governed by NATS (En Route) plc's air traffic services licence. The revenue which NERL is allowed to generate from these services is governed by the price control conditions of this licence.

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

	2024			2023		
	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	**1,086.3**	**(45.6)**	**1,040.7**	900.8	(40.8)	860.0
Regulatory allowances under-recovered	**158.7**	**-**	**158.7**	53.2	-	53.2
Other revenue: EU funding passed to UK en route customers	**7.7**	**-**	**7.7**	22.7	-	22.7
Other revenue: rental and sub-lease income	**4.1**	**(1.1)**	**3.0**	3.5	(0.8)	2.7
	1,256.8	**(46.7)**	**1,210.1**	980.2	(41.6)	938.6
At a point in time						
Regulatory allowances over-recovered	**(22.2)**	**-**	**(22.2)**	(12.2)	-	(12.2)
Revenue from contracts with customers	**1.1**	**-**	**1.1**	3.6	-	3.6
	(21.1)	**-**	**(21.1)**	(8.6)	-	(8.6)
	1,235.7	**(46.7)**	**1,189.0**	971.6	(41.6)	930.0

Notes forming part of the consolidated accounts

4. Total revenue and regulatory allowances (continued)

d) Total revenue and regulatory allowances disaggregated by geographical area

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

	2024			2023		
	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	**563.2**	**(44.2)**	**519.0**	456.4	(40.8)	415.6
United States of America	**153.3**	**-**	**153.3**	113.7	-	113.7
Other European countries	**151.1**	**-**	**151.1**	149.2	-	149.2
Republic of Ireland	**122.4**	**-**	**122.4**	94.4	-	94.4
Countries in Asia	**90.8**	**(1.2)**	**89.6**	70.4	-	70.4
Germany	**63.6**	**-**	**63.6**	50.4	-	50.4
Countries in Africa	**51.0**	**-**	**51.0**	4.3	-	4.3
Other North American countries	**32.9**	**(0.2)**	**32.7**	26.9	-	26.9
Countries in South America	**1.7**	**-**	**1.7**	1.2	-	1.2
Countries in Oceania	**1.6**	**-**	**1.6**	1.2	-	1.2
	1,231.6	**(45.6)**	**1,186.0**	968.1	(40.8)	927.3
Other revenue: rental and sub-lease income						
United Kingdom	**4.1**	**(1.1)**	**3.0**	2.9	(0.8)	2.1
Other European countries	**-**	**-**	**-**	0.6	-	0.6
	4.1	**(1.1)**	**3.0**	3.5	(0.8)	2.7
	1,235.7	**(46.7)**	**1,189.0**	971.6	(41.6)	930.0

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

Notes forming part of the consolidated accounts

4. Total revenue and regulatory allowances (continued)

e) Contract balances

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	
	2024 £m	**2023 £m**	**2024 £m**	**2023 £m**
At 1 April	31.2	24.0	(77.1)	(93.6)
Opening contract assets transferred to trade and other receivables	(11.2)	(13.3)	-	-
Additional contract asset balances recognised at the balance sheet date	6.9	20.9	-	-
Impairment of contract assets	(0.4)	(0.4)	-	-
Opening contract liabilities which have now been recognised as revenue	-	-	18.4	35.8
Increases due to cash received, excluding amounts recognised as revenue during the year	-	-	(10.4)	(19.3)
At 31 March	**26.5**	**31.2**	**(69.1)**	**(77.1)**

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

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

For the year ended 31 March 2024, a reduction of £22.2m was recognised for regulatory allowances over-recovered for performance obligations satisfied in previous periods (2023: £12.2). This amount represents the difference between actual pension contributions and the regulator's assumption for the calendar years 2023 to 2024.

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:

	2024				
	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	19.3	8.5	0.3	-	28.1
Defence Services	5.0	-	-	-	5.0
Other UK Business	0.3	-	-	-	0.3
International	4.4	1.1	-	-	5.5
	29.0	**9.6**	**0.3**	**-**	**38.9**

	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**

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 £0.2m loss (2023: £1.0m 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:

	2024 £m	2023 £m
Airspace	**556.0**	341.5
UK Airports	**39.4**	29.2
Defence Services	**(33.6)**	1.3
Other UK Business	**6.1**	8.0
International	**(7.3)**	-
Service line contribution	**560.6**	380.0
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	**(123.8)**	(103.7)
Impairment of goodwill	**-**	(2.9)
Loss on disposal of non-current assets	**(0.2)**	(0.2)
Employee share scheme costs	**(5.4)**	(6.7)
Redundancy and relocation costs	**(2.0)**	(0.3)
Other costs not directly attributed to service lines	**(77.4)**	(91.7)
R&D expenditure above the line tax credits	**4.5**	1.6
Profit on disposal of joint venture	**-**	1.3
Investment income	**54.4**	28.4
Fair value movements on financial instruments	**(13.7)**	(27.1)
Finance costs	**(25.5)**	(30.2)
Profit before tax	**371.5**	148.5

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

Total assets and total liabilities by operating segment are not regularly provided to the chief operating decision maker and accordingly are not required to be disclosed.

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:

	2024 £m	2023 £m
Airspace	**109.0**	103.8
UK Airports	**5.3**	5.4
Defence Services	**0.6**	0.5
Other Service lines	**1.9**	4.0
	116.8	113.7

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	
	2024 £m	2023 £m
United Kingdom	**1,182.9**	1,191.0
United States of America	**4.2**	30.0
Canada	**24.5**	7.8
Other European countries	**8.0**	3.7
Countries in Asia	**0.3**	0.6
	1,219.9	1,233.1

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, 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):

	2024 £m	2023 £m
The CAA regulatory charges in respect of NERL's air traffic services licence	**4.9**	5.4
The CAA regulatory charges for safety regulation at airports	**0.2**	0.1
Impairment of goodwill (note 12)	**-**	2.9
Amortisation of intangible assets (note 13)	**51.0**	42.7
Impairment of intangible assets (note 13)	**16.3**	9.3
Depreciation of property, plant and equipment (note 14)	**48.4**	45.6
Impairment of property, plant and equipment (note 14)	**3.1**	0.4
Depreciation of right-of-use assets (note 15)	**5.4**	6.3
Deferred grants released	**(0.4)**	(0.6)
Redundancy costs	**2.0**	0.3
Research and development costs	**8.1**	4.7
R&D expenditure above the line tax credits	**(4.5)**	(1.6)
Foreign exchange (losses)/gains	**(1.8)**	3.3
Auditor's remuneration for audit services (see below)	**0.5**	0.5

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:

	2024 £m	2023 £m
Fees payable to the company's auditor for the audit of the company's annual accounts	**0.4**	0.4
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**	0.5

Total non-audit fees of £39,000 (2023: £60,500) include agreed upon procedures in relation to the NERL regulatory accounts of £30,000 (2023: £20,000) and other agreed upon procedures of £9,000 (2023: £40,500).

Notes forming part of the consolidated accounts

7. Staff costs

a. Staff costs

	2024 £m	2023 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries	402.5	367.3
Employee share scheme costs (note 31)	5.4	6.7
Social security costs	47.4	45.9
Pension costs (note 7b)	80.1	101.9
	535.4	521.8
Less: amounts capitalised	(39.9)	(35.9)
	495.5	485.9

Wages and salaries include other allowances and holiday pay.

b. Pension costs (note 32)

	2024 £m	2023 £m
Defined benefit scheme	**39.6**	69.9
Defined contribution scheme	**40.5**	32.0
	80.1	101.9

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

	2024 No.	2023 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers (incl. trainees)	**1,728**	1,675
Air traffic service assistants	**647**	614
Engineers	**854**	846
Others	**1,223**	1,080
	4,452	4,215
The number of employees (including executive directors) in post at 31 March was:	**4,606**	4,323

8. Investment income

	2024 £m	2023 £m
Interest on bank deposits	**8.4**	3.3
Other loans and receivables	**46.0**	25.1
	54.4	28.4

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

Other loans and receivables includes £8.8m (2023: £8.5m) due to the effect of unwinding the discount on amounts receivable after more than one year and £0.6m (2023: £0.5m) for interest accrued on the loan to our joint venture, Aquila.

9. Fair value movement on financial instruments

	2024 £m	2023 £m
Charge arising from change in the fair value of derivatives not qualifying for hedge accounting	**(9.0)**	(13.7)
Change in the fair value of equity investment in Aireon designated as fair value through profit or loss (see note 16)	**(4.7)**	(13.4)
	(13.7)	(27.1)

Notes forming part of the consolidated accounts

10. Finance costs

	2024 £m	2023 £m
Interest on bank loans and hedging instruments	**1.3**	7.3
Bond and related costs including financing expenses	**19.7**	14.1
Interest on lease liabilities (see note 19)	**1.1**	1.4
Other finance costs	**3.4**	6.6
One-off re-financing costs	**-**	0.8
	25.5	30.2

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

11. Tax

	2024 £m	2023 £m
Corporation tax		
Current tax	**79.3**	12.1
Adjustments in respect of prior year	**(4.7)**	-
	74.6	12.1
Deferred tax (see note 24)		
Origination and reversal of temporary timing differences	**16.6**	21.9
Adjustments in respect of prior year	**2.8**	1.7
Effects of tax rate change on opening balance	**-**	(3.4)
	19.4	20.2
	94.0	32.3

Corporation tax is calculated at 25% (2023: 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:

	2024		2023	
	£m	%	£m	%
Profit on ordinary activities before tax	**371.5**		148.5	
Tax on profit on ordinary activities at standard rate in the UK of 25% (2023: 19%)	**92.9**	**25.0%**	28.2	19.0%
Tax effect of change in corporation tax from 19% to 25%	**-**	**-**	0.5	0.3%
Tax effect of prior year adjustments: current tax	**(4.7)**	**(1.3%)**	-	-
Tax effect of prior year adjustments: deferred tax	**2.8**	**0.8%**	1.7	1.1%
Patent box[1]	**(1.4)**	**(0.4%)**	(1.2)	(0.8%)
Employee share scheme[2]	**1.3**	**0.3%**	1.3	0.9%
R&D expenditure credits	**(0.4)**	**(0.1%)**	-	-
Goodwill impairment	**-**	**-**	0.6	0.4%
Change in fair value of equity investment	**1.2**	**0.3%**	2.0	1.3%
Joint ventures and associate	**0.8**	**0.2%**	0.4	0.3%
Deferred tax assets on overseas subsidiaries	**2.4**	**0.7%**	0.1	0.1%
Disposal of joint venture	**-**	**-**	0.2	0.1%
Foreign permanent establishment exemption[3]	**(0.8)**	**(0.2%)**	-	-
Other permanent differences	**(0.1)**	**-**	(1.5)	(0.9%)
Tax charge for year at an effective tax rate of 25.3% (2023: 21.8%)	**94.0**	**25.3%**	32.3	21.8%
Deferred tax credit taken directly to equity (see note 24)	**(11.8)**		(67.5)	

[1] Under UK HMRC regulations, NERL is able to take advantage of income attributable to patents being taxed at a lower rate.

[2] Under UK HMRC regulations, the cost of employee shares is deductible when shares are awarded to employees. Costs (or credits) which arise from changes in the market value of employee shares are not deductible (or chargeable) for UK tax purposes.

[3] Under UK HMRC regulations, NSL has elected that income relating to overseas branches is taxed in the local jurisdiction.

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:

	2024		2023	
	£m	**%**	£m	%
Profit on ordinary activities before tax	**371.5**		148.5	
Tax on profit on ordinary activities at standard rate in the UK of 25% (2023: 19%)	**92.9**	**25.0%**	28.2	19.0%
Expenses not deductible for tax purposes				
Employee share scheme costs	**1.3**	**0.3%**	1.3	0.9%
Patent box	**(1.4)**	**(0.4%)**	(1.2)	(0.8%)
R&D expenditure tax credit	**(0.1)**	**-**	0.2	0.1%
Pension contributions paid in excess of charge to income statement	**(25.3)**	**(6.8%)**	(3.7)	(2.5%)
Capital allowances in excess of depreciation				
Capital allowances	**(33.1)**	**(8.9%)**	(16.9)	(11.4%)
Depreciation and amortisation on eligible assets	**29.7**	**8.0%**	14.5	9.8%
Other temporary differences - fixed assets				
Capitalised revenue expenditure	**(6.3)**	**(1.7%)**	-	-
Amortisation of capital grants	**(1.0)**	**(0.3%)**	-	-
Other temporary timing differences				
Provisions	**(1.0)**	**(0.3%)**	0.5	0.3%
Index-linked swaps	**(2.1)**	**(0.5%)**	(1.7)	(1.2%)
Corporate interest restriction	**-**	**-**	(6.0)	(4.0%)
Consolidation adjustments				
Dividends received from group companies	**-**	**-**	(0.4)	(0.3%)
Disposal of joint venture	**-**	**-**	0.2	0.1%
Impairment/changes in fair value of investments and goodwill	**1.2**	**0.3%**	2.6	1.8%
Joint ventures and associate	**0.8**	**0.2%**	0.4	0.3%
Deferred tax assets on overseas subsidiaries	**2.4**	**0.7%**	0.1	0.1%
Foreign permanent establishment exemption	**(0.8)**	**(0.2%)**	-	-
Other consolidation adjustments	**0.8**	**0.3%**	(0.8)	(0.5%)
Losses brought forward	**(3.6)**	**(1.0%)**	(8.9)	(6.0%)
Other permanent differences	**(0.4)**	**(0.1%)**	-	-
Prior year adjustments	**(4.7)**	**(1.3%)**	-	-
Current tax charge for year at an effective tax rate of 13.3% (2023: 5.7%)	**49.3**	**13.3%**	8.4	5.7%

The total current tax charge comprises a £74.6m charge to the Income statement (2023: £12.1m) and a £25.3m credit to the Statement of comprehensive income (2023: £3.7m) in relation to contributions to the Defined benefit pension scheme.

Notes forming part of the consolidated accounts

11. Tax (continued)

Detailed reconciliation of the current tax charge (continued)

The Group will be in scope of Pillar Two rules for accounting periods commencing on or after 31 December 2023 as the UK has implemented Multinational Top Up Tax and Domestic Top Up tax. We have undertaken a high-level assessment and believe that the effective UK rate will be above the minimum tax rate of 15% so no UK top up tax is expected given the present statutory rate of corporation tax. No assessment has been undertaken in respect of the overseas jurisdictions on the basis that any additional top up tax arising in respect of these jurisdictions is expected to be immaterial.

The Group has applied the temporary exception issued by the IASB in May 2023 from the accounting requirements for deferred taxes in IAS 12. Accordingly, the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes. The Pillar Two legislation was not effective at the reporting date and as such the Group has no related current tax exposure.

12. Goodwill

	£m
Cost	
At 1 April 2022	358.4
Exchange on International goodwill	(0.2)
At 31 March 2023	**358.2**
Exchange on International goodwill	(0.2)
At 31 March 2024	**358.0**
Accumulated impairment losses	
At 1 April 2022	**312.7**
Impairment of subsidiary goodwill	2.9
Exchange on International goodwill	(0.1)
At 31 March 2023	**315.5**
Exchange on International goodwill	(0.1)
At 31 March 2024	**315.4**
Carrying amount	
At 31 March 2024	42.6
At 31 March 2023	42.7
At 1 April 2022	45.7

Notes forming part of the consolidated accounts

12. Goodwill (continued)

The amounts disclosed above relate to the following service lines: Airspace £38.3m (2023: £38.3m) and International £4.3m (2023: £4.4m). 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 £2,299.6m; 2023: £1,959.1m), 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 2024. The RAB premium at 31 March 2024 was determined to be 7.5% (2023: 5%). Overall, reflecting the value of the RAB and the premium assumption, goodwill was not impaired in the year (2023: £nil). This assessment reflected latest forecasts for air traffic, the CAA's NR23 regulatory settlement 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 15% (2023: 11%).

Fair value less costs of disposal was higher than value in use at 31 March 2024. The carrying value of goodwill at 31 March 2024 was not impaired (2023: not impaired) as the book value of the net assets of the Airspace service line of £1,827m (2023: £1,660m) was below the fair value less costs of disposal of £2,299m (2023: £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 20% (2023: 31%), reflecting historic experience and using a 24% (2023: 26%) pre-tax discount rate. Goodwill at 31 March 2024 was not impaired (2023: £2.9m), when comparing the value in use of £8.5m 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 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 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**
Additions internally generated	4.7	0.1	1.0	24.9	30.7
Additions externally acquired	3.0	0.6	1.3	31.4	36.3
Disposals during the year	-	-	(2.2)	-	(2.2)
Other transfers during the year	36.7	6.7	55.8	(82.8)	16.4
At 31 March 2024	**556.0**	**138.1**	**197.1**	**414.8**	**1,306.0**
Accumulated amortisation and impairment					
At 1 April 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**
Charge for the year	25.9	9.5	15.6	-	51.0
Impairment provision recognised in income statement	-	-	-	16.3	16.3
Transfer of impairment provision	1.4	0.1	6.0	(6.1)	1.4
Disposals during the year	-	-	(2.2)	-	(2.2)
At 31 March 2024	**369.0**	**120.8**	**78.8**	**30.9**	**599.5**
Carrying amount					
At 31 March 2024	187.0	17.3	118.3	383.9	706.5
At 31 March 2023	169.9	19.5	81.8	420.6	691.8
At 1 April 2022	189.3	26.4	88.4	383.2	687.3

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 £16.3m (2023: £9.3m) were made in respect of both a data integration system and an airport transformation programme, both within assets in the course of construction, which are no longer considered commercially viable.

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.

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 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**
Additions during the year	0.7	-	9.7	2.5	34.2	47.1
Disposals during the year	-	-	(4.6)	(0.3)	-	(4.9)
Other transfers during the year	3.3	0.2	45.8	3.4	(69.1)	(16.4)
At 31 March 2024	**251.0**	**46.4**	**1,531.9**	**33.0**	**149.2**	**2,011.5**
Accumulated depreciation and impairment						
At 1 April 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**
Provided during the year	7.7	0.9	38.6	1.2	-	48.4
Impairment provision recognised in income statement	-	-	3.1	-	-	3.1
Transfer of impairment provision	-	-	-	-	(1.4)	(1.4)
Disposals during the year	-	-	(4.4)	(0.3)	-	(4.7)
At 31 March 2024	**183.6**	**44.4**	**1,354.4**	**25.1**	**0.9**	**1,608.4**
Carrying amount						
At 31 March 2024	67.4	2.0	177.5	7.9	148.3	403.1
At 31 March 2023	71.1	2.7	163.9	3.2	181.8	422.7
At 1 April 2022	78.3	3.2	165.9	2.7	162.3	412.4

The group conducts annual reviews of the carrying values of its property, plant and equipment including operating assets and assets in the course of construction, where there is an indicator of impairment. During the year, the group incurred net impairment charges of £3.1m, including a charge of £4.3m (2023: £0.4m) to write down the value of network infrastructure system test equipment, reflecting the limited alternative uses for this equipment and an impairment charge reversal of £1.2m (2023: £nil) as a result of an increase in the value in use of digital airport solution assets, following a reassessment of the likelihood of benefits being realised.

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.

During the year the group capitalised £0.7m (2023: £0.9m) of general borrowing costs at a capitalisation rate of 1.51% (2023: 1.70%), 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 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**
Additions during the year	1.3	0.3	1.1	2.7
Effect of modification to lease terms	1.1	1.1	-	2.2
Terminations during the year	(1.9)	0.2	(0.1)	(1.8)
At 31 March 2024	**65.9**	**5.5**	**1.6**	**73.0**
Accumulated depreciation and impairment				
At 1 April 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**
Charge during the year	4.4	0.7	0.3	5.4
Depreciation effect of modification to lease terms	-	0.8	-	0.8
Terminations during the year	(1.9)	0.2	(0.1)	(1.8)
At 31 March 2024	**32.2**	**4.0**	**0.4**	**36.6**
Carrying amount				
At 31 March 2024	33.7	1.5	1.2	36.4
At 31 March 2023	35.7	1.6	0.4	37.7
At 1 April 2022	40.7	1.9	0.3	42.9

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 2024 and 31 March 2023.

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%. 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 2027 or are otherwise mandatorily redeemed in three annual instalments from that date. The dividend is payable on or after 1 January 2027.

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 2024), and NATS' assessment of underlying plan assumptions. The discount rate assumed for this purpose is 15.0% (2023: 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£2.8m decrease in fair value and a 1% reduction in the discount rate would result in a c£3.2m increase in fair value. A 10% increase in revenue assumed from unsigned sales contracts would result in an increase in fair value of £5.2m and a 10% reduction in revenue assumed from unsigned sales contracts would result in a decrease in fair value of £5.6m. The investment is classified within Level 3 of the fair value hierarchy.

	£m
Fair value at 1 April 2023	**29.7**
Change in fair value in the period, reported in 'Fair value movement on financial instruments' (see note 9)	**(4.7)**
Effect of foreign exchange, reported in Consolidated statement of comprehensive income	**(0.7)**
Fair value at 31 March 2024	**24.3**

The effect of changes in the rate of foreign exchange arises on consolidation of NATS (USA) Inc, which reports its results in US dollars.

Notes forming part of the consolidated accounts

17. Financial and other assets

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

Trade and other receivables

	2024 £m	2023 £m
Non-current		
Receivable from customers gross	**0.2**	0.4
Other debtors	**0.6**	-
Prepayments	**3.5**	1.1
Contract assets	**11.0**	13.6
	15.3	15.1
Current		
Receivable from customers gross	**181.6**	159.5
Less: expected credit loss provision	**(10.0)**	(10.8)
	171.6	148.7
Contract assets	**15.5**	17.6
Other debtors	**5.6**	2.5
Prepayments	**17.8**	19.4
	210.5	188.2

The average credit period on sales of services was 31 days (2023: 35 days). Interest is charged by Eurocontrol to UK en route customers at 13.26% (2023: 9.97%) on balances outstanding after more than 30 days.

Receivables from customers which are current include unbilled revenue for services provided in March 2024. Prior year receivables from customers included unbilled revenue for services provided in March 2023.

Amounts recoverable under regulatory agreement

	2024 £m	2023 £m
Non-current		
Amounts recoverable under regulatory agreement	**575.3**	631.1
Current		
Amounts recoverable under regulatory agreement	**223.7**	100.1

Notes forming part of the consolidated accounts

17. Financial and other assets (continued)

Movement in Amounts recoverable under regulatory agreement

	2024 £m	2023 £m
Balance at the beginning of the year	**731.2**	724.6
Adjustments in respect of variable consideration for services provided in prior years, net of associated discounting	**123.2**	23.2
Discounted amounts recognised during the year	**109.1**	53.1
Unwind of/(additional) discounting	**2.1**	(2.6)
Amounts recovered under regulatory agreement through charges in the year	**(166.6)**	(67.1)
Balance at the end of the year	**799.0**	731.2

Amounts recoverable under regulatory agreement which are non-current include the net present value of regulatory allowances under-recovered. These will be recovered after 31 March 2025. The amount relating to the Covid income shortfall of £560.8m will be recovered across the ten years of the NR23 and NR28 price controls. An amount of £28.7m relating to pension pass through (2023: £29.3m) includes £5.6m arising in Reference Period 1 to be recovered by 31 December 2030 and £23.1m arising in Reference Period 2 that will be recovered by 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, the recovery of the relevant portion of the Covid income shortfall and revenue allowances relating to 2023 and 2024 which have been deferred by the regulator's price profiling. The amounts will be included in the unit rates to be charged in the financial year ending 31 March 2025.

Movement in the excepted credit loss provision

	2024 £m	2023 £m
Balance at the beginning of the year	**10.8**	11.7
Decrease in allowance recognised in the income statement	**-**	(0.8)
Foreign exchange movement in the year	**(0.3)**	0.4
Amounts written off as irrecoverable	**(0.5)**	(0.5)
Balance at the end of the year	**10.0**	10.8

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. We have assessed lifetime expected credit losses at 31 March 2024 by using available airline credit ratings to derive a customer default risk profile. The historic loss rates have been adjusted accordingly, to reflect these revised 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:

2024	Unbilled income	Receivables - months past due: Current	1 month	2-3 months	4-6 months	7-12 months	>12 months	In administration	Total £m
NERL expected credit loss rate (%)	0.9%	0.9%	8.4%	17.5%	51.4%	43.9%	99.0%	100.0%	
NERL gross carrying amount (£m)	67.9	71.1	1.5	0.5	0.2	0.4	0.8	7.4	149.8
NERL lifetime expected credit loss (£m)	**0.6**	**0.6**	**0.1**	**0.1**	**0.1**	**0.2**	**0.8**	**7.4**	**9.9**
Other subsidiaries expected credit loss rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	13.6%	100.0%	
Other subsidiaries gross carrying amount (£m)	29.6	23.2	3.8	0.3	1.0	-	0.6	-	58.5
Other subsidiaries expected credit losses (£m)	-	-	-	-	-	-	0.1	-	0.1
Total expected credit losses (£m)	**0.6**	**0.6**	**0.1**	**0.1**	**0.1**	**0.2**	**0.9**	**7.4**	**10.0**

2023	Unbilled income	Receivables - months past due: Current	1 month	2-3 months	4-6 months	7-12 months	>12 months	In administration	Total £m
NERL expected credit loss rate (%)	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**

Notes forming part of the consolidated accounts

17. Financial and other assets (continued)

Non-current trade and other receivables include £11.0m of performance obligations delivered in advance of invoicing to UK Airport customers that will be released against billed revenue over the remaining life of the airport ATC contracts, which has not been subject to a significant increase in credit risk since initial recognition (2023: £13.6m).

As at 31 March 2024 trade receivables of £7.4m (2023: £7.5m) had lifetime expected credit losses of the full value of the receivables. These receivables are in administration, receivership or liquidation.

At 31 March 2024, the joint venture loan to Aquila (including interest) outstanding was £18.8m (2023: £8.8m). The group assessed the carrying value of the loan at the balance sheet date and concluded that the balance should be written down in full, based on its assessment of its onerous contract explained in note 34 (2023: not impaired).

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, loan to joint venture and trade and other receivables, excluding amounts recoverable under regulatory agreement, contract assets, prepayments and VAT receivable, would be £342.7m (2023: £320.2m).

18. Borrowings

	2024 £m	2023 £m
Unsecured at amortised cost		
Bank loans	**-**	65.0
£450m 1.375% Bonds due 2031	**453.1**	446.2
£445m 1.750% Bonds due 2033	**412.9**	-
£300m 1.750% Bonds due 2033	**-**	297.1
£145m 1.750% Bonds due 2033	**-**	104.4
Gross borrowings	**866.0**	912.7
Unamortised bank facility fees	**(1.1)**	(1.3)
	864.9	911.4
Amounts due for settlement within 12 months	**104.0**	45.0
Amounts due for settlement after 12 months	**760.9**	866.4

Notes forming part of the consolidated accounts

18. Borrowings (continued)

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.

During the course of the year, the £145m of fixed rate bonds issued in the previous financial year in the form of a tap were consolidated with the original £300m 1.750% bonds, as represented above by the £445m 1.750% Bonds due 2033 at 31 March 2024.

The carrying valye of all the bonds at 31 March 2024 includes unpaid annual interest which was settled on 2 April 2024, due to the timing of the Easter 2024 bank holiday.

The average effective interest rate on the bank loans in the year was 5.1% (2023: 2.6%) and was determined based on the Sterling Overnight Index Average (SONIA) rates plus a margin of 0.45% and utilisation fee.

Undrawn committed facilities

	2024 £m	2023 £m
Undrawn committed facilities expire as follows:		
Expiring in more than two years	**400.0**	335.0
	400.0	335.0

At 31 March 2024, NERL had outstanding drawings of £nil (2023: £65.0m) against its committed bank facilities.

NATS Services has an uncommitted overdraft facility of £1.0m that was undrawn as at 31 March 2024 and 31 March 2023 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:

	2024 £m	2023 £m
Due within one year or less	**8.0**	9.2
Due between one and two years	**8.9**	7.7
Due between two and five years	**21.1**	21.2
Due in more than five years	**13.0**	19.4
	51.0	57.5
Less: future finance charges	**(4.3)**	(5.1)
	46.7	52.4
Analysed as:		
Current	**6.8**	8.0
Non-current	**39.9**	44.4
	46.7	52.4

The consolidated income statement includes the following amounts relating to leases:

	2024 £m	2023 £m
Interest on lease liabilities (see note 10)	**1.1**	1.4
Short-term lease expense	**0.2**	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 2024				
Property leases with payments linked to inflation	52	n/a	19.8%	0.5
Property leases with periodic uplifts to market rentals	45	n/a	69.9%	1.6
Property leases with fixed payments	9	4.9%	n/a	n/a
Leases of plant and equipment	34	2.8%	n/a	n/a
Vehicle leases	84	2.6%	n/a	n/a
	224	**10.3%**	**89.7%**	**2.1**
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**

(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 2024, 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 £15.8m (2023: £21.2m), of which £7.5m (2023: £11.6m) is potentially avoidable if the leases were not extended and a further £5.4m (2023: £8.3m) 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 2024 was £0.7m (2023: £0.8m).

The group did not enter into any new sale and leaseback arrangements in the year to 31 March 2024 (2023: nil). The amount for leases not yet commenced to which the group is committed at 31 March 2024 is £nil (2023: £0.1m).

Notes forming part of the consolidated accounts

20. Derivative financial instruments

Fair value of derivative financial instruments

	2024 £m	2023 £m
Non-current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	**0.1**	1.5
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	**2.0**	1.6
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	**(1.5)**	(1.0)
Derivative financial instruments classified as held for trading		
Index-linked swaps	**(12.4)**	(11.7)
	(13.9)	(12.7)
Non-current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	**(0.8)**	(0.6)
Derivative financial instruments classified as held for trading		
Index-linked swaps	**(67.4)**	(69.9)
	(68.2)	(70.5)

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 2024, NERL had a credit rating of A+ (stable outlook) from Standard & Poor's (2023: A+ (negative outlook)) and A2 (stable outlook) from Moody's (2023: A2 (stable 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 2024 was 41.9% (2023: 52.3%).

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:

	2024 £m	2023 £m
Financial assets		
Financial assets at fair value through profit or loss		
Equity investment (see note 16)	**24.3**	29.7
Financial assets at amortised cost		
Trade and other receivables	**176.5**	151.2
Loan to joint venture	**-**	8.8
Cash and cash equivalents	**166.2**	160.2
	342.7	320.2
Derivative financial instruments		
In designated hedge accounting relationships	**2.1**	3.1
	369.1	353.0
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables	**(136.3)**	(127.6)
Borrowings	**(864.9)**	(911.4)
Lease liabilities	**(46.7)**	(52.4)
	(1,047.9)	(1,091.4)
Derivative financial instruments		
In designated hedge accounting relationships	**(2.3)**	(1.6)
At fair value through profit or loss	**(79.8)**	(81.6)
	(82.1)	(83.2)
	(1,130.0)	(1,174.6)

Financial assets at amortised cost includes balances for trade and other receivables (excluding prepayments of £21.3m (2023: £20.5m), contract assets of £26.5m (2023: £31.2m) and VAT of £1.5m (2023: £0.4m)), loan to joint venture and cash and cash equivalents. The 2023 comparative amount for trade and other receivables, previously reported as £182.4m has been adjusted to exclude contract assets, which are not considered to be financial instruments to be disclosed in this table.

Financial liabilities at amortised cost includes balances for trade and other payables (excluding contract liabilities of £69.1m (2023: £77.1m), deferred income of £26.6m (2023: £24.7m) and taxes and social security liabilities of £14.2m (2023: £17.8m)), bond and bank borrowings and lease liabilities.

The index-linked swaps are categorised as held for trading. During the year £10.8m of amortisation payments (2023: £8.0m) were made in relation to the index-linked swaps. Taking into account the index-linked swap amortisation payments, a charge arising from the change in fair value of £9.0m has been recorded in the income statement in the year (2023: £13.7m charge) for the market value movement in the RPI swap liability. 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 0.7% of external revenue and regulatory allowances (2023: 1.4%). The group trades with and provides finance to its overseas 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	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Euro	**65.9**	62.3	**(10.9)**	(8.2)
US dollar	**26.8**	35.3	**(2.3)**	(2.7)
Canadian dollar	**5.4**	3.7	**(4.3)**	(4.5)
Hong Kong dollar	**5.1**	5.0	**(0.3)**	(0.3)
Singapore dollar	**0.8**	0.9	**(0.5)**	(0.6)
Thai baht	**0.6**	0.9	**-**	(0.1)
Indian rupee	**0.6**	0.3	**-**	-
Qatari riyal	**0.5**	0.6	**(0.4)**	-
UAE dirham	**0.5**	0.3	**(0.6)**	(0.4)
Omani rial	**0.4**	0.4	**-**	-
Norwegian krone	**0.1**	0.1	**(0.1)**	(0.2)
Swedish krona	**-**	-	**-**	(0.1)
	106.7	109.8	**(19.4)**	(17.1)

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 £12.3m at 31 March 2024 (2023: £10.4m) in euro, Hong Kong dollars, US dollars, Canadian dollars, Indian rupee, Thai baht, Omani rial, Norwegian krone, Qatari riyal and Singapore dollars. Trade and other receivables and trade and other payables includes balances of £68.7m (2023: £68.0m) and £15.2m (2023: £13.8m) respectively, denominated in euro, Hong Kong dollars, US dollars, Canadian dollars, Indian rupee, Thai baht, Omani rial, Norwegian krone, Qatari riyal, Singapore dollars, UAE dirham and Swiss franc. 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	**2024 Impact £m**	2023 Impact £m
Euro	**10.0**	5.3
US dollar	**(4.3)**	(7.1)
Hong Kong dollar	**(0.5)**	(0.5)
Canadian dollar	**(0.4)**	(0.3)
Thai baht	**(0.1)**	(0.1)
Qatari riyal	**-**	(0.1)
Indian rupee	**(0.1)**	-
Norwegian krone	**(0.1)**	(0.1)
	4.5	(2.9)

There was an overall increase 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:

	2024			2023		
			Average exchange rate			Average exchange rate
Euro sold	**£m**	**€m**		£m	€m	
0-90 days	**203.8**	**237.5**	**0.8584**	163.5	184.6	0.8858
91-365 days	**0.2**	**0.2**	**0.8953**	3.7	4.2	0.8684
> 365 days	**10.1**	**11.4**	**0.8868**	7.7	8.6	0.8930
	214.1	**249.1**	**0.8597**	174.9	197.4	0.8857
Euro bought	**€m**	**£m**		€m	£m	
0-90 days	**13.5**	**11.7**	**0.8674**	6.1	5.4	0.8823
91-365 days	**17.5**	**15.7**	**0.8935**	24.5	21.6	0.8818
> 365 days	**35.2**	**31.9**	**0.9054**	44.7	40.5	0.9066
	66.2	**59.3**	**0.8945**	75.3	67.5	0.8965
US dollar sold	**£m**	**US$m**		£m	US$m	
0-90 days	**5.7**	**6.9**	**1.2116**	5.9	7.2	1.2046
91-365 days	**11.1**	**13.5**	**1.2133**	-	-	-
> 365 days	**-**	**-**	**-**	16.8	20.4	1.2127
	16.8	**20.4**	**1.2127**	22.7	27.6	1.2106
US dollar bought	**US$m**	**£m**		US$m	£m	
0-90 days	**15.0**	**11.8**	**1.2670**	14.6	11.6	1.2565
91-365 days	**29.1**	**23.0**	**1.2627**	20.1	16.6	1.2103
> 365 days	**0.5**	**0.4**	**1.2247**	42.1	33.3	1.2648
	44.6	**35.2**	**1.2637**	76.8	61.5	1.2485

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Foreign currency sensitivity analysis (continued)

	2024			2023		
			Average exchange rate			Average exchange rate
Canadian dollar sold	**£m**	**C$m**		£m	C$m	
0-90 days	**0.4**	**0.8**	**1.7079**	-	-	-
	0.4	**0.8**	**1.7079**	-	-	-
Canadian dollar bought	**C$m**	**£m**		C$m	£m	
0-90 days	**4.0**	**2.3**	**1.7055**	3.2	1.9	1.6529
91-365 days	**1.2**	**0.7**	**1.6807**	4.0	2.6	1.5847
> 365 days	**0.2**	**0.1**	**1.6980**	0.3	0.2	1.7098
	5.4	**3.1**	**1.6997**	7.5	4.7	1.6174
Norwegian krone sold	**£m**	**NOKm**		£m	NOKm	
0-90 days	**0.4**	**5.0**	**13.5814**	-	-	-
	0.4	**5.0**	**13.5814**	-	-	-
Norwegian krone bought	**NOKm**	**£m**		NOKm	£m	
0-90 days	**10.5**	**0.8**	**13.0527**	6.0	0.5	12.0860
91-365 days	**9.9**	**0.7**	**13.4849**	-	-	-
> 365 days	**1.0**	**0.1**	**13.5305**	3.2	0.3	12.1537
	21.4	**1.6**	**13.2721**	9.2	0.8	12.1097
Singapore dollar sold	**£m**	**SGDm**		£m	SGDm	
91-365 days	**-**	**-**	**-**	0.5	0.8	1.6255
	-	**-**	**-**	0.5	0.8	1.6255

At 31 March 2024, 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 (2023: £0.8m 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.

In addition to the above, on 28 March 2024 NERL entered into an average rate forward agreement with a fixing date after 31 March 2024 to sell euro anticipated to be received in July 2024 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 £78.4m (2023: £64.7m).

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, other than shareholder loans, no other entity within the NATS group had borrowings at 31 March 2024 (2023: 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 2024 (2023: none).

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Economic interest rate exposure

The group's cash balances were as follows:

	2024			2023		
Currency	**Amount £m**	**Economic interest rate %**	**Average maturity days**	**Amount £m**	**Economic interest rate %**	**Average maturity days**
Sterling	153.9	5.1	18	149.8	4.0	30
Euro	4.8	-	2	1.7	-	3
Hong Kong dollar	3.9	-	2	3.6	-	3
US dollar	1.0	-	2	1.2	-	3
Canadian dollar	0.8	-	2	2.0	-	3
Indian rupee	0.6	-	2	0.3	-	3
Thai baht	0.6	-	2	0.7	-	3
Omani rial	0.3	-	2	0.3	-	3
Norwegian krone	0.1	-	2	0.1	-	3
Qatari riyal	0.1	-	2	0.1	-	3
Singapore dollar	0.1	-	2	0.3	-	3
UAE dirham	-	-	-	0.1	-	3
	166.2			**160.2**		

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 2024					
Sterling:					
£450m 1.375% Bonds due 2031	453.1	-	453.1	1.38%	4.3
£445m 1.750% Bonds due 2033	412.9	-	412.9	1.91%	9.5
Lease liabilities	46.7	-	46.7	2.69%	6.8
Total	**912.7**	**-**	**912.7**		
At 31 March 2023					
Sterling:					
£450m 1.375% Bonds due 2031	446.2	-	446.2	1.38%	4.9
£300m 1.750% Bonds due 2033	297.1	-	297.1	1.76%	10.5
£145m 1.750% Bonds due 2033	104.4	-	104.4	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	**965.1**	**65.0**	**900.1**		

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, plus lease liabilities.

	2024		2023	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	692.3	92.9	669.5	83.3
Index-linked (effected via inflation swaps)	220.4	29.6	230.6	28.7
Floating (net of cash and facility costs)	(167.3)	(22.4)	(96.5)	(12.0)
Net debt	745.4	100.0	803.6	100.0

At 31 March 2024, NERL is the only entity in the group with borrowings and had net debt of £817.0m (2023: £903.2m). NATS Services had cash of £65.1m (2023: £91.5m), NATS Limited had cash of £2.6m (2023: £3.9m) and other entities in the group had cash of £7.4m (2023: £7.1m). Net debt includes lease liabilities of £43.2m (2023: £49.5m) in NERL and £3.5m (2023: £2.9m) 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.

	2024		2023	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	688.8	84.3	666.6	73.8
Index-linked (effected via inflation swaps)	220.4	27.0	230.6	25.5
Floating (net of cash and facility costs)	(92.2)	(11.3)	6.0	0.7
Net debt	817.0	100.0	903.2	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.

	2024 Impact £m	2023 Impact £m
Cash at bank (2024: £166.2m, 2023: £160.2m)	1.7	1.6
Borrowings (2024: £nil, 2023: £65.0m)	-	(0.7)
	1.7	0.9

At 31 March 2024 the group was not negatively exposed to an increase in interest rates, reflecting a reduction in floating rate liabilities since 31 March 2023.

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 2024							
Inflation swaps							
Amortising swap fixed to RPI, maturing in 2026	**10.2**	**10.2**	**-**	**20.4**	**23.5**	4.05%	5.25%
Bullet repayment swap fixed to RPI, maturing in 2031	**-**	**-**	**200.0**	**200.0**	**56.3**	(2.14%)	1.53%
	10.2	**10.2**	**200.0**	**220.4**	**79.8**		
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**		

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%.

	2024 Impact £m	2023 Impact £m
Change in mark to market value	**(17.7)**	(20.6)

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 £2.6m (2023: £3.4m). 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 contract assets 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 £14.3m (2023: £11.4m), bank term deposits of £47.0m (2023: £62.7m) and money market fund investments of £104.9m (2023: £86.1m). Bank term deposits with maturities up to 3 months and between 3 and 6 months are only entered into with institutions holding a long-term minimum credit rating of A- and A+ respectively from Standard & Poor's or Fitch Ratings and A3 and A1 respectively from Moody's. Money market fund investments are restricted to AAA rated liquidity funds and must have same-day access.

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

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

	2024			2023		
Rating (Standard & Poor's)	**Number of institutions**	**£m**	**By credit rating %**	Number of institutions	£m	By credit rating %
AAAm	**5**	**104.9**	**63.1**	5	86.1	53.7
AA-	**2**	**10.4**	**6.3**	2	10.9	6.8
A+	**4**	**31.9**	**19.2**	4	39.7	24.8
A	**1**	**19.0**	**11.4**	2	23.5	14.7
		166.2	**100.0**		160.2	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 2024 NERL had access to undrawn bank facilities totalling £400m;

> 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:

	2024 £m	2023 £m
Average monthly UK en route services income	**72.1**	53.3
Free cash at 31 March	**91.1**	57.7
Ratio of free cash to UK en route services income	**1.3**	1.1

The following table shows the ratio of the group's bank borrowings to its gross borrowings at 31 March:

	2024 £m	2023 £m
Bank borrowings	**-**	65.0
Gross borrowings (including lease liabilities)	**912.7**	965.1
Bank borrowings as a percentage of gross borrowings	**0%**	7%

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.

	2024				2023			
	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	**8.0**	**103.6**	**125.9**	**237.5**	9.2	62.4	121.2	192.8
Between one and two years	**8.9**	**57.7**	**3.2**	**69.8**	7.7	60.6	1.8	70.1
Due between two and five years	**21.1**	**214.5**	**0.4**	**236.0**	21.2	236.3	0.5	258.0
Due in more than five years	**13.0**	**617.5**	**6.8**	**637.3**	19.4	718.4	4.1	741.9
	51.0	**993.3**	**136.3**	**1,180.6**	57.5	1,077.7	127.6	1,262.8
Effect of interest, discount and unamortised bond issue and bank facility fees	**(4.3)**	**(128.4)**	**-**	**(132.7)**	(5.1)	(166.3)	-	(171.4)
	46.7	**864.9**	**136.3**	**1,047.9**	52.4	911.4	127.6	1,091.4

Other liabilities above include trade and other payables (excluding deferred income of £26.6m (2023: £24.7m), contract liabilities of £69.1m (2023: £77.1m) and taxes and social security liabilities of £14.2m (2023: £17.8m)).

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**
2024					
Index-linked swaps receivable	8.8	4.4	28.2	15.1	56.5
Index-linked swaps payable	(12.4)	(85.8)	-	(53.4)	(151.6)
	(3.6)	(81.4)	28.2	(38.3)	(95.1)
Foreign exchange forward contract receivables	287.6	24.4	16.4	-	328.4
Foreign exchange forward contract payables	(287.0)	(25.1)	(17.1)	-	(329.2)
	0.6	(0.7)	(0.7)	-	(0.8)
	(3.0)	**(82.1)**	**27.5**	**(38.3)**	**(95.9)**
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)**

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

	2024				2023			
	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	-	-	24.3	24.3	-	-	29.7	29.7
Derivative financial instruments in designated hedge accounting relationships	-	2.1	-	2.1	-	3.1	-	3.1
	-	2.1	24.3	26.4	-	3.1	29.7	32.8
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(2.3)	-	(2.3)	-	(1.6)	-	(1.6)
Derivative financial instruments classified as held for trading	-	(79.8)	-	(79.8)	-	(81.6)	-	(81.6)
	-	(82.1)	-	(82.1)	-	(83.2)	-	(83.2)

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	
	2024 £m	2023 £m	**2024 £m**	2023 £m
Financial liabilities				
£450m 1.375% Bonds due 2031	**(453.1)**	(446.2)	**(390.5)**	(386.3)
£445m 1.750% Bonds due 2033	**(412.9)**	-	**(348.4)**	-
£300m 1.750% Bonds due 2033	**-**	(297.1)	**-**	(224.9)
£145m 1.750% Bonds due 2033	**-**	(104.4)	**-**	(108.7)
	(866.0)	(847.7)	**(738.9)**	(719.9)

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

	2024 £m	2023 £m
Current		
Trade payables	**29.1**	24.1
Other payables	**9.8**	8.7
Tax and social security	**14.2**	17.8
Contract liabilities	**21.3**	21.6
Accruals and deferred income	**89.1**	90.4
	163.5	162.6
Non-current		
Trade payables	**6.0**	3.7
Other payables	**0.1**	0.1
Contract liabilities	**47.8**	55.5
Accruals and deferred income	**28.8**	25.3
	82.7	84.6

Amounts payable under regulatory agreement

	2024 £m	2023 £m
Current		
Amounts payable under regulatory agreement	**9.3**	91.4
Non-current		
Amounts payable under regulatory agreement	**45.5**	50.2

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 23 days (2023: 29 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

Notes forming part of the consolidated accounts

22. Financial and other liabilities (continued)

Movements in Amounts payable under regulatory agreement

	2024 £m	2023 £m
Balance at the beginning of the year	**141.6**	169.1
Amounts recognised during the year	**26.1**	7.3
Unwind of discounting	**3.3**	2.2
Amounts repaid under regulatory agreement through charges	**(116.2)**	(37.0)
Balance at the end of the year	**54.8**	141.6

Amounts payable under regulatory agreement that are non-current include regulatory allowances over-recovered from previous regulatory control periods and over recoveries in respect of the current regulatory period, which will be repaid after 31 March 2025 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 2025 through 2024 and 2025 charges.

23. Provisions

	Property £m	**Redundancy £m**	**Relocation £m**	**Other £m**	**Total £m**
At 1 April 2023	12.3	0.3	0.1	3.9	16.6
Additional provision in the year	1.3	2.0	-	8.4	11.7
Release of provision in the year	(3.7)	-	-	-	(3.7)
Utilisation of provision	(0.4)	(1.3)	(0.1)	(0.4)	(2.2)
At 31 March 2024	**9.5**	**1.0**	**-**	**11.9**	**22.4**

	2024 £m	2023 £m
Amounts due for settlement within 12 months	**4.4**	2.4
Amounts due for settlement after 12 months	**18.0**	14.2
	22.4	16.6

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 2024. 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 latter includes a liability of £6.2m for the legal obligation to continue to finance the Aquila joint venture based on the undrawn balance of its £25m shareholder loan facility (see note 34). The ageing of the provision reflects the best estimate of when these potential liabilities will fall due.

Notes forming part of the consolidated accounts

24. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £m	Retirement benefits £m	Financial instruments £m	Tax credits and unutilised tax losses £m	Other £m	Total £m
At 1 April 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**
At 1 April 2023	196.8	14.7	(0.4)	(1.3)	(11.9)	197.9
Charge/(credit) to income	19.5	-	(0.1)	(1.2)	1.2	19.4
Credit to equity	-	(11.4)	(0.4)	-	-	(11.8)
At 31 March 2024	**216.3**	**3.3**	**(0.9)**	**(2.5)**	**(10.7)**	**205.5**

The accelerated tax depreciation deferred tax liability arises as a result of timing differences between the accounting under IFRS of Other intangible assets and Property, plant and equipment and UK tax law. Of the balance at 31 March 2024, £20.9m is expected to reverse out of deferred tax liabilities within five years.

The deferred tax liability in respect of retirement benefits is a result of the defined benefit surplus at 31 March 2024, under IAS 19: *Employee benefits*. The timing of reversal of timing differences relating to the defined benefit scheme is dependent on the scheme's funding position, which is sensitive to financial market conditions and which can be volatile, and the company's contributions to the scheme. The company is currently making payments under a schedule of contributions that includes ongoing costs at 66.2% of pensionable pay as well as deficit recovery payments to repair the funding deficit by 31 December 2029. See note 32 for more details. The schedule of contributions is expected to be reassessed following the conclusion of the trustees 2023 valuation.

The tax credits and unutilisied losses deferred tax liability is expected to reverse during the year ending 31 March 2025.

Other deferred tax assets arise from property reinstatement provisions and above the line tax credits. Property reinstatement conditions provide for the cost of reinstating a leased property back to its original condition at the point of lease expiry. Of the current balance, £10.7m, is expected to reverse in greater than five years, reflecting the lease term.

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.

	2024 £m	2023 £m
Deferred tax liabilities	**219.6**	211.5
Deferred tax assets	**(14.1)**	(13.6)
	205.5	197.9

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 2024 and 31 March 2023	144,100,007	144.1	131,000,007	131.0
Ordinary A shares of 80 pence each				
At 31 March 2024 and 31 March 2023	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 2024 and 31 March 2023	**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 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)**
At 1 April 2023	(0.3)	0.6	3.2	(34.7)	(31.2)
Other comprehensive loss for the year	-	(1.1)	(0.3)	-	(1.4)
At 31 March 2024	**(0.3)**	**(0.5)**	**2.9**	**(34.7)**	**(32.6)**

[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 2024, 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

	2024 £m	2023 £m
Operating profit from continuing operations	**384.6**	174.1
Adjustments for:		
Impairment of goodwill	**-**	2.9
Depreciation of property, plant and equipment	**48.4**	45.6
Amortisation of intangible assets	**51.0**	42.7
Depreciation of right-of-use assets	**5.4**	6.3
Impairment losses	**19.4**	9.7
Deferred grants released	**(0.4)**	(0.6)
Loss on disposal of property, plant and equipment	**0.2**	0.2
R&D expenditure above the line tax credits	**(4.5)**	(1.6)
Adjustment for pension funding	**(101.5)**	(19.7)
Operating cash flows before movements in working capital	**402.6**	259.6
Decrease in amounts recoverable under contracts	**-**	1.4
Increase in trade, other receivables and amounts recoverable under regulatory agreement	**(56.0)**	(39.5)
Decrease in trade, other payables, provisions and amounts payable under regulatory agreement	**(91.1)**	(34.0)
Cash generated from operations	**255.5**	187.5

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.

	2024 £m	2023 £m
Cash and cash equivalents	**166.2**	160.2
Borrowings	**(864.9)**	(911.4)
Lease liabilities	**(46.7)**	(52.4)
Net debt	**(745.4)**	(803.6)
Index-linked swaps	**(79.8)**	(81.6)
Net financial liabilities	**(825.2)**	(885.2)
Cash and liquid investments	**166.2**	160.2
Gross debt - fixed interest rates (net of unamortised bond issue costs)	**(912.7)**	(900.1)
Gross debt - variable interest rates (net of unamortised bank facility fees)	**1.1**	(63.7)
Net debt	**(745.4)**	(803.6)
Index-linked swaps	**(79.8)**	(81.6)
Net financial liabilities	**(825.2)**	(885.2)

Amounts shown in the table above under “Gross debt - variable interest rates” for 2024 relate to unamortised bank facility fees.

Notes forming part of the consolidated accounts

29. Notes to the cash flow statement (continued)

Reconciliation of net financial liabilities (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	Bank loans (ii) £m	Sub-total £m	Index-linked swaps £m	Total £m
Net financial liabilities as at 1 April 2023	160.2	(52.4)	(847.7)	(63.7)	(803.6)	(81.6)	(855.2)
Cash flows	6.1	10.1	-	65.4	81.6	10.8	92.4
New leases in the year	-	(2.7)	-	-	(2.7)	-	(2.7)
Effect of modification to lease terms	-	(1.7)	-	-	(1.7)	-	(1.7)
Fair value movements on index-linked swaps	-	-	-	-	-	(9.0)	(9.0)
Foreign exchange adjustments	(0.1)	-	-	-	(0.1)	-	(0.1)
Other changes:							
Interest expense	-	(1.1)	(14.0)	(2.0)	(17.1)	(0.8)	(17.9)
Interest payments (presented as financing cash flows)	-	1.1	-	2.0	3.1	0.9	4.0
Interest income	-	-	-	-	-	8.4	8.4
Interest receipts (presented as financing cash flows)	-	-	-	-	-	(8.5)	(8.5)
Other non-cash movements (iii)	-	-	(4.3)	(0.6)	(4.9)	-	(4.9)
Net financial liabilities as at 31 March 2024	**166.2**	**(46.7)**	**(866.0)**	**1.1**	**(745.4)**	**(79.8)**	**(825.2)**

Notes forming part of the consolidated accounts

29. Notes to the cash flow statement (continued)

Reconciliation of net financial liabilities (continued)

	Assets	Liabilities from financing activities (excluding derivatives)			Net debt	Derivatives	Net financial liabilities
	Cash and cash equivalents £m	Lease liabilities £m	Bonds (i) £m	Bank loans (ii) £m	Sub-total £m	Index-linked swaps £m	Total £m
Net financial liabilities as at 1 April 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 changes:							
Interest expense	-	(1.4)	(11.6)	(8.2)	(21.2)	-	(21.2)
Interest payments (presented as financing cash flows)	-	1.4	11.6	7.5	20.5	-	20.5
Interest income	-	-	-	-	-	7.3	7.3
Interest receipts (presented as financing cash flows)	-	-	-	-	-	(7.3)	(7.3)
Other non-cash movements (iii)	-	0.5	(1.4)	(1.6)	(2.5)	-	(2.5)
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 £4.3m (2023: £1.4m) and amortisation of bank facility fees net of accrual movements of £0.6m (2023: £1.6m).

Notes forming part of the consolidated accounts

30. Financial commitments

	2024 £m	2023 £m
Amounts contracted but not provided for in the accounts	**60.1**	48.7

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 2024 was £4.9m (2023: £7.8m).

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 2024**	No. employee shares outstanding at 31 March 2023
Free share awards			
21 September 2001	3,353,742	**120,691**	147,600
20 October 2003	2,459,000	**114,258**	140,012
10 September 2004	1,966,000	**168,720**	215,520
11 January 2008	1,071,840	**130,740**	172,088
18 September 2009	963,200	**146,506**	193,106
Partnership shares			
1 March 2011	694,783	**129,100**	174,498
26 September 2012	714,959	**156,563**	216,441
30 May 2014	496,738	**135,817**	190,157
31 October 2016	530,303	**183,643**	275,121
31 October 2018	635,048	**287,959**	485,968
Matching shares			
1 March 2011	694,783	**129,707**	175,125
26 September 2012	714,959	**158,154**	217,141
30 May 2014	496,738	**136,410**	190,283
31 October 2016	530,303	**184,436**	275,120
31 October 2018	635,048	**293,670**	490,887
		2,476,374	3,559,067
Dividend shares issued on 28 June 2005	247,017	**14,964**	17,949
Total employee shares in issue at 31 March		**2,491,338**	3,577,016

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 2024	Movement in the no. of shares during the year ended 31 March 2023
Balance at 1 April	**3,577,016**	4,066,975
Exercised during the year	**(1,085,678)**	(489,959)
Balance at 31 March	**2,491,338**	3,577,016

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 signficant event arises which has a material impact on the share value. As at 31 March 2024 the price of an employee share was valued at £5.45 (2023: £3.70). The liability for the employee shares at 31 March 2024 was £13.6m (2023: £13.3m) and is included in other accruals and deferred income. The income statement includes a cost of £5.4m (2023: £6.7m cost). Payments made to leavers and current employees for the shares they exercised during the year was £4.8m (2023: £5.9m).

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 of 2:1, up to a maximum employer contribution of 18%. For the year ended 31 March 2024 employer contributions of £25.5m (2023: £20.5m), excluding employee salary sacrifice contributions of £15.0m (2023: £11.5m), represented 15.9% of pensionable pay (2023: 16.3%).

The defined contribution scheme had 2,336 members at 31 March 2024 (2023: 2,108).

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 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:

	2024 No.	2023 No.
Active members	**1,456**	1,550
Deferred members	**957**	1,016
Pensioners	**3,118**	3,011
	5,531	5,577

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, £26.6m and £27.2m in calendar years 2021, 2022 and 2023 respectively. From 1 January 2024 to 31 December 2029, deficit recovery contributions will be paid at £27.8m in 2024 and increase annually by 2.37% for 2025 to 2029.

During the year the group paid cash contributions to the scheme of £141.1m (2023: £89.6m). This amount included £8.7m (2023: £7.1m) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice and past service costs, employer cash contributions were paid at a rate of 85.3% (2023: 67.2%) of pensionable pay.

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2025 is £133.7m, including salary sacrifice contributions estimated at £8.3m.

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. See note 3.

Notes forming part of the consolidated accounts

32. Retirement benefit schemes (continued)

Company's accounting valuation under international accounting standards (continued)

An actuarial valuation for IAS 19 purposes was carried out at 31 March 2024 (based on 31 December 2023 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:

	2024	2023	2022
RPI inflation	**2.95%**	3.05%	3.40%
CPI inflation	**2.60%**	2.65%	2.95%
Increase in:			
- salaries	**2.60%**	2.65%	2.95%
- deferred pensions	**2.95%**	3.05%	3.40%
- pensions in payment	**2.95%**	3.05%	3.40%
Discount rate for net interest expense	**4.90%**	4.80%	2.75%

The mortality assumptions have been drawn from actuarial tables 105% S3PMA light and 103% S3PFA light (2023: 105% S3PMA light and 103% S3PFA light) with future improvements in line with CMI 2022 (2023: CMI 2019) projections for male/female members, subject to a long-term improvement of 1.5% p.a. (2023: 1.5% p.a.). These tables assume that the life expectancy, from age 60, for a male pensioner is 27.9 years and a female pensioner is 29.9 years. Allowance is made for future improvements in longevity, such that based on the average age of the current active membership (48), when these members reach retirement, life expectancy from age 60 will have increased for males to 28.9 years and for females to 30.9 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)

Company's accounting valuation under international accounting standards (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 7.6%/increase by 8.6%
Rate of inflation	Increase/decrease by 0.5%	Increase by 8.5%/decrease by 7.6%
Rate of pensionable salary growth	Increase/decrease by 0.5%	Increase by 1.6%/decrease by 1.5%
Rate of mortality	1 year increase in life expectancy	Increase by 2.7%

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:

	2024 £m	2023 £m
Current service cost	**(43.6)**	(78.8)
Net interest credit	**6.2**	10.8
Administrative expenses	**(2.2)**	(1.9)
Components of defined benefit costs recognised within operating profit	**(39.6)**	(69.9)

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

	2024 £m	2023 £m
Return on plan assets (excluding amounts included in net interest expense)	**(315.0)**	(1,849.1)
Actuarial gains and losses arising from changes in financial assumptions	**83.8**	1,786.2
Actuarial gains and losses arising from changes in demographic assumptions	**56.9**	-
Actuarial gains and losses arising from experience adjustments	**27.6**	(240.0)
	(146.7)	(302.9)

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

	2024 £m	2023 £m
Present value of defined benefit obligations	**(3,371.1)**	(3,486.0)
Fair value of scheme assets	**3,384.6**	3,544.7
Surplus in scheme	**13.5**	58.7

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:

	2024 £m	2023 £m
At 1 April	**(3,486.0)**	(4,957.7)
Current service cost	**(43.6)**	(78.8)
Interest expense on defined benefit scheme obligations	**(163.6)**	(134.4)
Actuarial gains and losses arising from changes in financial assumptions	**83.8**	1,786.2
Actuarial gains and losses arising from changes in demographic assumptions	**56.9**	-
Actuarial gains and losses arising from experience adjustments	**27.6**	(240.0)
Benefits paid	**153.8**	138.7
At 31 March	**(3,371.1)**	(3,486.0)

The average duration of the scheme's liabilities at the end of the year is 16.9 years (2023: 18.1 years). The present value of the defined benefit obligation can be analysed by member group as follows:

	2024 £m	2023 £m
Active members	**(1,137.7)**	(1,190.4)
Deferred members	**(305.7)**	(326.1)
Pensioners	**(1,927.7)**	(1,969.5)
	(3,371.1)	(3,486.0)

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

	2024 £m	2023 £m
At 1 April	**3,544.7**	5,299.6
Interest income on scheme assets	**169.8**	145.2
Return on plan assets (excluding amounts included in net interest expense)	**(315.0)**	(1,849.1)
Contributions from sponsoring company	**141.1**	89.6
Benefits paid	**(153.8)**	(138.7)
Administrative expenses	**(2.2)**	(1.9)
At 31 March	**3,384.6**	3,544.7

Notes forming part of the consolidated accounts

32. Retirement benefit schemes (continued)

The major categories of scheme assets were as follows:

	2024 £m	2023 £m
Cash and cash equivalents	**85.3**	325.4
Equity instruments		
- Emerging markets	**172.7**	86.4
- Global	**639.7**	430.0
	812.4	516.4
Bonds		
- Fixed income	**664.8**	716.2
- Index-linked gilts over 5 years	**1,225.0**	1,406.3
	1,889.8	2,122.5
Other investments		
- Property	**123.0**	112.5
- Hedge funds	**239.4**	220.4
- Private equity funds	**130.7**	142.0
- Other	**102.1**	104.7
	595.2	579.6
Derivatives		
- Futures contracts	**1.9**	0.8
	3,384.6	3,544.7

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.

Scheme assets of £3,384.6m (2023: £3,544.7) include equity and debt instruments of £138.8m (2023: £262.9m) with 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. Investments that do not have a quoted market price in an active market, totalling £3,245.8m (2023: £3,281.8m), are measured using their most recent net asset valuations adjusted for cash movements between the latest valuation date and 31 March 2024. 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 2024.

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 2024 was a loss of £145.2m (2023: £1,703.9m loss).

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. Transactions occur on an arm's length basis.

AG is a consortium of British Airways plc, Deutsche Lufthansa AG, easyJet Airline Company Limited, the Pension Protection Fund, 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 seven 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 2024 £m	Year ended 31 March 2023 £m	**Year ended 31 March 2024 £m**	Year ended 31 March 2023 £m	**Year ended 31 March 2024 £m**	Year ended 31 March 2023 £m	**Year ended 31 March 2024 £m**	Year ended 31 March 2023 £m
LHR Airports Limited	**52.3**	48.1	**1.1**	1.0	**5.6**	4.1	**0.1**	0.1
Ministry of Defence (MOD)	**46.6**	44.0	**2.0**	2.1	**5.2**	0.3	**19.2**	10.7
The Airline Group Limited (AG)	**-**	-	**0.4**	0.2	**-**	-	**-**	-
Department for Transport (DfT)	**0.9**	0.6	**-**	-	**0.2**	0.2	**-**	-
Meteorological Office	**0.3**	0.3	**0.8**	0.8	**-**	-	**-**	0.1
European Satellite Services Provider SAS	**0.1**	0.1	**-**	-	**-**	-	**-**	-
Aquila Air Traffic Management Services Limited	**14.1**	14.6	**0.5**	1.1	**2.5**	1.8	**0.4**	0.2

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 (2023: £nil) have been made in respect of amounts owed by related parties above, however an impairment of our net joint venture investment in Aquila has been recognised, see note 34.

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.

	2024 £m	2023 £m
Short-term employee benefits	**11.1**	11.0
Post-employment benefits	**0.5**	0.6
Termination benefits	**0.1**	0.1
	11.7	11.7

Notes forming part of the consolidated accounts

34. Subsidiaries, joint ventures and associates

The group's subsidiaries at 31 March 2024, 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 2206, Mazaya AA1 Building, Mazaya Business Avenue, Jumeirah Lakes Tower, 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.

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

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 2024, 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.

Summarised financial information relating to the associate and joint venture

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. For the purposes of applying the equity method of accounting, the financial statements of ESSP for the year ended 31 December 2023 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)

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 and its joint venture partner provide Aquila with a shareholder loan facility of up to £50m, with each party providing an equal share of the facility of £25m. At 31 March 2024, the group's share of outstanding loan to Aquila, including interest of £0.6m (2023: £0.4m), was £18.8m (2023: £8.8m). Aquila had drawn down £9.4m (net) in the year (2023: £0.5m draw down (net)).

Aquila's latest business plan is projecting an onerous obligation following an increase in costs for the period through to the completion of its Project Marshall contract. Unaudited management accounts for Aquila for 2024 are not available for the year. However, based on information available to NATS, the expected loss exceeds the carrying amount of the group's net investment. The group considers that the prospects for the recovery of its investment and shareholder loan at the end of the contract to be remote. As a result, the group has: recognised its share of losses up to the carrying value of the investment brought forward at 1 April 2023 of £4.5m; impaired the outstanding balance of the shareholder loan to Aquila of £18.8m; and made a provision for a liability of £6.2m for the legal obligation to enable Aquila to draw on the shareholder loan facility up to its limit of £25m. The group has reported an aggregate amount of £29.5m relating to its share of losses and impairment of its net investment in joint venture on the face of the income statement.

	2024 £m
Share of loss of joint venture up to the carrying value of the investment brought forward at 1 April 2023	4.5
Legal obligation: undrawn balance of £25m joint venture loan facility (see note 23)	6.2
	10.7
Impairment of loan to joint venture	**18.8**

In addition, since contract inception, NATS Services has provided a parent company guarantee to the MOD to secure Aquila's performance under its contract (see note 30). The effect of this guarantee is to compensate the MOD for the costs of a retender exercise in the event of contract termination by Aquila, which is not contemplated. The cost to NATS Services in that event is estimated at £27m until completion of an operational service deployment contract milestone, expected in June 2025, and then £25m until contract completion in 2037.

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:

	2024[i]	2023	
	Associate ESSP £m	Associate ESSP £m	Joint venture Aquila £m
Non-current assets	**2.4**	1.9	41.8
Current assets	**47.7**	33.4	10.8
Current liabilities	**(28.9)**	(17.6)	(40.8)
Non-current liabilities	**(0.1)**	(0.1)	-
Net assets of associate/joint venture	**21.1**	17.6	11.8
Group share	**3.5**	2.9	5.9
Impairment provision brought forward	**-**	-	(1.7)
Impairment reversal recognised in income statement	**-**	-	0.3
Carrying amount of the group's interest in associate/joint venture	**3.5**	2.9	4.5
Revenue	**53.1**	62.2	100.8
Profit after tax for the year	**7.0**	5.2	1.1
Group share	**1.2**	0.9	0.6
Impairment reversal recognised in income statement	**-**	-	0.3
Group share of profit after tax and impairment[ii]	**1.2**	0.9	0.9
Dividends received	**(0.5)**	(0.6)	-
Other comprehensive (loss)/income	**(0.1)**	0.1	-

(i) Summarised financial information for the Aquila joint venture for 2024 is not disclosed as unaudited management accounts are not available. As explained above, the NATS share of Aquila's losses for the year will exceed the carrying value of the investment brought forward at 1 April 2023 of £4.5m and have been recognised up to this amount.

(ii) The Share of results of associate and joint venture in the prior year income statement contains a £0.2m profit in relation to FerroNATS which is not included in the above table. The Group sold its 50% share in FerroNATS Air Traffic Services SA in January 2023.

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.

36. Events after the reporting period

NERL was served by an airline in April 2024 with a High Court claim for compensation of c. £4.6m plus interest for flight cancellations and delays said to have arisen as a consequence of actions taken to fulfil our statutory obligation to maintain air traffic control safety following a technical incident impacting our flight plan processing system in August 2023. At this very early stage, the directors do not currently expect this is likely to result in a material financial loss to the group.

Company balance sheet

At 31 March

	Notes	2024 £m	2023 £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 2024 the company recognised a profit of £nil (2023: £nil).

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 27 June 2024 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 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**
At 1 April 2023	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 2024	**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

Profit for the year has been arrived at after charging:

	2024 £m	2023 £m
Staff costs	**-**	-
Auditor's remuneration	**-**	-

	2024 No.	2023 No.
Executive directors	**2**	2
Non-executive directors	**10**	10
	12	12

Detailed disclosure of the remuneration of the directors is provided in the Remuneraton Committee's report on pages 54 to 69.

The company incurred no charge to current or deferred taxes in the year (2023: £nil).

Notes forming part of the company accounts

4. Investments

	Investments in subsidiary undertakings £m
Investments at 31 March 2024 and 31 March 2023	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 2024 (2023: 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

2023	Financial year ended 31 March 2023
2024	Financial year ended 31 March 2024
3Di	3 Dimensional Flight Inefficiency Metric
ACOG	Airspace Change Organising Group
ADS-B	Automatic Dependent Surveillance-Broadcast
AESOP	All-Employee Share Ownership Plan
AG	The Airline Group Limited
AIREON	Aireon LLC, subsequently Aireon Holdings LLC
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
CDP	Climate Disclosure Project
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMA	Competition and Markets Authority
CPI	Consumer Prices Index
DACF	Debt-Adjusted Cash Flows
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
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
INEA	Innovation and Networks Executive Agency
ISO	International Organisation for Standardisation
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
RP3	Reference Period 3 (2020-2024)
RPI	Retail Prices Index
S-ACM	Strategic Airport Capacity Manager
SAF	Sustainable Aviation Fuel
SBTi	Science Based Targets initiative
SEARIDGE	Searidge Technologies Inc
SESAR	SES ATM Research
SPA	Strategic Partnership Agreement
SMS	Safety Management System
TCFD	Taskforce for Climate Related Financial Disclosures
UAS	Unmanned Aircraft Systems

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 to the value of derivatives reported 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. 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 2023 the value of NERL's RAB was £2,047.5m.

	2024 £m
Net debt (per note 29)	**(745.4)**
Inclusion of items as defined in financial covenants:	
Unamortised bond discount	(37.9)
Unamortised bond issue cost and bank facility fees	(6.2)
RPI swaps stated on a bank covenant valuation basis	(79.0)
Exclusion of items as defined in financial covenants:	
Lease liabilities recognised on adoption of IFRS 16	46.3
Non-NERL cash balances	(75.1)
Net debt (as defined in NERL's finance documents)	**(897.3)**
Regulatory Asset Base at 31 March 2024	**2,139.2**
Gearing	**41.9%**

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.

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Net cash generated from/(used in) operating activities	200.1	183.5	(172.5)
Net cash outflow from investing activities	(112.3)	(112.2)	(120.0)
Net cash (outflow)/inflow from financing activities	(81.7)	(59.3)	168.2
Increase/(decrease) in cash and cash equivalents during the year	6.1	12.0	(124.3)
Advances of en route charges	-	-	67.4
Net bonds (issued)/repaid	-	(105.5)	(456.9)
Bond and bank arrangement fees	0.4	1.7	9.4
Repayment of obligations under finance leases	10.1	6.9	7.0
Repayment of bank facilities	65.0	175.0	435.0
Drawdown on bank facilities	-	(40.0)	(240.0)
Index-linked swap repayment	10.8	8.0	61.3
Total debt adjustments	86.3	46.1	(116.8)
Debt-adjusted cash flow	**92.4**	**58.1**	**(241.1)**

3 **Adjusted revenue and regulatory allowances and profit before tax:** Excludes income recognised at the reporting date that relates to a service provided in a prior year for which variable consideration had been estimated previously. NERL was required to provide a continuous ATC service during Covid, in spite of air travel restrictions in place. The CAA undertook a retrospective reconcilliation subsequently of the flight income and costs during the Covid period (2020 to 2022) to determine the income shortfall due to NERL. The CAA confirmed the outcome of its retrospective reconcilliation and the value of the Covid income shortfall alongside its decision on the NR23 price control in November 2023. In 2024 NERL recognised the difference between the CAA's value and previously recognised variable consideration. An equivalent adjustment for 2023 reflected an assessment of variable consideration at the reporting date based on the CAA's initial proposals of October 2022.

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Revenue and regulatory allowances - IFRS	1,189.0	930.0
Adjustment for the assessment of regulatory allowances recognised in the period (see note 17)	(123.2)	(23.2)
Adjusted revenue and regulatory allowances	**1,065.8**	**906.8**
Profit before tax - IFRS	371.5	148.5
Adjustment for the assessment of regulatory allowances recognised in the period (see note 17)	(123.2)	(23.2)
Adjusted profit before tax	**248.3**	**125.3**

Alternative performance measures

4 **Regulatory return - adjusted:** Calendar year Regulatory profit divided by Average Regulatory Asset Base (RAB), excluding income recognised at the reporting date that relates to a service provided in a prior year for which variable consideration had been estimated previously.

Regulatory profit represents NERL's calendar year regulatory income less costs, as prepared under the Regulatory Accounting Guidelines (RAGs), specified in NERL's licence; rather than on an IFRS accounting basis. Regulatory profit divided by the Calendar year average RAB determines regulatory return. These values are derivable from NERL's 31 December 2023 regulatory accounts.

Adjusted regulatory return reflects NERL's reported regulatory return adjusted for an assessment of regulatory allowances recognised in the period, on a regulatory rather than IFRS basis.

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Regulatory return	223.0	34.6
Adjustment for the assessment of regulatory allowances recognised in the period (regulatory basis)	(125.6)	(34.0)
Adjusted regulatory return	97.4	0.6
Average Regulatory Asset Base (RAB)	1,989.2	1,589.7
Adjusted Regulated rate of return	**4.9%**	**0.0%**

Explanatory notes

5 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.

6 The three-dimensional inefficiency score (3Di) measures the environmental efficiency of a flight by comparing its actual radar track to an optimal profile. A lower score represents better flight efficiency. NATS has made the 3Di environmental insight tool freely available to aviation stakeholders to use to track their carbon efficiency.

7 Best Companies are employee engagement specialists, who's methodology formerly underpinned the Times Top 100 best companies to work.

8 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.

9 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.

10 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.

11 Link to Pay Gap Report: https://www.nats.aero/wp-content/uploads/2024/04/PayReport2023_Final.pdf

12 Link to NATS Slavery and Human Trafficking statement 2023: https://www.nats.aero/wp-content/uploads/2023/08/Modern_Slavery_Annual_Statement_-April_2023.pdf

13 Link to Responsible Business policy: https://www.nats.aero/wp-content/uploads/2018/03/EMP01RB.pdf

14 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

Taxation

Country-by-country reporting (CBCr)

The table below sets out the scale of activities in the countries we operate in.

2024	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	Current tax £m	Deferred tax £m	Monthly average number of employees No.	Tangible and intangible assets other than Cash and cash equivalents £m	Net assets £m
United Kingdom[1]	1,183.0	581.8	1,764.8	379.5	55.4	74.6	20.8	4,356	1,144.4	1,158.4
Canada	2.5	1.2	3.7	(6.1)	-	(0.1)	(1.4)	62	2.5	11.5
Hong Kong	3.5	-	3.5	0.2	0.1	0.1	-	14	0.2	3.5
UAE	-	2.3	2.3	-	-	-	-	11	0.1	0.2
Singapore	0.8	0.3	1.1	(1.5)	-	-	-	8	-	(12.2)
USA[2]	-	-	-	(4.7)	(0.1)	-	-	-	-	24.2
Other	0.1	0.2	0.3	(0.7)	-	-	-	1	-	1.0
Consolidation adjustments	(0.9)	(585.8)	(586.7)	4.8	-	-	-	-	(1.2)	(271.8)
Total	**1,189.0**	**-**	**1,189.0**	**371.5**	**55.4**	**74.6**	**19.4**	**4,452**	**1,146.0**	**914.8**

[1] The information aggregates the activities of NATS local legal entities and its branches. Except for employee numbers all figures are stated to the nearest £m. The group operates a single third party contract in Gibraltar which is not disclosed for reasons of commercial confidentiality.

[2] NATS (USA) Inc is a holding company and loss before tax is an investment impairment.

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Customer website

Our dedicated customers website www.customer.nats.co.uk provides the latest news, operational information, meeting details, contacts and links to other resources.

Customer Forums

We have a number of forums for engaging with customers including our monthly lookahead sessions, Lead Operator for airspace design, Service & Investment Plan consultation as well as future price control consultations. Please get in touch for any more information.

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