NATS (En Route) plc

Financial statements
Year ended 31 March 2022

Company Number: 04129273

Financial highlights (year ended 31 March)

£m (unless specified)	2022	2021	Change (%)
Revenue and regulatory allowances	617.9	687.2	-10.1
Loss before tax	(5.1)	(34.2)	+85.1
Cash used in operations	(185.1)	(258.4)	+28.4
Capital expenditure	95.4	74.3	+28.4
Net debt[a]	943.1	599.0	+57.4
Gearing[b] (%)	60.1%	49.6%	+21.2
Dividends	nil	nil	-

Notes: [a] see note 25 to the financial statements. Net debt excludes derivative financial instruments; [b] ratio of NERL's net debt (as defined by its licence) to regulatory assets[1]

- We handled 1.29m flights (2021: 661,000) as Covid travel restrictions lifted. Whilst a 95% increase on the prior year, this was still only equivalent to 50% of pre-pandemic volumes, resulting in an operating cash outflow before capital investment and financing of £185.1m (2021: £258.4m outflow).
- The company reported a loss of £5.1m, after refinancing costs of £41.7m. As for the prior year, the result includes an assessment of regulatory allowances for the Covid revenue shortfall which are being determined by the CAA's retrospective reconciliation of revenue and costs. The prior year loss included redundancy costs (of £56.9m) and a goodwill impairment charge (of £111m).
- In June 2021, we completed a full refinancing of its debt structure. It secured £1.6bn of funding by issuing £750m of unsecured bonds and agreed £850m of new unsecured bank facilities. This enabled the repayment of more expensive secured bonds in place since 2003 and of existing bank borrowings. The refinancing ensures the company is well placed for a range of recovery outcomes.

Operational highlights

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

[1] A number of explanatory notes are provided on page 103 of this report.

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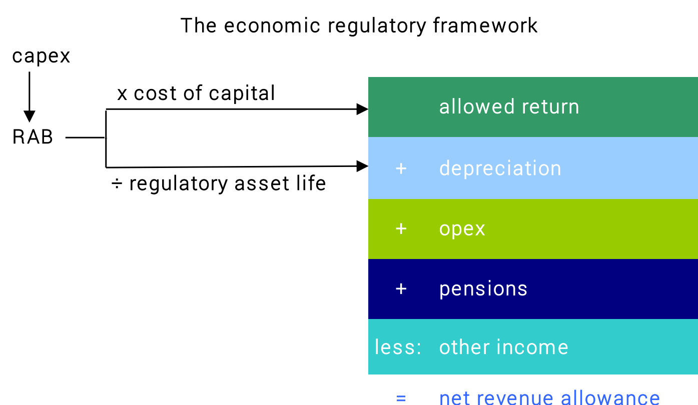
Our business model

We generate income from Air Traffic Control (ATC) services for aircraft flying en route in UK airspace and the eastern part of the North Atlantic as well as other ATC related services.

The company operates under a licence granted under the Transport Act 2000 as amended by the Air Traffic Management and Unmanned Aircraft Act 2021, and is economically and safety regulated by the CAA.

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

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



The CAA's price control framework also sets targets, and provides incentives, for service, environmental performance, capital investment and gearing levels.

If regulatory assumptions are borne out, and NERL efficiently meets its targets, then it would earn a return at the cost of capital. It can out-perform if it is more cost efficient than the CAA's assumptions, finances at lower cost, if traffic volumes (after risk sharing - see below) are higher than forecast or if it beats service targets. NERL would earn lower returns if the opposite applied.

Regulatory mechanisms mitigate the impact of variations in traffic volumes, inflation and pension contributions from the level assumed and result in adjustments to charges in future periods.

Our purpose

Advancing aviation, keeping the skies safe

Our values

Our company in 2040

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

Our strategy to 2040

NERL is the core business of the NATS group of companies whose ultimate parent is NATS Holdings Limited (NHL). As such NERL is a core contributor to the strategy of the NATS group, and its purpose and values are aligned with those of the NATS group.

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

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

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

Chief Executive's review

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

Last summer we completed a full debt refinancing which bolstered our financial resilience to the benefit of the aviation sector overall and to ensure we are well placed for a range of recovery outcomes.

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

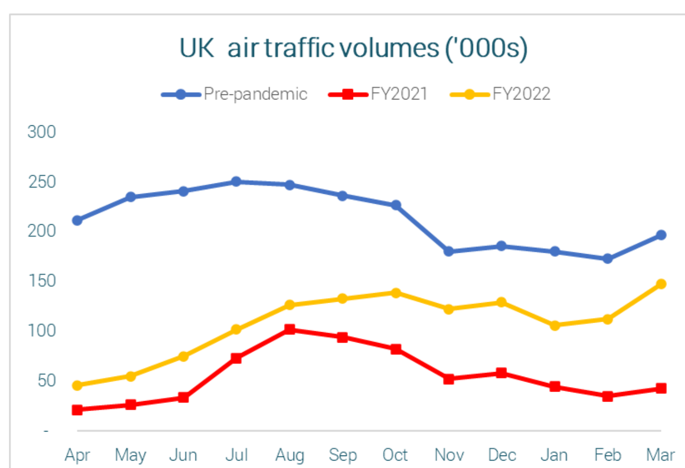
We set three priorities for this financial year to: deliver a safe, efficient and resilient service; secure our long-term finances; and simplify our business to take advantage of opportunities which we expect to arise post-Covid. We have maintained these priorities for this coming year as they remain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

Air traffic volumes

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

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

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

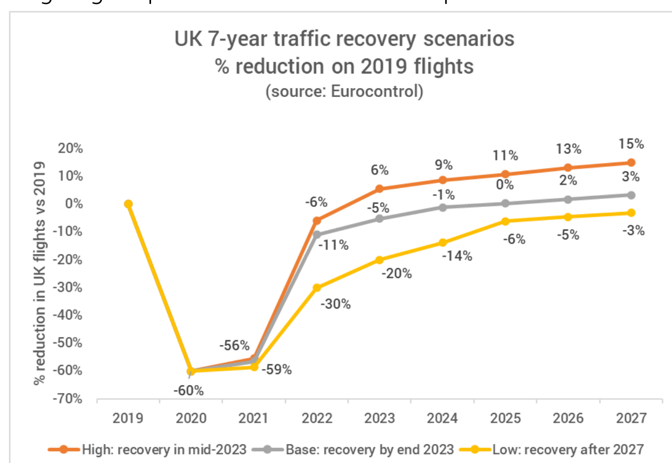


During the year, air traffic volumes started to recover from May 2021 with the gradual lifting of domestic and international travel restrictions, reflecting progress with vaccination programmes in the UK and Europe. This growth was not uniform across our network with some airspace sectors and airports much busier than others.

The emergence of the Omicron variant later in the year briefly curtailed the recovery but volumes picked up from February 2022.

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

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



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

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

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

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

Securing a revised regulatory settlement

The development of NERL's business plan for the NR23 price control was a significant focus this year. It was

developed in consultation with airline and airport customers, as well as being informed by passenger research (see page 25 for more information on the Board's engagement with stakeholders in this respect). Customers generally supported the continuation of safety, capacity and environmental metrics and targets while ensuring these are appropriately calibrated and sufficiently stretching for the level of flights forecast. They also supported a margin of resilience in operational resourcing to accommodate the potential for traffic to exceed base case demand. Passengers valued safety, environmental factors and resilience more than cost.

Overall our plan delivers:

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

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

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

Employee relations

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

While the economic environment has made for difficult conversations and a challenging period for industrial relations, we have sought to recognise everyone's contribution in supporting the company over the past two years. Despite the challenges the company has faced there have been several actions taken to protect employees during the pandemic, including for furloughed staff. At the peak of the pandemic's impact on traffic volumes in summer 2020, we had more than 1,800 staff

actively furloughed, almost all of whom continued to receive 100% of their pay. We also continue to provide attractive benefits, such as the defined benefit pension scheme for which we will contribute 66% of pay from 2023 while its 1,200 employee members generally contribute 6%. We recently offered staff a pay rise from January 2022, together with a lump sum to recognise the impact of current inflationary spikes. While, similar to many companies, challenges inevitably remain we continue to engage and consult in a constructive and positive manner seeking to balance the recognition of the contribution our employees make and the wider challenges facing the aviation sector.

A central priority is to significantly advance our progress toward creating a truly diverse and inclusive business at all levels to ensure that we retain and attract the very best talent. I feel that this year we made some real progress on that journey. We established a diversity and inclusion (D&I) steering group, which I chair, which includes D&I leads from across the business and our employee networks and trade union representatives. This followed the creation of a D&I vision by employees during National Inclusion Week, which we marked for the first time this year with a series of virtual sessions on D&I which engaged people across all areas and levels of the business. This is the first time that, despite the measures we have taken over the years to improve diversity, we have had a forward-looking and, rightly, ambitious D&I vision, which states what type of organisation we want to be. The most valuable aspect though comes from creating an inclusive, safe and enjoyable place to work for all of us. We have started to recruit again, after freezing new hires due to Covid, and we have reviewed our processes to ensure that we attract a broad range of talent enabled by a fair and inclusive process.

We are continuing to develop our operational service resilience as traffic recovers, and this is reflected already in our response to operational training. Our training college, which was closed during Covid, is now undertaking ab initio operational training. We have also continued to extend the sector validations of our air traffic controllers, achieving more new validations than planned. Our S172 statement provides a comprehensive review of the Board and executive engagement with employees in the year.

Our role in a sustainable future

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

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

While the greatest CO_2 savings for aviation are expected to be made through new aircraft and engine technology and sustainable fuels, these are still many years away. In the short term, managing our airspace to enable more efficient flying can play a crucial role in mitigating emissions. During the year we implemented free route airspace over Scotland by removing the long-established air routes above 25,000 ft, allowing aircraft the freedom to plan and fly their optimal route. This flexibility has not previously been possible, with our airspace structure

requiring aircraft to follow predefined routes. Up to 2,000 flights a day use this crucial part of UK airspace, which supports 80% of transatlantic traffic. This introduction, which is the biggest ever geographical airspace change in the UK, will help reduce airline costs, flight time, fuel burn and save 10,500 tonnes CO_2 emissions annually. We are now targeting free route airspace over Wales and South West England in 2023.

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

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

NERL's licence extension

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

Concluding remarks

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

Martin Rolfe, FRAeS
Chief Executive

Business review

Delivering a safe, secure, efficient and resilient service

- Service performance

Service performance: calendar year	2021		2020	
	Target	Actual	Target	Actual
C1: avg. en route delay all causes (seconds)	19.2	0.4	15.6	1.2
C2: NATS avg. delay per flight (seconds)	15.0	0.3	12.0	1.0
C3: delay impact (score)[3]	30.0	0.6	24.0	1.0
C4: delay variability (score)[3]	1,800.0	0.0	1,800.0	0.0
C3Di: 3Di metric (score)[4]	25.9-28.6	22.8	26.4 -29.2	23.9

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

Our service performance continued to reflect the low volumes of air traffic handled in the year, with negligible average delay per flight attributed to our operation and more fuel efficient flight profiles being achieved. These measures were well within the regulator's target which did not foresee the pandemic. As for the prior year, we have told customers and the regulator that we will not seek to recover our entitlement to a service bonus as performance has been driven largely by low traffic volumes associated with the impact of Covid.
While through the Covid period we have been able to contain average delay per flight at close to zero, as traffic recovers it is inevitable that this will increase. This is reflected in our proposed target for NR23 which is an average delay per flight of 10.8 seconds, consistent with pre-Covid levels of performance.

- Maintaining operational service resilience

Our priority following Covid has been to protect our employees while maintaining a safe and resilient air traffic control service for our airline and airport customers. Operational employees who continued to work from our two air traffic control centres, and at airports where we provide an ATC service, did so under social distancing rules. As a result we had to suspend our training and simulations capability. The collapse in flight volumes in 2020 also required a careful assessment of our future staffing, which resulted in the suspension of our ab initio training. We also faced the complexity of maintaining air traffic controller validity when combining periods of furlough alongside attendances in a low traffic environment.
Throughout the period since the outbreak of the pandemic, we have ensured that we have maintained the critical operational skills to support the recovery in aviation. The gradual lifting of government travel restrictions, social distancing rules and the start of a recovery in air traffic volumes enabled a phased and carefully managed return to training operational employees last summer and ab initio training in March 2022. At the start of the financial year, in anticipation of a recovery in demand last summer, we implemented a simulation programme for operational employees at our centres to maintain skills on higher levels of traffic. We also provided specific training to Prestwick controllers ahead of the deployment of free route airspace over Scottish airspace and to our terminal controllers at Swanwick for the airspace change for London Luton and Stansted airports.
Notwithstanding the challenges presented by the pandemic, the training programme this year delivered more validations to our en route operation than in the year prior to Covid and has enabled us to maintain the overall rosterable supply of controllers in spite of employee retirements in the period.

- Safety management

The focus of our safety management activities during the year was the mitigation of safety risk in anticipation of the recovery in air traffic volumes as Covid travel restrictions eased and eventually lifted.

As reported below, we continued to maintain a safe ATC service during this challenging period.

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

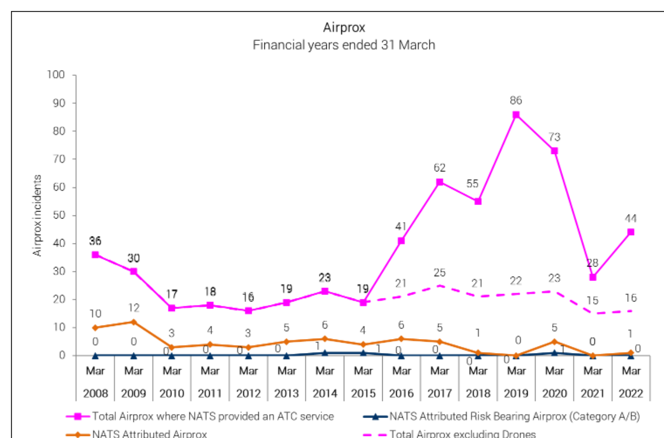
The low volume of air traffic movements for much of the year required continued heightened operational vigilance and situational awareness. We undertook comprehensive assessments of the risks associated with this environment and proactively reviewed the operational effectiveness of mitigating actions.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

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

- Safety performance

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

Our safety performance is measured using the Risk Analysis Tool (RAT[5], as a proxy for safety risk) to assess the severity of safety events and to drive the appropriate safety culture across the whole business, as well as the number of airprox incidents, which are assessed independently by the UK Airprox Board.



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

The RAT point score is measured on a calendar year basis. For 2021 we recorded 23.9 points per 100,000 flights (2021: 28.7). This included three severity B events against our target of less than 10. For each of the events a thorough investigation was performed and corrective actions have been taken. We met all our internal safety targets for the company.

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

Error Management to general aviation pilots through the Airspace & Safety Initiative website.

Technology transformation

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

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

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

Financial review

Results overview

The company reported a loss before tax of £5.1m (2021: £34.2m loss) and an operating cash outflow of £185.1m (2021: £258.4m outflow) as Covid continued to have a significant impact on our financial performance. The principal year on year movements explaining the result are summarised below:

	£m	£m
2021 loss before tax		(34.2)
Revenue and regulatory allowance changes		
UK en route revenue	(63.6)	
North Atlantic en route	12.4	
Other (net)	(18.1)	
		(69.3)
Operating cost changes		
Salaries and pensions	2.0	
Job retention scheme grant	(26.1)	
Voluntary redundancies	55.3	
Capitalised internal labour	14.4	
Staff costs		45.6
Depreciation and asset impairment	17.5	
Other non-staff costs net	(7.2)	
		10.3
Goodwill impairment		111.0
Finance cost changes		
Fair value movements	(44.2)	
Refinancing-related costs	(41.7)	
Other net finance costs	17.4	
		(68.5)
2022 loss before tax		(5.1)

The improvement in the result mainly reflected:

- in the prior year, costs of staff redundancies (of £56.9m) to reduce the cost base in response to Covid and goodwill impairment (of £111.0m);

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

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

After the tax charge, which is explained below, the company reported a loss of £40.7m (2021: £46.6m).

Protecting our liquidity in response to Covid

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

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

Refinancing

As a further response to the impact of Covid, in June 2021 NERL completed a full refinancing of its bank

facilities and its publicly traded bonds enabled by £750m of new fixed rate bonds and £850m of new bank facilities.

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

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

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

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

Revenue and regulatory allowances

	2022	2021
	£m	£m
Airspace	612.9	683.0
Other Service lines	5.0	4.2
Total	617.9	687.2

Overall, revenue and regulatory allowances at £617.9m (2021: £687.2m) were £69.3m lower than last year. The most significant developments relate to the Airspace service line. Revenue and regulatory allowances were £70.1m (10.3%) lower than last year overall. While revenue from contracts with customers and other revenue at £415.9m (2021: £270.0m) improved by £145.9m as a result of the growth in traffic volumes, regulatory allowances of £202.0m (2021: £417.2m) were £215.2m lower mainly reflecting our assessment of the effect of our cost reductions on the outcome of the CAA's retrospective reconciliation. In light of Covid, we agreed the CAA should determine the shortfall in regulatory allowances by reference to actual costs and revenue from flights in the three years 2020 to 2022. The practical effect of this mechanism is to enable NERL to recover its efficient costs for operating the UK's airspace infrastructure notwithstanding the collapse in flights and income to fund this licence obligation. Accordingly, alongside recovering more income from flights handled, NERL's ability to operate its service at lower cost during the financial year is reflected in a reduction in the regulatory allowances required to

make up the shortfall. In the prior year, regulatory allowances also included £36.9m to recover higher pension contributions in the Reference Period 2 (RP2) price control than the CAA had forecast.

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

Operating costs

Operating costs before goodwill impairment decreased by £55.9m or 9.6%, in large part reflecting staff redundancies net of furlough grant support in the prior year.

	2022	2021
	£m	£m
Staff costs (excl. redundancies and furlough grants)	(322.7)	(339.1)
Staff redundancies	(1.6)	(56.9)
Job retention scheme grant	4.3	30.4
Non-staff costs	(129.9)	(123.3)
Depreciation and amortisation, net of grants	(80.5)	(98.0)
Profit on disposal of assets	0.2	0.4
Other operating income	2.5	2.9
Operating costs before goodwill impairment	(527.7)	(583.6)
Goodwill impairment charge	-	(111.0)
Total operating costs	(527.7)	(694.6)

Staff costs, excluding redundancies and furlough grants, were £16.4m lower at £322.7m (2021: £339.1m). This reflected the benefit of a lower headcount following redundancies in the prior year as well as an increase in labour capitalised following the pause in the prior year of all but essential and sustaining capital investment. The number of employees in post at 31 March 2022 at 3,038 was a reduction of 124 on the prior year.

Non staff costs increased by £6.6m. Higher utility costs and satellite surveillance charges supporting more North Atlantic flights were partially offset by the write back of expected credit loss provisions made in the prior year when the settlement period for en route charges was extended to support airlines.

Depreciation and amortisation (net of grants) were £17.5m lower at £80.5m (2021: £98.0m) mainly reflecting lower asset impairment charges.

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

Net finance costs and fair value movements on financial instruments

One-off refinancing costs of £41.7m were associated with the debt refinancing transactions explained above. Excluding these costs, net finance costs of £9.8m (2021: £27.2m) were £17.4m lower than the prior year reflecting the lower cost of new debt.

A fair value charge of £43.8m (2021: £0.4m credit) this year related to a change in the valuation of RPI swaps reflecting the market's expectation of higher inflation in future. The swaps provide a partial economic hedge for NERL's revenue allowance for financing charges but are not eligible for hedge accounting under IFRS.

Taxation

The tax charge of £35.6m (2021: £12.4m) mainly reflects a charge of £35.8m for deferred tax balances expected to be realised after April 2023 which have now been provided for at 25%, up from 19% previously, following the increase in the main rate of corporation tax from that date.

NERL's taxes generally arise in the UK. It organises its operations to pay the correct and appropriate

amount of tax at the right time, according to relevant national laws, and ensure compliance with the group's tax policies and guidelines. The company also pays other taxes such as employer's national insurance contributions, business rates and the apprenticeship levy, which are significant operating costs. The NATS group's tax strategy can be viewed at www.nats.aero.

Regulatory return

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

Balance sheet

	2022 £m	2021 £m
Goodwill	38.3	38.3
Tangible and intangible fixed assets	1,079.1	1,060.3
Right-of-use assets	39.1	43.4
Pension scheme surplus/(deficit)	248.8	(23.6)
Regulatory allowances recoverable	724.6	444.9
Regulatory allowances payable	(169.1)	(139.4)
Cash and cash equivalents	50.9	172.2
Derivatives (net)	(77.1)	(102.5)
Borrowings	(938.9)	(711.0)
Lease liabilities	(55.1)	(60.2)
Deferred tax liability	(224.0)	(122.1)
Other net balances	(115.7)	(160.7)
Net assets	600.9	439.6

Regulatory allowances recoverable reflect the shortfall in revenue arising from Covid, which will be determined by the CAA through a retrospective reconciliation of income and costs in 2020 to 2022. Overall, net assets increased in the year mainly following the change in the IAS 19 funding position of the defined benefit pension scheme to a surplus of £248.8m (2021: deficit £23.6m - see below), and the loss after tax for the year.

Capital investment

	2022 £m	2021 £m
SESAR deployment	56.5	51.5
Airspace modernisation	8.1	5.0
Infrastructure	7.1	4.2
Operational systems	18.5	6.9
Other	1.3	3.0
Regulatory capex	91.5	70.6
Military systems	0.3	0.1
Other non-regulatory capex	3.6	3.6
Capital investment	95.4	74.3

The company invested £21.1m more in the year as the capital investment programme was remobilised following a six month pause during the prior year of all but essential and sustaining capital investment. That pause protected liquidity and enabled the scope of plans to be reviewed against the revised priorities of our customers and the regulator.

Defined benefit pensions

NERL bears an economic share of the parent company's final salary defined benefit pension scheme. The scheme was closed to new entrants in 2009 and a defined contribution scheme was put in place. More information on our pension arrangements is provided in note 28 to the financial statements.

a. IAS 19 charge and funding position

IAS 19 pension surplus	£m
At 1 April 2021	(23.6)
Charge to income statement*	(62.4)
Actuarial gains/(losses):	
- on scheme assets	108.1
- on scheme liabilities	157.8
Employer contributions*	68.9
At 31 March 2022	248.8
Represented by:	
Scheme assets	3,969.1
Scheme liabilities	(3,720.3)
Surplus	248.8

* including salary sacrifice

The cost of defined benefit pensions at £62.4m (2021: £51.2m) reflected a higher accrual rate of 60.6%

(2021: 43.7%) of pensionable pay, reflecting lower real interest rates at the start of the financial year.

At 31 March 2022, the scheme's assets exceeded its liabilities by £248.8m (2021: £23.6m deficit) as measured under International Accounting Standards (IAS 19) using best estimate assumptions. The real yield on AA corporate bonds used to value RPI-linked pension obligations increased by 20 basis points, reducing liabilities alongside a rise in asset values. The size of the scheme relative to the company means changes in financial market conditions can have relatively large impacts on the results and financial position.

Trustee valuation and funding obligations

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

The Trustees completed a formal valuation at 31 December 2020 which reported a funding deficit of £171.9m equivalent to a funding level of 97% (NERL's economic share of this deficit is c£132m). This is a £98.5m improvement in the funding position since the 2017 valuation. The scheme's actuary also determined that the cost of employee benefits accruing in future was 66.2% of pensionable pay. This is a 24.4 percentage point increase on the 2017 valuation (of 41.8%) and the highest cost we have ever faced. Contributions will reflect this from January 2023, as well as a recovery plan agreed with Trustees which aims to repair the deficit by December 2029. This will require deficit payments of £27.2m from calendar year 2023, increasing annually by 2.37%.

During this financial year the company paid £20.0m towards the group's deficit contributions (of £26.2m) and paid contributions at a rate of 41.7% of pensionable pay under the schedule of contributions agreed following the 2017 valuation.

Net debt, liquidity and cash flows

	Cash and cash equivalents	Borrowings (including lease liabilities)	Net debt
	£m	£m	£m
Balance at 31 March 2021	172.2	(771.2)	(599.0)
Cash flow	(121.3)	(247.0)	(368.3)
Non-cash movements	-	24.2	24.2
Balance at 31 March 2022	50.9	(994.0)	(943.1)

At 31 March 2022, the company's net debt was £943.1m (2021: £599.0m). It comprised £747m in bonds and £200m of drawings under bank facilities, less unamortised costs and fees, and £55.1m of lease liabilities recognised under IFRS 16. These were partly offset by £50.9m of cash and cash equivalents.

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

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

At 30 June 2022 the company had available liquidity of around £680m. Our cash flow forecasts show that the company 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.

Going concern

The company'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 20 the company's objectives, policies and processes for managing its capital and its financial risks and details its financial instruments and hedging activities.

Despite the challenges that Covid continued to pose over the last financial year to aviation and for the demand for air travel and, more recently, the challenging economic and geopolitical environment, as described in the Financial review the company successfully completed a full refinancing in June 2021 with issuance of £750m of unsecured bonds and agreement to a £400m unsecured revolving credit facility and a £450m unsecured bridging facility, the terms for both facilities being extended by one year in March 2022. The refinancing enabled pre-existing secured bonds and secured bank facilities to be repaid. At 31 March 2022, the company had cash of £50.9m and access to undrawn committed bank facilities totalling £650m: the £450m bridging facility expiring in May 2024 and £200m of the revolving credit facility expiring in May 2025. At 30 June 2022, the company had cash and undrawn bank facilities of around £680m.

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

The severe traffic volume scenarios considered were: Eurocontrol's October 2021 pessimistic case (see page 5); a further prolonged wave of Covid and related travel restrictions whereby volumes remain at 20% of pre-pandemic levels for a 12-month period from July 2022, being the most severe traffic scenario; and that the Covid revenue shortfall is recovered evenly over a 10 year period (compared to a base case assumption of a 75% recovery in NR23 and 25% in NR28). Finally, a combination scenario was also performed of lower air traffic volumes (at 50% of pre-pandemic levels), a recovery of the revenue shortfall evenly over a 10-year period and an inefficiency adjustment applied to the revenue shortfall assumed by the CAA. Under the most severe scenario the group maintains adequate liquidity (of £134m) and headroom (NERL gearing at 71%) to meet its covenant (NERL gearing at 85%), prior to mitigating actions (such as cost savings and deferring investment).

The directors have also considered, through a reverse stress test, the point at which liquidity would be utilised or the financial covenant would be breached before both mitigating action and regard to the financeability duties of the CAA and Secretary of State for Transport. The reverse stress tests considered severe traffic volumes, unplanned expenditure and the recoverability of regulatory allowances. Taking all this into account, the company's cash flow forecasts, reflecting reasonably plausible downside scenarios, show that the 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, the company has adequate resources to continue to operate for a period of at least twelve months from the date of approval of the financial statements, and have therefore adopted the going concern basis in the preparation of the financial statements.

Viability statement

The directors have assessed the viability of the company based on its current position and future prospects, its business strategy and available financial resources. The directors have also assessed the potential financial and operational impacts in plausible downside scenarios of the principal risks and uncertainties facing the business, set out on page 20, and the effectiveness of currently available mitigating actions. In particular, the directors assessed the solvency and liquidity risks arising from further waves of the Covid pandemic alongside a combination of other risk factors materialising, which the Board considered represented a reasonable worst-case scenario, as well as a reverse stress test. On the basis of this assessment, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities falling due over the three-year period to June 2025.

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

Specific consideration has been given to:

- Covid: the consequences for the company's en route income of a further wave of the pandemic on the aviation sector and the reasonably possible mitigating actions available to the company to manage its financial resources;
- The CAA's regulatory commitment (CAP 2119) to the recovery of the Covid-related revenue shortfall and the redetermination of a new five-year price control from 2023, taking into account the general

duties of the CAA and the Secretary of State for Transport under the Transport Act 2000 to exercise their functions in the manner they think best calculated to secure that NERL will not find it unduly difficult to finance its licenced activities;

- The term of NERL’s bank facilities: the directors have a reasonable expectation that NERL will meet the conditions of its banking covenant and be able to raise funds in the bank or debt capital markets as required;
- Defined benefit pensions: the trustee’s formal valuation at 31 December 2020 and the agreed schedule of contributions. The directors consider that NERL’s contributions will be recovered through the new price control starting 2023, and future reference periods, including any additional contributions required arising from unforeseen changes in financial market conditions during NR23. This is further supported by the CAA’s issuance of a Pension Regulatory Policy Statement in April 2021.

Alistair Borthwick

Chief Financial Officer

Principal risks and uncertainties

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

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

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

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

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

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

These risks, including the impact of Covid and risks to our finances, are reflected in and have been considered in assessing going concern as explained on page 17. Further explanation of the impact of Covid on specific key risks is included

in the commentary which follows. The estimation uncertainties arising from Covid are included in note 3 of the financial statements.

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

This risk is related to a failure of the company's ATM controls that results in an accident in the air or on the ground which would have significant impact on customers or the company. 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 the company to take action as a result of the accident and the company was unable or failed to comply then ultimately this could result in revocation of its licence.

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

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

Strategy: air travel demand

The demand for air travel can be sensitive to macro-economic and geopolitical conditions, including government travel restrictions to control pandemics and public concern as to the sustainability of aviation. NERL's regulatory allowances are recovered through charges based on the CAA's forecast of air traffic volumes during a price control period. The regulatory framework includes a traffic risk mechanism which enables NERL to recover shortfalls of income through future charges. A general duty on the CAA and Secretary of State to ensure that NERL does not find it unduly difficult to finance its licensed activities provides mitigation against severe traffic shocks, as has been the case with Covid, resulting in a redetermination of the price control.

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

Strategy: regulatory settlement

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

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

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

Operational: business continuity

A catastrophic event has the potential to disrupt the ATC operation and its ability to resume a safe service to an acceptable performance level within a pre-defined period. A resilience plan is required by NERL's licence.

Resilience is considered for people, operational technical systems and facilities using NATS incident management processes to assess timely and effective responses. The company's resilience policy programme assesses, documents and tests resilience capability in order to prevent and mitigate such disruptions. The company reviewed the robustness of its service and continuity plans following the outbreak of Covid, which is being managed under NATS business continuity incident management procedures. The potential risk of operational employee absences due to the pandemic was mitigated initially by the lower traffic volumes, closely followed by strict social

distancing measures, separate rosters and absence tracking measures being implemented. The company is closely monitoring air travel demand and is proactive in managing the risks associated with the return to higher levels of traffic. The company is doing this while working closely with the Department for Transport and key stakeholders including the CAA and airline customers.

Operational: systems security

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

Operational: employee relations

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

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

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. The company targets to deliver the change portfolio within the constraints of the business plan agreed with the CAA. Demonstrably inefficient or wasteful expenditure on capital assets may also result in reduced recovery of such expenditure under the regulatory regime. We maintain good programme governance and risk management processes overseen by the executive, the Transformation Review Committee and the

Board. We have adopted industry best practice, by using a Portfolio, Programme and Project approach. As noted in the Chief Executive's review, we responded to the impact of Covid on the company's liquidity and the likely future capacity requirements of airline customers by suspending all but essential and sustaining capital investment for a six-month period during 2020/21. Before restarting this programme we engaged with customers to reassess future needs considering the impact of the pandemic. A revised capital programme is reflected in our NR23 business plan.

Financial: defined benefit pension scheme

Adverse movements in the value of scheme assets and liabilities arising from factors such as lower investment returns, lower real interest rates and improving life expectancy may increase the size of the funding deficit and result in significant contributions to fund pension benefits. The Trustees completed a formal valuation as at 31 December 2020, which reported a NATS group funding deficit of £172m reflecting market conditions at that date.

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

Financial: availability of funding and other risks

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

Other financial risks include default by counterparties to financial transactions, and fluctuations in interest and foreign exchange rates. A detailed description of each of these risks and specific mitigations are set out in note 20 to the financial statements.

Our stakeholders	Why are they important to us?	How do we engage and have regard to their views in our decisions?
CUSTOMERS	A safe ATC service is an essential given for customers in the aviation industry to which we provide our services and expertise, and for the travelling public. Their requirements are key drivers of our business plan, defining demand for the ATC network, our staffing and capital investment. We operate a joint and integrated civil military operation with the MOD.	We consulted airspace users, airports and the public on their priorities and our plans for our regulated activities for the NR23 price control period. We reflected on their feedback and updated our plans accordingly before submission to the CAA. We discussed with both airspace users and airports our service performance, our charges, our actions to maintain cost discipline and preserve liquidity and our capital investment plans. We also engaged to ensure a coordinated industry re-start after the lifting of travel restrictions.
EMPLOYEES	Our ATC service and infrastructure depends on the skill and professionalism of our employees. They make a critical difference to our success, and our investment in them protects and strengthens our safety and business culture. Most of our employees are members of trades unions.	The executive and senior leaders have an open dialogue with trades unions and receive feedback on pay and benefits, including redundancy terms, a safe and healthy working environment, flexible working, talent development and career opportunities, and a diverse and inclusive culture. The CEO and executive communicated regularly to employees via our intranet and to senior leaders in regular virtual meetings. The Board received a monthly report from the CEO which included employee relations and other employee matters. We operate a Just Safety culture, enabling employees to raise safety matters, and we sought feedback on a safety culture survey. We also surveyed employee wellbeing and maintained a whistleblowing facility. Every few years we conduct an employee opinion survey. Further details on the Board's regard to employees in its decision-making are provided below.
REGULATORS:	Our regulators ensure we provide our service and develop our infrastructure in accordance with our ATC licence and international safety standards. Ensuring we fulfil our licence obligations and develop the business for the long-term ensures the success of the company for all our stakeholders.	The CAA is consulting stakeholders as our economic regulator on our price control plans for NR23 ahead of determining the prices, safety, service performance and capital investment targets and incentives. We are engaging with them on our plan and will provide feedback on the balance of service targets and incentives, risk mechanisms and financial resources they propose. The CAA's safety regulator oversees the safety integrity of our training, operational processes and technical systems and we receive recommendations on improvements, which we implement to ensure safety standards are met. The CAA approves changes to airspace design over the UK by reference to legal requirements including safety, environment and user need and this year approved the Swanwick Airspace Improvement Programme – Airspace Deployment 6.
GOVERNMENT	The government sets UK Aviation Strategy which provides a long-term vision for the industry and a framework for future ATC provision.	The Chief Executive maintained a regular dialogue with the Department for Transport. and the Global Travel Taskforce on the safe and sustainable return of international travel. The government engaged on matters of aviation policy that affected the company, including travel restrictions relating to Covid, airspace modernisation and an extension of NERL's licence notice period.
SHAREHOLDERS	We are a wholly owned subsidiary within the NATS group. Our decisions have regard to the group's ultimate shareholders as well as the parent company. These parties provide equity investment which finances our activities and enables us to invest in our ATC service and infrastructure, for which they expect a return.	The Board met shareholders twice during the year and discussed the refinancing proposals, the Board's strategy review and alignment with shareholder interest as well as the ongoing response to Covid. The NATS Strategic Partnership Agreement enables shareholders to appoint representatives to the Board. Shareholders wish to see remuneration policies which drive executive management to deliver strong sustainable performance aligned with the interests of key stakeholders.
COMMUNITIES AND ENVIRONMENT	Local communities around airports expect the aviation sector to pay attention to aircraft noise, fuel and CO_2 emissions and local air quality. Our ATC service can help mitigate some environmental impacts. Society expects improvements in sustainability, and we are committed to net zero greenhouse gas emissions from our estate by 2035 and being an enabler to aviation's target of net zero by 2050. We are a significant employer where our UK operations are based.	We follow the CAA's guidance on public consultation on airspace use, aircraft movements and environmental impacts. We work with communities affected by flights below 7,000ft at an early stage of any airspace change, to ensure they have a voice in airspace design. Changes mean some communities may be subject to more overflights than previously, while others are no longer overflown. Following consultation, we appraise design options before making our recommendation to the CAA.
LENDERS	Lenders provide debt finance that we repay over time and compensate by way of a commercial return. Access to debt finance is necessary to fund our business activities efficiently.	We meet with lenders at least annually to discuss our performance, business plan and capital investment. Lenders wish to understand the company's financial strength over the long-term and the principal risks it faces. The importance of these relationships was demonstrated by the June 2021 refinancing of the debt structure which secured funding of £1.6bn.,
SUPPLIERS	Our suppliers provide goods and services to maintain and develop our operation. Working closely with them minimises risk and combines our expertise to develop innovative ATC solutions.	Our supply chain management approach involves regular and ongoing engagement with suppliers for procurement, risk management and performance measurement. We complete due diligence using industry JOSCAR methodology. We tailor engagement to critical suppliers and undertake Executive reviews, conferences and joint workshops. Our approach is an open and constructive relationship based on fair terms, good performance and high standards of conduct. We are ISO44001 accredited and hold CIPS Platinum standard of assurance.

Having regard to our stakeholders in Board decision-making

Section 172 (1) statement

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

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

How our Board and its committees operate, and the way decisions are reached, including the matters discussed during the year, are set out in the Governance section on pages 28 to 30. Alongside the refinancing discussed in the Financial Review, set out below are explanations of how the directors have had regard to section 172(1) in respect of employee matters and the NR23 consultation, which have been key strategic considerations in the year.

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

Since the outbreak of Covid the safety and wellbeing of employees has been the Board's priority. The company has 3,038 employees and 137 contractors. 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.

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

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

Diversity and Inclusion (D&I): D&I has been a Board focus with progress made in the year explained in the Chief Executive's review on page 4. We also updated our Respect at Work policy following an equality audit by Stonewall which received a Bronze Award at first submission, a path to improve on, and feedback from our employee networks. We also signed up to the Business in the Community (BITC) Race at Work Charter, a commitment to equality of opportunity in the workplace. This includes publishing our Ethnicity Pay Gap, which while not yet a legal requirement is the first step in measuring our performance. We felt it an important step to take proactively, recognising its importance to our future employees and to attracting the very best talent. Finally we are working with Fantasy Wings to help recruit more people from ethnic minorities into aviation.

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

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

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

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

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

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

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

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

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

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

- traffic forecasts: customers favoured use of an independent forecast;
- service performance: broad support for continuation of safety, capacity and environmental targets. Airlines requested evidence of calibration and stretch;
- operational resourcing: support for a margin of resilience to accommodate faster traffic growth than base case projections. We discussed the challenges high case demand would present given actions to respond to Covid. Customers supported improvements in training capability;
- capital investment: customers are well informed of our plans through separate service and investment plan reviews. No material feedback on scope, milestone and cost. Discussions centred on the RP2 price control costs, decommissioning legacy systems and benefits. Customers wished to see longer term plans presented at service and investment reviews;
- determined costs: customers were positive about efficiencies made in response to Covid but wanted more detail on cost elements, which we reflected in the final plan;
- price profiling: airlines did not support charges to recover the Covid revenue shortfall preferring the UK government to bear this cost. There was no consensus on price profiling. Our plan proposes a flat charge in real terms as a middle ground.
- regulatory mechanisms: customers sought further detail on proposals to increase the company's protection from traffic volume risk, including introducing a mechanism for North Atlantic traffic.

Passenger engagement: based on market research

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

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

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

Richard Churchill Coleman, Secretary

Governance framework

Introduction

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

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

The Board and Directors

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

NERL's 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 workforce, valuing the contributions of all employees.

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

Executive Directors

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

Non-Executive Directors

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

Changes to the Directors

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

Access to legal and professional advice

All directors have access to the advice and services of the Legal Director, Richard Churchill-Coleman, who acts as Secretary to the Board. If necessary,

in furtherance of their duties, directors may take independent professional advice at the company's expense.

Board meetings

The NATS group has nested board meetings with NERL Board meetings taking place as part of the NATS Holdings meetings. The NERL 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. This includes additional meetings which have also taken place to review the impact of Covid on the business and management's response.

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

Compliance with the UK Corporate Governance Code

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

Provision 39: Notice or contract periods for non-executive directors

The AG nominee directors and Partnership directors do not have service contracts with NERL. The Partnership directors are typically engaged on three-year fixed-term contracts and have letters of appointment from the DfT. Currently Iain McNicoll and Richard Keys have letters of appointment to 30 September 2022 and Maria Antoniou to 31 May 2024. The Chair has a service contract with NATS Holdings, details of which are set out in the Remuneration Committee report of NATS Holdings' Annual Report and Accounts.

Provision 18: Re-election of directors

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

Name	Date of appointment	Years of service to 31 March 2022
Paul Golby	1/4/16	6 years
Maria Antoniou	1/8/16	5 years 8 months
Harry Bush	1/4/16	6 years
Mike Campbell	26/5/17	4 years 10 months
Richard Keys	1/4/16	6 years
Kathryn Leahy	31/5/18	3 years 10 months
Hugh McConnellogue	4/10/18	3 years 6 months
Iain McNicoll	1/4/16	6 years
Gavin Merchant	1/4/16	6 years
Louise Street	29/11/18	3 years 4 months

The company 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 NERL is a wholly owned subsidiary of NATS Limited which is in turn a wholly owned subsidiary of NHL. There are no institutional or public shareholders. 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 company and wider NATS group, having taken account of the views of the shareholders. The Chair also has regular discussions with shareholders in addition to the formal shareholder meetings.

Provision 24: Establishment of an Audit Committee

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

Report of the directors

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

The Governance report is set out on pages 28 to 30 and forms part of this report.

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

Information about the use of financial instruments by the company is given in note 20 to the financial statements.

Dividends

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

Directors and their interests

The directors of the company at the date of this report are set out below. There were no changes to the Board during the year and to the date of this report.

Maria Antoniou

Alistair Borthwick

Dr Harry Bush CB

Michael Campbell

Dr Paul Golby CBE

Richard Keys

Kathryn Leahy

Hugh McConnellogue

Iain McNicoll CB CBE

Gavin Merchant

Martin Rolfe

Louise Street

None of the directors have any interests in the share capital of the company. Interests of the directors in the ordinary shares of the company's parent undertaking NATS Holdings Limited are explained in those accounts.

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

Directors' indemnities

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

Employees

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

Employee engagement

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

Ownership Plan. Since the outbreak of Covid, the directors have had regard to the health and well-being of employees and consulted on and implemented adjustments to the working environment, including social distancing measures and home working, to protect employees (and contract staff) and the company's operation. The NATS CEO maintains high visibility with employees through visits to NATS sites, or through virtual engagements where more appropriate, where he talks to them about current business issues and takes questions in an open and straightforward manner. The NATS CEO and the Executive team provided regular updates to employees through the company's internal media. Such actions enable employees to achieve a common awareness of those factors affecting the performance of the company. Also, employees' views are represented through an open dialogue with Prospect and the Public and Commercial Services Union (PCS), the recognised unions on all matters affecting employees. Formal arrangements for consultation with employees exist through a local and company-wide framework agreed with the Trades Unions.

The company's pay policy is explained in the Remuneration Committee report of NATS Holdings' Annual Report and Accounts.

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

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

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

Business relationships

We explain on pages 25 to 27 how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and other stakeholders, and the effect of that regard, including on principal decisions taken during the financial year.

Going concern

The directors' assessment of going concern is explained in the Financial review section of this report.

Directors' responsibilities

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

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

- properly select and apply accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

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

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

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the UK, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the Strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces; and
- the financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

Auditor

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

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

Richard Churchill-Coleman

Secretary

30 June 2022

Registered office

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

Registered in England and Wales

Company Number: 04129273

Opinion on the financial statements

In our opinion the financial statements:

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

We have audited the financial statements of NATS (En Route) plc for the year ended 31 March 2022 which comprise the Income statement, the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity, the Cash flow statement and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

Separate opinion in relation to IFRSs as issued by the IASB

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

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

Basis for opinion

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

Independence

Following the recommendation of the audit committee, we were appointed by the Directors at the Annual General Meeting on 31 July 2014 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 8 years, covering the years ending 31 March 2015 to 31 March 2022. We remain independent of the 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 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 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 Company for a period of at least 12 months from the date of approval of the financial statements. This included checking that the forecasts were consistent with the latest Board approved budgets.
- Detailed enquiries and challenge of the Board and management on reasonableness of the assumptions made in the preparation of these forecasts. This included making comparisons to actual results achieved in the year.
- Reviewing management's reverse stress testing on forecasts and consideration of the downside scenarios that would result in a breach of the net debt to Regulatory Asset Base ("RAB") covenant. We considered the Directors' assessment of the likelihood of such circumstances arising in determining their conclusion related to going concern.
- Assessing the accuracy of the Directors' financial model by testing the mechanical integrity of forecasts, assessing the historical forecasting accuracy and future air traffic assumptions by comparing these to third party forecasts from June 2022 through to at least June 2023.
- Reviewing the terms of the Company's facility agreements and other key documents, including those relating to the refinancing that occurred in June 2021 and March 2022, for significant matters that could impact the going concern assessment.
- Reviewing the Directors' assessment of controllable mitigations available to the Company to reduce cash flow spend in the going concern period in order to determine whether such mitigations are realistic.
- Considering the adequacy of the disclosures in the financial statements against the requirements of the accounting standards and consistency of the disclosure against the forecasts and reverse stress test assessment.

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

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

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

Overview

Key audit matters

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

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

Materiality

Company financial statements as a whole

£4.7m (2021: £4.1m) based on 0.9% of operating costs (2021: 0.7% of operating costs excluding goodwill impairment).

An overview of the scope of our audit

Our Company audit was scoped by obtaining an understanding of the Company and its environment, including the Company'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 Company's operations and therefore the assessed risks of material misstatement described above, which are those that had the greatest effect on the audit strategy, the allocation of resources in the audit and directing the efforts of the audit team, are the same risks as in the prior year with the exception of Going Concern which is no longer deemed a key audit matter.

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

Recognition of licence fee revenue and amounts recoverable under regulatory agreement

Total revenue and regulatory allowances in the year is £617.9m (2021: £687.2m), of which regulatory allowances under-recovered is £202.0m (2021: £417.2m).

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

Note 4 includes details of total revenue and regulatory allowances. Notes 16 and 21 include details of the amounts recoverable and payable under regulatory agreement.

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

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

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

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

How we addressed the key audit matter in the audit

Our procedures included:

- Understanding the regulatory framework in respect of licence fee revenue and regulatory allowances under recovered and assessing that these have been appropriately accounted for in accordance with the applicable accounting standards.
- Completing a test in total, corroborating each of the underlying revenue streams to supporting contract documentation, to check that the revenue is appropriately recognised.
- Checking that airspace revenue is being accounted for in line with the provisions of the air traffic services licence, the regulatory charging mechanisms for the reference period and the basis for the on-going price control review being conducted by the CAA.
- Reviewing publicly available information, including CAP2119, CAP2160 and CAP2245, setting out the CAA's proposed approach to setting the licence fee and compared Management's approach to determining licence fee entitlement to that proposed by the CAA.
- Confirming the discount rate used to market data.
- Challenging management's judgement as to whether it is highly probable their assessment of the costs the CAA will determine to be recoverable, will not give rise to a significant risk of revenue reversal. This included challenging management's assessment of:
    - the period over which any regulatory allowances under-recovered would be recovered by reviewing the relevant CAP documents and consideration of alternative recovery periods; and
    - the determination of an efficient cost base by reviewing the appropriateness of the costs included.
- Challenging management's basis for spreading the recognition of the annual licence fee revenue and regulatory allowance entitlement throughout the year by considering the appropriateness of alternative input and output based recognition bases.
- Reviewing the disclosures presented in respect of the above within the financial statements and checking that it complies with the requirements of the accounting standards.

Key observations

As a result of performing the procedures above, we found that the recognition of licence fee revenue, amounts recoverable under regulatory agreement and the related disclosures were acceptable.

Key audit matter	How the scope of our audit addressed the key audit matter
Carrying value of goodwill As disclosed in note 12 the Company has goodwill with a carrying amount of £38.3m (2021: £38.3m). The carrying value of goodwill at 31 March 2022 had no impairment booked against it (2021: £111.0m) during the year. The Company's accounting policy for goodwill is set out in note 2 and note 3 includes details of the estimation uncertainty with respect to the impairment of goodwill. Note 12 includes details of the Company's assessment of the recoverable amount, determined by reference to the higher of its fair value less costs of disposal and its value in use. Management has undertaken an impairment review of the carrying value of goodwill by comparison with the recoverable amount. The determination of the recoverable amount is subject to a significant level of estimation. This includes the premium applied to the RAB, in determining the Fair Value Less Costs of Disposal, which was assessed by management to be 5% at 31 March 2022 (2021: 0%), and the inputs into the value in use calculations. Management used an independent expert to assist them in determining an appropriate premium to be applied to the RAB. As a result of the above, the carrying value of goodwill and the related disclosures were considered an area of focus for our audit.	Our procedures included: • Considering the impairment review methodology, assessing that it is in accordance with the requirements of the applicable accounting standards and that the carrying value of goodwill is based on Fair Value Less Costs of Disposal (FVLCD), being higher than Value In Use (VIU). • Testing the FVLCD by agreeing the underlying RAB value to the carrying value of the RAB at 31 March 2022. • Assessing the competence, objectivity and independence of management's expert and, with the assistance of our own internal valuation experts, challenging their methodology and conclusions in their review of the RAB premium to be applied in the calculation of FVLCD. • Reviewing management's VIU scenarios, and comparing these to the FVLCD, given the lack of alternative observable market data. • Challenging the reasonableness of management's VIU calculation, by considering alternative scenarios for: o the periods over which regulatory allowances will be recovered; o potential outcomes in respect of the CAA's price control review from 2020 to 2022; and o the forecast return of traffic volumes. • Checking the integrity of the underlying calculations for the FVLCD and VIU scenarios and agreeing these to the underlying models. • Reviewing the related disclosures within the financial statements and checking that it complies with the requirements of the accounting standards. Key observations As a result of performing the procedures above we found that the carrying value of goodwill and the related disclosures to be appropriate.

Key audit matter		How we addressed the key audit matter in the audit
Capital investment programme The carrying value of other intangibles assets is £676.6m (2021: £614.2m) and property, plant and equipment is £402.5m (2021: £446.1m). The accounting policy for these is included in note 2. Notes 13 and 14 set out details of amounts invested in the Company's capital investment programme.	The Company 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 Company that are capitalised to specific projects. A key risk is that either time is not appropriately capitalised or the quantum of the labour rate used could be misstated. In addition, management makes judgements around the useful economic lives of currently deployed systems, in assessing indicators of impairment and considering the feasibility of individual projects. Therefore, the capital investment programme and the related disclosures were considered an area of focus for our audit.	Our procedures included: • Holding discussions with project managers, outside of the Company finance team, to gain an understanding of the capital projects. • Testing a sample of capitalised projects that included verifying the appropriateness of the labour rates being used and the amount of labour time being capitalised per project to supporting payroll information. • Comparing useful economic lives to prior years and our own expectations based on our knowledge of the Company and industry. In considering the feasibility of individual projects we held discussions with the project managers and reviewed the performance to date against the expected performance. We have assessed management's judgement of the useful economic lives of currently deployed systems using our knowledge of the Company and industry to check that the position taken is reasonable. • We tested the operating effectiveness of the control relating to the review and documentation which takes place on a project-by-project basis. We reviewed management's assessment of any indicators of impairment for a sample of current capital projects carried forward as either tangible or intangible fixed assets and checked the appropriateness of their conclusions. • Reviewing the related disclosures within the financial statements and checking that it complies with the requirements of the accounting standards. Key observations We consider the judgements made by management in respect of the capital investment programme and the related disclosures to be acceptable.

Key audit matter		How we addressed the key audit matter in the audit
Valuation of pension scheme assets As disclosed in note 28, the Company has £3,969.1m (2021: £3,832.6m) of plan assets that are included in the valuation of the net defined benefit liability/asset recorded on the Company balance sheet.	The quantum of the Company's plan assets recorded in the net defined benefit liability/asset on the Company's balance sheet is significant in the context of the financial statements. Some of the asset valuations, which are determined with the assistance of the investment fund managers, are subjective as they are not based on readily available market information. As a result of the above the valuation of pension scheme assets and the related disclosures were considered an area of focus for our audit.	Our procedures included: • Comparing the values of investments held at the balance sheet date to external investment manager asset confirmations and statements and, in the case of property assets the expert valuers valuation report. • Assessing the competence and objectivity of the Investment Fund Managers and Property valuers who provided the value of plan assets by obtaining relevant controls reports and, where necessary, bridging letters to check that the period covered by the report was appropriate and that adequate effective controls over valuation existed within the fund managers. • Where control reports or bridging letters were not available, confirming the reasonableness of asset valuations and movements to corroborating evidence such as audited accounts. • Agreeing that the allocation to the Company of its share of the Group's plan assets is reasonable by reference to membership data provided by the scheme Trustee and management's expert. • Assessing the adequacy of the disclosures within note 28 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 the valuation of gross plan assets and the related disclosures to be appropriate.

Key audit matter		How we addressed the key audit matter in the audit
Valuation of pension scheme liabilities As disclosed in note 28, the Company has recorded a gross defined benefit obligation of £3,720.3m (2021: £3,856.2m) in the valuation of the net defined benefit pension liability/asset recorded on the Company balance sheet. Note 28 also includes details of the Company's assessment of the sensitivity of the present value of the scheme obligation to changes in actuarial assumptions.	The quantum of the Company's plan liabilities recorded in the net defined benefit asset/liability on the Company's balance sheet is significant and the valuation is subjective. The determination of the gross defined benefit obligation is subject to a significant level of estimation uncertainty, based on the use of actuarial assumptions. When making these assumptions, the Directors take independent actuarial advice relating to their appropriateness. As a result of the above the valuation of pension scheme liabilities and the related disclosures were considered an area of focus for our audit.	Our procedures included: • With the use of our actuarial experts, challenging the appropriateness of the actuarial assumptions used by the Company in calculating the gross defined benefit pension obligation. This included benchmarking certain assumptions such as the discount rate, RPI and CPI against those used for similar schemes and considering whether each of these assumptions sit within an acceptable range of possible outcomes. • Agreeing member number information to source data to check the accuracy thereof. • Agreeing that the allocation to the Company of its share of the Group's plan liabilities is reasonable by reference to membership data provided by the scheme Trustees and management's expert. • Assessing the adequacy of the disclosures within note 28 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.

Our application of materiality

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

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

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

	Company financial statements	
	2022 £m	2021 £m
Materiality	4.7	4.1
Basis for determining materiality	0.9% of operating costs	0.7% of operating costs excluding goodwill impairment
Rationale for the benchmark applied	Due to the COVID-19 pandemic, the Company has experienced significantly lower flight traffic levels and as a result incurred a loss for the year. As a result and given that costs incurred will form the basis on which the licence fee for the period will be set by the CAA, we considered that operating costs provide the most appropriate measure on which to base materiality.	Due to the COVID-19 pandemic, the Company has experienced significantly lower flight traffic levels and as a result incurred a loss for the year. As a result and given that costs incurred form the basis on which the licence fee for the period is set by the CAA, we considered that operating costs provide the most appropriate measure on which to base materiality. Goodwill impairment was excluded as it did not represent an element of the recurring operating cost base.
Performance materiality	3.5	3.1
Basis for determining performance materiality	We set our performance materiality at 75% of overall materiality. In setting the level of performance materiality, we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.	

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £94,000 (2021: £100,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

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

We have nothing to report in this regard.

Corporate Governance statement

As the Company 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 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 pages 17 and 18. • The Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate as set out on pages 18 and 19.
Other Code provisions	• Directors' statement on fair, balanced and understandable as set out on page 34; • Board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out on page 34; and • The section of the annual report that describes the review of effectiveness of risk management and internal control systems as set out on page 20. • The section describing the work of the audit committee. As set out on page 30, the Directors consider that it is impracticable to have a separate audit committee for the Company.

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Our procedures in response to the above included:

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

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

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

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities . This description forms part of our auditor's report.

Use of our report

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

Christopher Pooles (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Reading
United Kingdom
30 June 2022

DocuSigned by:
Chris Pooles
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BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Income statement
for the year ended 31 March

	Notes	2022 £m	2021 £m
Revenue from contracts with customers	4	406.8	266.2
Regulatory allowances under-recovered	4	202.0	417.2
Other revenue	4	9.1	3.8
Total revenue and regulatory allowances		617.9	687.2
Staff costs	7	(318.4)	(308.7)
Staff redundancies	7	(1.6)	(56.9)
Services and materials		(54.7)	(45.4)
Repairs and maintenance		(37.3)	(37.0)
External research and development		(0.4)	-
Depreciation, amortisation and impairment of property, plant, equipment, intangible and right-of-use assets	6	(80.7)	(98.2)
Goodwill impairment	3, 6, 12	-	(111.0)
Change in expected credit losses	16	4.7	1.5
Other operating charges		(42.2)	(42.4)
Other operating income		2.5	2.9
Profit on disposal of non-current assets		0.2	0.4
Deferred grants released	6	0.2	0.2
Net operating costs		(527.7)	(694.6)
Operating profit/(loss)	6	90.2	(7.4)
Investment income	8	11.4	2.8
Fair value movement on derivative contract	9	(43.8)	0.4
Finance costs	10	(62.9)	(30.0)
Loss before tax		(5.1)	(34.2)
Tax	11	(35.6)	(12.4)
Loss for the year attributable to equity shareholders		(40.7)	(46.6)

Statement of comprehensive income
for the year ended 31 March

	Notes	2022 £m	2021 £m
Loss for the year after tax		(40.7)	(46.6)
Items that will not be reclassified subsequently to profit and loss:			
Actuarial gain/(loss) on defined benefit pension scheme	28	265.9	(220.2)
Deferred tax relating to actuarial gain/(loss) on defined benefit pension scheme	23	(65.7)	41.9
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of hedging derivatives		7.9	(12.3)
Transfer to income statement on cash flow hedges		(5.7)	4.0
Deferred tax relating to items that may be reclassified	23	(0.4)	1.6
Other comprehensive income/(loss) for the year, net of tax		202.0	(185.0)
Total comprehensive income/(loss) for the year attributable to equity shareholders		161.3	(231.6)

Balance sheet
at 31 March

	Notes	2022 £m	2021 £m
Non-current assets			
Goodwill	12	38.3	38.3
Other intangible assets	13	676.6	614.2
Property, plant and equipment	14	402.5	446.1
Right-of-use assets	15	39.1	43.4
Retirement benefit asset	28	248.8	-
Trade and other receivables	16	5.5	7.6
Amounts recoverable under regulatory agreement	16	667.4	442.5
Derivative financial instruments	19	0.1	-
		2,078.3	1,592.1
Current assets			
Trade and other receivables	16	97.1	54.8
Amounts recoverable under regulatory agreement	16	57.2	2.4
Current tax assets		4.0	15.1
Cash and cash equivalents	20	50.9	172.2
Derivative financial instruments	19	0.1	0.1
		209.3	244.6
Total assets		2,287.6	1,836.7
Current liabilities			
Trade and other payables	21	(132.1)	(133.5)
Amounts payable under regulatory agreement	21	(37.3)	(34.9)
Borrowings	17	-	(108.1)
Lease liabilities	18	(6.7)	(6.3)
Provisions	22	(0.1)	(1.2)
Derivative financial instruments	19	(9.4)	(21.5)
		(185.6)	(305.5)
Net current assets/(liabilities)		23.7	(60.9)
Non-current liabilities			
Trade and other payables	21	(81.0)	(94.9)
Amounts payable under regulatory agreement	21	(131.8)	(104.5)
Borrowings	17	(938.9)	(602.9)
Lease liabilities	18	(48.4)	(53.9)
Retirement benefit obligations	28	-	(23.6)
Deferred tax liability	23	(224.0)	(122.1)
Provisions	22	(9.1)	(8.6)
Derivative financial instruments	19	(67.9)	(81.1)
		(1,501.1)	(1,091.6)
Total liabilities		(1,686.7)	(1,397.1)
Net assets		600.9	439.6
Equity			
Called up share capital	24	10.0	10.0
Hedge reserve		(0.8)	(2.6)
Special reserve		34.9	34.9
Other reserves		6.5	7.4
Retained earnings		550.3	389.9
Total equity		600.9	439.6

The financial statements (Company No. 04129273) were approved by the Board of directors and authorised for issue on 30 June 2022 and signed on its behalf by:

Martin Rolfe
Chief Executive

Alistair Borthwick
Chief Financial Officer

Statement of changes in equity
for the year ended 31 March

	Equity attributable to equity holders of the company					
	Share capital £m	Hedge reserve £m	Special reserve[1] £m	Other reserves[1] £m	Retained earnings £m	Total £m
At 1 April 2020	10.0	4.1	34.9	8.4	613.8	671.2
Loss for the year	-	-	-	-	(46.6)	(46.6)
Other comprehensive loss for the year	-	(6.7)	-	(1.0)	(177.3)	(185.0)
Total comprehensive loss for the year	-	(6.7)	-	(1.0)	(223.9)	(231.6)
At 31 March 2021	10.0	(2.6)	34.9	7.4	389.9	439.6
At 1 April 2021	10.0	(2.6)	34.9	7.4	389.9	439.6
Loss for the year	-	-	-	-	(40.7)	(40.7)
Other comprehensive income/(loss) for the year	-	1.8	-	(0.9)	201.1	202.0
Total comprehensive income/(loss) for the year	-	1.8	-	(0.9)	160.4	161.3
At 31 March 2022	10.0	(0.8)	34.9	6.5	550.3	600.9

[1] Other reserves arose on completion of the PPP transaction in July 2001. The special reserve arose from a capital reduction in May 2003.

Cash flow statement
for the year ended 31 March

	Notes	2022 £m	2021 £m
Net cash used in operating activities	25	(185.1)	(258.4)
Cash flows from investing activities			
Interest received on short term investments		0.3	0.9
Purchase of property, plant and equipment and other intangible assets		(109.3)	(74.9)
Proceeds of disposal of property, plant and equipment		0.2	0.9
Transfers from short term investments		-	37.3
Net cash outflow from investing activities		(108.8)	(35.8)
Cash flows from financing activities			
Interest paid		(17.1)	(21.5)
Interest received/(paid) on derivative financial instruments		5.4	(0.5)
Repayment of old bond		(290.1)	(41.6)
New bonds issued		747.0	-
Bond arrangement fees		(5.8)	-
Advances of en route advances		-	101.5
Drawdown of bank loan under old facility		40.0	-
Repayment of bank loan under old facility		(435.0)	-
Drawdown of bank loan under new facility		200.0	-
Principal paid on lease liabilities		(5.5)	(5.6)
Interest paid on lease liabilities		(1.4)	(1.6)
Index linked swaps repayments		(61.3)	(14.1)
Bank facility fees		(3.6)	(1.2)
Net cash inflow from financing activities		172.6	15.4
Decrease in cash and cash equivalents during the year		(121.3)	(278.8)
Cash and cash equivalents at 1 April		172.2	451.0
Cash and cash equivalents at 31 March		50.9	172.2
Net debt (representing borrowings and lease liabilities, net of cash and cash equivalents (see notes 20 and 25))		(943.1)	(599.0)

1. General information

NATS (En Route) plc (NERL) is a 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 34. The nature of the company's operations and its principal activities are set out in the Report of the directors and in the Strategic report.

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

2. Basis of preparation and accounting policies

Going concern

The company's business activities, together with the factors likely to affect its performance and 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 20 the company's objectives, policies and processes for managing its capital and its financial risks and details its financial instruments and hedging activities.

Despite the challenges that Covid continued to pose over the last financial year to aviation and for the demand for air travel and, more recently, the challenging economic and geopolitical environment, as described in the Financial review the company successfully completed a full refinancing in June 2021 with issuance of £750m of unsecured bonds and agreement to a £400m unsecured revolving credit facility and a £450m unsecured bridging facility, the terms for both facilities being extended by one year in March 2022. The refinancing enabled pre-existing secured bonds and secured bank facilities to be repaid. At 31 March 2022, the company had cash of £50.9m and access to undrawn committed bank facilities totalling £650m: the £450m bridging facility expiring in May 2024 and £200m of the revolving credit facility expiring in May 2025. At 30 June 2022, the company had cash and undrawn bank facilities of around £680m.

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

The severe traffic volume scenarios considered were: Eurocontrol's October 2021 pessimistic case (see page 5); a further prolonged wave of Covid and related travel restrictions whereby volumes remain at 20% of pre-pandemic levels for a 12-month period from July 2022, being the most severe traffic scenario; and that the Covid revenue shortfall is recovered evenly over a 10 year period (compared to a base case assumption of a 75% recovery in NR23 and 25% in NR28). Finally, a combination scenario was also performed of lower air traffic volumes (at 50% of pre-pandemic levels), a recovery of the revenue shortfall evenly over a 10-year period and an inefficiency adjustment applied to the revenue shortfall assumed by the CAA. Under the most severe scenario the group maintains adequate liquidity (of £134m) and headroom (NERL gearing at 71%) to meet its

covenant (NERL gearing at 85%), prior to mitigating actions.

The directors have also considered, through a reverse stress test, the point at which liquidity would be utilised or the financial covenant would be breached before both mitigating action and regard to the financeability duties of the CAA and Secretary of State for Transport. The reverse stress tests considered severe traffic volumes, unplanned expenditure and the recoverability of regulatory allowances. Taking all this into account, the company's cash flow forecasts, reflecting reasonably plausible downside scenarios, show that the 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, the company has adequate resources to continue to operate for a period of at least twelve months from the date of approval of the financial statements, and have therefore adopted the going concern basis in the preparation of the financial statements.

Accounting standards

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

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

Accounting standards adopted in the year

The company has adopted the requirements of the following amendments to standards in the year, the adoption of these amendments has not had a material impact on the disclosures in the financial statements:

- IFRS 16 (amendments): *Covid-19-Related Rent Concessions beyond 30 June 2021;* effective 1 April 2021, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the Covid pandemic.
- IFRS 7, IFRS 9, IFRS 16, IAS 39 (amendments): *Interest Rate Benchmark Reform*; Phases 1 and 2 of the interest rate benchmark (IBOR) reform amendments is now effective and relates to changes to IFRS 7: *Financial Instruments: Disclosures*, IFRS 9: *Financial Instruments*, IFRS 16: *Leases* and IAS 39: *Financial Instruments: Recognition and Measurement*.

Future accounting developments

At the date of authorisation of these financial statements, the following amendments which have not been applied in these financial statements were in issue but not yet effective:

- IAS 16 (amendments): Property, Plant and Equipment – Proceeds Before Intended Use (effective on or after 1 January 2022)
- IAS 37 (amendments): *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts - Cost of Fulfilling a Contract* (effective on or after 1 January 2022)
- IFRS 3 (amendments): *Business Combinations* (effective on or after 1 January 2022)
- Annual Improvements to IFRS Standards 2018 – 2020 (effective on or after 1 January 2022)
- IAS 1 (amendments): *Presentation of Financial Statements – Classification of Liabilities as*

Current or Non-Current (effective on or after 1 January 2023)

- IAS 1 (amendments): *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective on or after 1 January 2023)
- IAS 8 (amendments): *Accounting Policies, Changes in Accounting Estimates and Errors* (effective on or after 1 January 2023)
- IAS 12 (amendments): *Income Taxes – Deferred tax on leases and decommissioning obligations* (effective on or after 1 January 2023)
- IFRS 17: *Insurance Contracts* (effective on or after 1 January 2023)

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

Company background

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

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

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

- training services;
- radar data services at NATS Services airports;
- engineering and software support services;
- research and development for NATS Services airports division and business development division; and
- other services to NATS Services business development division (for example - consultancy and engineering services).

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

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

The company commenced trading from 26 July 2001.

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

Revenue recognition

Revenue is recognised from the transfer of goods or services at an amount that the company expects to be entitled to in exchange for those

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

Airspace

Airspace services are economically regulated activities which are governed by the company'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 company as the company 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 company 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.

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

The company 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 the company'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 the company 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 the company 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 the company of its annual revenue entitlement. The licence requires the company to adjust the unit rate on a year n+2 basis to recover from or reimburse to airspace users amounts under or over recovered.

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

The company 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 targets and incentives for service performance. Where the company'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 the company's regulatory cost of capital.

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

Operating segments

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

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

Segment performance is assessed by service line revenue and contribution. Further information is provided in notes 4 and 5.

Operating profit

Operating profit is stated after charging restructuring costs but before investment income, the 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 the company 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. Fair value less costs of disposal is assessed by reference to the RAB of the economically regulated activities and costs of disposal. In assessing value in use, the estimated future cash flows (with a RAB terminal value, as a proxy for future cash flows) are discounted to their present value using the pre-tax nominal regulated rate of return. A premium is applied to the RAB as market precedent transactions indicate economically regulated businesses attract valuations in excess of RAB. Following an independent assessment, for 2022 the premium was assumed to be 5% (2021: 0%) - see notes 3 and 12.

Property, plant and equipment

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

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

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

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

Borrowing costs

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

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

Government grants and other grants

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

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

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

Leases

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

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

Measurement at inception

At the lease commencement date the lessee will recognise:

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

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

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

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

Ongoing measurement

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

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

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

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

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

Short term, low-value leases and expired leases

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

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

Internally-generated intangible assets – research and development expenditure

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

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

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

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

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its

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

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

Share-based payments

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

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

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

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

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

Taxation

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it

relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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

Foreign currency translation

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

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

Retirement benefit costs

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

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

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

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

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

Since 2009, the NATS group and Trustees have introduced a number of pension reforms, as explained in note 28. These include: closing the defined benefit scheme to new entrants with effect from 1 April 2009, and establishing a defined contribution scheme for new entrants from 1 April 2009, limiting the rate of increase in pensionable pay and changing the indexation reference rate for future service.

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

Provisions

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

Financial instruments

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

The company has financial assets at amortised cost. The company does not have financial assets at fair value through profit or loss or at fair value through other comprehensive income. Detailed disclosures are set out in notes 16 to 21.

Financial assets:

Amortised cost

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

Impairment of financial assets

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other highly liquid investments (with a maturity of 3 months or less) that are readily convertible to a known amount of

cash and are subject to an insignificant risk of changes in value.

Financial liabilities

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

Fair value through the profit or loss

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

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

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

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

Effective interest method

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

Equity

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

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

Reserves

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

- The special reserve which arose from a capital reduction in May 2003.
- Other reserves which arose on the completion of the PPP transaction in July 2001 under a statutory transfer scheme.

Derivative financial instruments and hedging activities

The company's activities expose it primarily to the financial risks of changes in interest rates, inflation and foreign currency exchange rates. The company uses interest rate and index-linked swap contracts and forward foreign exchange contracts to hedge these exposures. These are disclosed in notes 19 and 20 to the accounts.

As permitted under IFRS 9, the company has elected to continue to apply the existing hedge

accounting requirements of IAS 39 for its cash flow hedges until a new macro hedge accounting standard is implemented by the IASB.

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

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

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

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

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

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

3. Critical judgements and key sources of estimation uncertainty

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

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

price control from 2023 to take into account a greater understanding of the impact of Covid and the path of recovery.

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

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

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

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

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

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

- An assessment of the licence revenue allowance for calendar years 2020 to 2022 having regard to actual costs recoverable from chargeable service units and incurred in calendar years 2020 and 2021 (of £661m and £525m respectively) and planned costs to be incurred in calendar year 2022 (of £602m). The outcome of the CAA's reconciliation of costs and revenue will not be completed until the first quarter of 2023, and therefore remains uncertain. As a result, the company has made a judgement as to the CAA's

assessment of costs incurred, having regard to a similar assessment being undertaken by the European Commission for air navigation service providers it regulates, and has recognised an amount for which it is highly probable that a significant reversal will not subsequently occur, as required by accounting standards, following the CAA's assessment. As at 31 March 2022, the EC had approved to Member States that costs for calendar years 2020, 2021 and 2022 be set at 94%, 96% and 97% of 2019 costs respectively.

- The basis for determining the amount to be recognised in the three-month period to 31 March 2022. In making this assessment the company considered that, in the circumstances presented by the pandemic, an input-based approach based on the proportion of operating costs actually incurred in this period relative to those planned to be incurred over calendar year 2022 was the most appropriate method for measuring progress in delivery of the air traffic control service. This resulted in 23.9% of the calendar year licence revenue allowance being recognised in this three-month period of £136m. Other methods considered included a straight-line approach, which would have recognised 25%, an output-based measure on actual traffic volumes relative to forecast volumes for 2021 which would have recognised 20%, and the original RP3 traffic forecast which would have recognised 21% of the 2022 revenue allowance in this period;
- The company's assessment of the period to be set by the CAA for the recovery of the shortfall in regulatory allowances starting from January 2023. The company has recognised the significant financing component by discounting future cash flows at a rate, determined according to the requirements of the accounting standards, which reflects i) an assessment of the market cost of NERL's borrowing at the balance sheet date based on gilt yields and the market implied margins on bonds of similar tenor to the average period of recovery of the revenue shortfall; and ii) an allowance for credit risk based on historic recovery experience. We have assumed a 75% recovery of regulatory allowances in NR23 and the balance in NR28, this is in line with the NR23 business plan. As a sensitivity the company assessed the impact of changes in the profile of recovery over the price control periods. In the event that recovery is spread evenly over a 10-year period, regulatory allowances would be c£13m lower than reported. A 0.5% change in the discount rate would change revenue by c£12m. The company will be looking to the CAA to compensate at the cost of capital the financing cost of any extended period of recovery.

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

In carrying out impairment reviews of goodwill, intangible, tangible and right-of-use assets, (including assets in the course of construction), a number of significant assumptions have to be made when preparing cash flow projections from which to determine value in use and also in assessing fair values less costs of disposal (see judgement relating to goodwill below). These include air traffic growth, the extent and timing of future cash flows and realisation of contract pipeline revenue, the value of the regulated asset bases, the scope for outperformance of the regulatory contract, market premia for transactions in similar economically regulated businesses, the company's licence period and the outcome of the regulatory price control

determinations. The RAB reflects the capital employed in the economically regulated business and, broadly, is uplifted annually for inflation and increases with capital expenditure and reduces by regulatory depreciation. The market premium, which is applied to the RAB when determining the fair value of goodwill, was assessed at the balance sheet date to be 5% (2021: 0%). This followed an independent assessment and a judgement which reflected the impact of Covid on the demand for air travel and the consequential uncertainties including the lack of reliable traffic forecasts, the timing and extent of traffic returning and therefore the future operating environment, as well as the outcome of the CAA's reconciliation of actual revenue and costs for calendar years 2020 to 2022 and the time period for the recovery of the revenue shortfall and its determination of the next five-year price control from 2023. There is accordingly material uncertainty in respect of the judgement on the RAB premium. As a sensitivity, a 1% change in the RAB premium would not result in a goodwill impairment charge.

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

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

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

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

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

For these reasons, in a hypothetical transaction by a market participant to dispose of NERL or its licensed activity, the directors believe that the parties to the SPA would and should directly bear the costs of the disposal with the exception of due diligence costs that the company would bear in order to enable the directors to fulfil their statutory

and fiduciary duties. It is expected that the costs parties to the SPA bear would include any commission or advisor fees relating to the sale itself, as well as advisor fees relating to the impact of the sale on each of the parties to the SPA.

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

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

Expected credit loss provisions (see note 16)

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

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

Overall, expected credit losses have been provided for at 3.7% of amounts due from active customers of £89.0m. A 1% change in customer default would give rise to a c£1m change in expected credit loss provision.

Retirement benefits

The company accounts for its defined benefit pension scheme such that the net pension scheme position is reported on the balance sheet with actuarial gains and losses being recognised directly in equity through the statement of comprehensive income. At 31 March 2022 the funding position of the scheme reported in the financial statements was a surplus of £248.8m.

A number of key assumptions have been made in calculating the fair value of the company's defined benefit pension scheme which affect the balance sheet position and the company's reserves and income statement. Refer to note 28 of the notes to the accounts for a summary of the main assumptions and sensitivities. Actual outcomes may differ materially from the assumptions used and may result in volatility in the net pension scheme position.

Capital investment programme (see notes 13 and 14)

The company is undertaking a significant capital investment programme to upgrade existing ATC infrastructure. This programme requires the company 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 company 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.

Leases (see notes 15 and 18)

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

Determining the lease term

The lease term determined by the lessee comprises non-cancellable periods of lease contracts, periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. Specific lease term judgements have been taken in relation to property leases in England and Wales that are governed by the Landlord and Tenant Act 1954. For those that are due to expire prior to 31 March 2031 it has been assumed that they will be extended under the Landlord and Tenants Act 1954 to this date.

4. Total revenue and regulatory allowances

The company has recognised the following revenue and regulatory allowances in the income statement:	2022 £m	2021 £m
Revenue from contracts with customers	406.8	266.2
Regulatory allowances under-recovered	202.0	417.2
Other revenue: EU funding passed to UK en route customers (see note 4a)	6.1	0.4
Other revenue: rental and sub-lease income	3.0	3.4
Total revenue and regulatory allowances (see operating segments)	617.9	687.2

a) Total revenue and regulatory allowances disaggregated by operating segment

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

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

Principal activities

The following table describes the activities of each operating segment:

Airspace	This includes all of the company'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 for their en route operations and European projects in conjunction with other air traffic organisations.
Other Service lines	Other services provided to UK customers including: Defence, providing air traffic control, engineering support and other services to the Ministry of Defence and support to the Aquila joint venture for its Marshall contract; and Other UK Business providing Consultancy, offering airspace development, capacity improvement and training and Information, providing data to enable future efficiency and flight optimisation.

Segment information about these activities is presented below.

	2022			2021		
	External £m	Intercompany £m	Total £m	External £m	Intercompany £m	Total £m
Revenue from contracts with customers						
Airspace						
UK air traffic services:						
Services to UK en route customers	303.0	-	303.0	159.8	-	159.8
London Approach services	5.9	-	5.9	3.2	-	3.2
Infrastructure services to the MOD	37.6	-	37.6	51.9	-	51.9
Services for North Sea helicopters	8.4	-	8.4	8.4	-	8.4
Other income	1.0	-	1.0	0.5	-	0.5
	355.9	-	355.9	223.8	-	223.8
North Atlantic air traffic services:						
Services to oceanic en route customers	26.7	-	26.7	14.3	-	14.3
Intercompany revenue	-	19.2	19.2	-	23.9	23.9
Total Airspace revenue from contracts with customers	382.6	19.2	401.8	238.1	23.9	262.0
Other Service lines	4.5	0.5	5.0	4.0	0.2	4.2
Total revenue from contracts with customers	387.1	19.7	406.8	242.1	24.1	266.2
Regulatory allowances under-recovered						
Airspace						
UK air traffic services:						
Services to UK en route customers	196.5	-	196.5	409.0	-	409.0
London Approach services	5.5	-	5.5	8.2	-	8.2
Total regulatory allowances under-recovered	202.0	-	202.0	417.2	-	417.2
Other revenue: EU funding passed to UK en route customers						
Airspace	6.1	-	6.1	0.4	-	0.4
Other revenue: rental and sub-lease income						
Airspace	2.0	1.0	3.0	2.4	1.0	3.4
Total revenue and regulatory allowances	597.2	20.7	617.9	662.1	25.1	687.2

4. Total revenue and regulatory allowances (continued)

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

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

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

Intercompany revenue includes revenue for services to NATS (Services) Limited of £20.6m (2021: £25.0m) and to NATSNav Limited of £0.1m (2021: £0.1m).

b) Revenue and regulatory allowances disaggregated based on economic regulation

	2022			2021		
	External £m	Intercompany £m	Total £m	External £m	Intercompany £m	Total £m
Regulated income						
Airspace						
Services to UK en route customers	303.0	-	303.0	159.8	-	159.8
London Approach services	5.9	-	5.9	3.2	-	3.2
Services to oceanic en route customers	26.7	-	26.7	14.3	-	14.3
Revenue from contracts with customers	335.6	-	335.6	177.3	-	177.3
Regulatory allowances under-recovered	202.0	-	202.0	417.2	-	417.2
Other revenue: EU funding passed to UK en route customers	6.1	-	6.1	0.4	-	0.4
Total regulated income	543.7	-	543.7	594.9	-	594.9
Non-regulated income						
Airspace						
Infrastructure services to the MOD	37.6	-	37.6	51.9	-	51.9
Services for North Sea helicopters	8.4	-	8.4	8.4	-	8.4
Other income	1.0	-	1.0	0.5	-	0.5
Intercompany revenue	-	19.2	19.2	-	23.9	23.9
Other Service lines	4.5	0.5	5.0	4.0	0.2	4.2
Revenue from contracts with customers	51.5	19.7	71.2	64.8	24.1	88.9
Other revenue: rental and sub-lease income	2.0	1.0	3.0	2.4	1.0	3.4
Total non-regulated income	53.5	20.7	74.2	67.2	25.1	92.3
	597.2	20.7	617.9	662.1	25.1	687.2

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

4. Total revenue and regulatory allowances (continued)

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

	2022			2021		
	External £m	Intercompany £m	Total £m	External £m	Intercompany £m	Total £m
Over time						
Revenue from contracts with customers	387.1	19.2	406.3	205.2	23.9	229.1
Regulatory allowances under-recovered	202.0	-	202.0	417.2	-	417.2
Other revenue: EU funding passed to UK en route customers	6.1	-	6.1	0.4	-	0.4
Other revenue: rental and sub-lease income	2.0	1.0	3.0	2.4	1.0	3.4
	597.2	20.2	617.4	625.2	24.9	650.1
At a point in time						
Revenue from contracts with customers	-	0.5	0.5	36.9	0.2	37.1
	597.2	20.7	617.9	662.1	25.1	687.2

d) Total revenue and regulatory allowances disaggregated by geographical area

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

	2022 £m	2021 £m
Revenue and regulatory allowances, including Other revenue: EU funding passed to UK en route customers		
United Kingdom	211.5	228.3
Other European countries	86.8	90.0
United States of America	86.0	105.7
Republic of Ireland	68.7	72.5
Countries in Asia	57.5	67.1
Germany	46.0	48.1
Netherlands	35.5	44.7
Other North American countries	16.1	19.7
Countries in Africa	4.6	4.9
Countries in South America	1.2	1.4
Countries in Oceania	1.0	1.4
	614.9	683.8
Other revenue: rental and sub-lease income		
United Kingdom	2.4	3.0
Other European countries	0.6	0.4
	3.0	3.4
	617.9	687.2

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 and regulatory allowances from these countries of domicile are less than 5% of total revenue.

e) Contract balances

Receivables and contract liabilities from contracts with customers are disclosed in notes 16 and 21. There were no contract assets at 31 March 2021 or 31 March 2022. Significant changes in the contract assets and the contract liabilities balances during the year are as follows.

	Contract assets		Contract liabilities	
	2022 £m	2021 £m	2022 £m	2021 £m
At 1 April	-	1.3	(76.3)	(42.4)
Opening contract assets transferred to trade and other receivables	-	(1.2)	-	-
Cumulative catch-up adjustments	-	(0.1)	-	0.1
Opening contract liabilities which have now been recognised as revenue	-	-	8.0	1.6
Increases due to cash received, excluding amounts recognised as revenue during the year	-	-	(14.3)	(35.6)
At 31 March	-	-	(82.6)	(76.3)

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

4. Total revenue and regulatory allowances (continued)

f) Revenue and regulatory allowances recognised from performance obligations satisfied in previous periods

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

g) Remaining performance obligations

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

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

	2022				
	Due within one year or less £m	Between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
Airspace	0.4	-	-	-	0.4
Other Service lines	0.9	-	-	-	0.9
	1.3	-	-	-	1.3

	2021				
	Due within one year or less £m	Between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
Airspace	2.4	-	-	-	2.4

h) Cash flow hedged revenue from contracts with customers

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

5. Operating segments

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

A reconciliation of service line contribution to loss before tax is provided below:

	2022 £m	2021 £m
Airspace	221.8	281.2
Other Service lines	3.5	2.8
Service line contribution	225.3	284.0
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	(80.5)	(98.0)
Impairment of goodwill	-	(111.0)
Profit on disposal of non-current assets	0.2	0.4
Employee share scheme credits/(costs)	2.5	(1.3)
Redundancy costs	(1.6)	(56.9)
Other costs not directly attributed to service lines	(56.9)	(25.5)
R&D expenditure above the line tax credits	1.2	0.9
Investment income	11.4	2.8
Fair value movement on derivative contract	(43.8)	0.4
Finance costs	(62.9)	(30.0)
Loss before tax	(5.1)	(34.2)

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

5. Operating segments (continued)

Supplementary information

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

	2022			2021		
	UK air traffic services £m	North Atlantic air traffic services £m	Total £m	UK air traffic services £m	North Atlantic air traffic services £m	Total £m
Revenue and regulatory allowances	591.2	26.7	617.9	672.9	14.3	687.2
Operating costs	(498.2)	(29.5)	(527.7)	(661.1)	(33.5)	(694.6)
Operating profit/(loss)	93.0	(2.8)	90.2	11.8	(19.2)	(7.4)

Under 'single till' principles, UK air traffic services revenue includes regulatory allowances, intercompany revenue and rental and sub-lease income.

Non-current asset additions

Additions to non-current assets (including additions to right-of-use assets) presented by service line are: Airspace £92.4m (2021: £71.3m) and Other Service lines £3.0m (2021: £3.0m).

Geographical segments

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

	Non-current assets	
	2022 £m	2021 £m
United Kingdom	1,159.7	1,145.3
Other European Countries	0.9	1.0
United States of America	0.4	0.5
	1,161.0	1,146.8

Information about major customers

No customer accounted for more than 10% of the company's revenue in the current year.

6. Operating profit/(loss) for the year

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

	2022 £m	2021 £m
The CAA regulatory charges	5.2	5.4
Impairment of goodwill (note 12)	-	111.0
Amortisation of intangible assets (note 13)	36.8	35.8
Impairment of intangible assets (note 13)	1.6	3.8
Depreciation of property, plant and equipment (note 14)	38.1	45.2
Impairment of property, plant and equipment (note 14)	0.1	1.0
Depreciation of right-of-use assets (note 15)	4.1	4.5
Impairment of right-of-use assets (note 15)	-	7.9
Deferred grants released	(0.2)	(0.2)
Research and development costs	3.6	1.8
Redundancy costs	1.6	56.9
R&D expenditure above the line tax credits	(1.2)	(0.9)
Auditors remuneration for audit services (see below)	-	-

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

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

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

Government grants relating to the purchase of property, plant and equipment 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.

Fees payable to BDO LLP and their associates for non-audit services to the company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis. These fees are borne by NATS Limited and recharged to other group companies. BDO LLP acted as reporting accountant for the company's May 2021 bond issues for a fee of £25,000.

Transactions with group companies

	2022 £m	2021 £m
Net charges for services provided by parent undertaking	12.0	11.0
Charges for services provided by other group companies	17.8	18.7
Charges for seconded staff under the terms of the ISA provided by NATS Limited (see below)	358.9	390.0

NATS Limited, the immediate parent company, is responsible for employing the staff engaged in the activities carried out by NERL. In addition to the staff costs referred to in note 7a) below, NERL is responsible under the Inter-company Secondment Agreement (ISA) for reimbursing NATS Limited for all other staff related costs which it incurs on behalf of the employees seconded to NERL (including all taxes and social security, redundancy and pension costs) together with appropriate staff related costs and expenses and disbursements. Under the Inter-company Trading Agreement (ICTA) NATS Services provides certain services to NERL. The ISA and ICTA are explained in more detail in note 2.

7. Staff costs

a) Staff costs

	2022			2021		
	Staff costs (excluding redundancies) £m	Staff redundancies £m	Total £m	Staff costs (excluding redundancies) £m	Staff redundancies £m	Total £m
Salaries and staff costs were as follows:						
Wages and salaries	248.8	1.4	250.2	264.8	47.5	312.3
Social security costs	31.2	0.1	31.3	30.6	6.3	36.9
Pension costs (note 7b)	81.5	0.1	81.6	68.1	3.1	71.2
	361.5	1.6	363.1	363.5	56.9	420.4
Less:						
Amounts capitalised	(38.8)	-	(38.8)	(24.4)	-	(24.4)
Government grants	(4.3)	-	(4.3)	(30.4)	-	(30.4)
	318.4	1.6	320.0	308.7	56.9	365.6

Government grants of £4.3m (2021: £30.4m) relate to the reimbursement of employee costs for staff furloughed due to Covid under the Coronavirus Job Retention Scheme. There are no unfulfilled conditions or contingencies attached to these grants.

Wages and salaries includes share-based payment charges, other allowances and holiday pay.

b) Pension costs (see note 28)

	2022 £m	2021 £m
Defined benefit scheme	62.4	51.2
Defined contribution scheme	19.2	20.0
	81.6	71.2

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.

7. Staff costs (continued)

c) Staff numbers

	2022 No.	2021 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	1,186	1,325
Air traffic service assistants	456	513
Engineers	634	735
Others	775	876
	3,051	3,449
The number of employees (including executive directors) in post at 31 March was:	3,038	3,162

A voluntary redundancy programme was completed in December 2020.

8. Investment income

	2022 £m	2021 £m
Interest on bank deposits	1.7	0.8
Other loans and receivables	9.7	2.0
	11.4	2.8

Interest on bank deposits has been earned on financial assets, including cash and cash equivalents and short term investments. Other loans and receivables includes the effect of unwinding the discount on amounts receivable after more than one year.

9. Fair value movement on derivative contract

	2022 £m	2021 £m
(Charge)/credit arising from change in the fair value of derivatives not qualifying for hedge accounting	(43.8)	0.4

10. Finance costs

	2022 £m	2021 £m
Interest on bank loans and hedging instruments	2.4	4.6
Bond and related costs including financing expenses	15.3	17.2
Interest on lease liabilities (see note 18)	1.4	1.6
Other finance costs	2.1	6.6
One-off re-financing costs	41.7	-
	62.9	30.0

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

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

11. Tax

	2022 £m	2021 £m
Corporation tax		
Current tax	-	3.2
Adjustments in respect of prior year	(0.2)	-
	(0.2)	3.2
Deferred tax (see note 23)		
Origination and reversal of temporary timing differences	(3.6)	9.9
Adjustments in respect of prior year	(0.3)	(0.7)
Effects of tax rate change on opening balance	39.7	-
	35.8	9.2
	35.6	12.4

11. Tax (continued)

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

	2022		2021	
The charge for the year can be reconciled to the loss per the income statement as follows:	£m	%	£m	%
Loss on ordinary activities before tax	(5.1)		(34.2)	
Tax on loss on ordinary activities at standard rate in the UK of 19% (2021: 19%)	(1.0)	19.0%	(6.5)	19.0%
Tax effect of change in corporation tax rate from 19% to 25% (see below)	38.6	(756.6%)	-	-
Tax effect of prior year adjustments - current tax	(0.2)	4.0%	-	-
Tax effect of prior year adjustments - deferred tax	(0.3)	6.0%	(0.7)	2.0%
Patent box	(1.3)	25.6%	(1.4)	4.1%
Adjustment to deferred grants on property, plant and equipment and intangible assets	-	-	(0.1)	0.3%
Goodwill impairment	-	-	21.1	(61.7%)
Employee share scheme	(0.2)	4.0%	0.3	(0.8%)
R&D expenditure credits	-	-	0.4	(1.2%)
Other permanent differences	-	-	(0.7)	2.0%
Tax charge for year at an effective tax rate of (698.0%) (2021: (36.3%))	35.6	(698.0%)	12.4	(36.3%)
Deferred tax charge/(credit) taken directly to equity (see note 23)	66.1		(43.5)	

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

12. Goodwill

	£m
Cost	
At 31 March 2021 and 31 March 2022	351.0
Accumulated impairment losses	
At 1 April 2020	201.7
Impairment provision recognised in income statement	111.0
At 31 March 2021	312.7
Impairment provision recognised in income statement	-
At 31 March 2022	312.7
Carrying amount	
At 31 March 2022	38.3
At 31 March 2021	38.3
At 1 April 2020	149.3

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

12. Goodwill (continued)

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

13. Other intangible assets

	Operational software £m	Non-operational software £m	Airspace and resectorisation £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2020	493.2	104.6	56.2	349.9	1,003.9
Additions internally generated	0.9	0.3	-	13.1	14.3
Additions externally acquired	0.4	0.5	-	28.7	29.6
Transfers during the year	0.5	9.7	-	(8.6)	1.6
At 31 March 2021	495.0	115.1	56.2	383.1	1,049.4
Additions internally generated	1.2	0.5	2.6	25.0	29.3
Additions externally acquired	0.3	1.5	0.2	28.4	30.4
Disposals during the year	(0.2)	(0.3)	-	-	(0.5)
Transfers during the year	6.9	1.4	76.3	(43.4)	41.2
At 31 March 2022	503.2	118.2	135.3	393.1	1,149.8
Accumulated amortisation					
At 1 April 2020	265.2	85.2	35.9	9.3	395.6
Charge for the year	25.9	5.9	4.0	-	35.8
Impairment provision recognised in income statement	-	-	-	3.8	3.8
Transfer of impairment provision	-	0.8	-	(0.8)	-
At 31 March 2021	291.1	91.9	39.9	12.3	435.2
Charge for the year	23.1	6.6	7.1	-	36.8
Impairment provision recognised in income statement	-	1.5	-	0.1	1.6
Transfer of impairment provision	-	0.1	-	-	0.1
Disposals during the year	(0.2)	(0.3)	-	-	(0.5)
At 31 March 2022	314.0	99.8	47.0	12.4	473.2
Carrying amount					
At 31 March 2022	189.2	18.4	88.3	380.7	676.6
At 31 March 2021	203.9	23.2	16.3	370.8	614.2
At 1 April 2020	228.0	19.4	20.3	340.6	608.3

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 £1.6m (2021: £3.8m) were made in respect of both operating software assets and software assets in the course of construction which were developed to support operational, engineering and corporate functions.

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

14. Property, plant and equipment

	Freehold land and buildings £m	Improvements to leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Assets in course of construction and installation £m	Total £m
Cost						
At 1 April 2020	247.2	40.8	1,348.8	22.8	194.2	1,853.8
Additions during the year	-	-	1.8	0.1	28.4	30.3
Disposals during the year	(0.7)	-	(5.1)	(0.1)	-	(5.9)
Other transfers during the year	0.1	-	1.3	-	(3.0)	(1.6)
At 31 March 2021	246.6	40.8	1,346.8	22.8	219.6	1,876.6
Additions during the year	0.1	-	3.4	-	32.2	35.7
Disposals during the year	-	-	(0.5)	-	-	(0.5)
Other transfers during the year	-	-	48.6	-	(89.8)	(41.2)
At 31 March 2022	246.7	40.8	1,398.3	22.8	162.0	1,870.6
Accumulated depreciation and impairment						
At 1 April 2020	152.7	35.6	1,181.4	18.3	1.7	1,389.7
Provided during the year	7.8	1.1	35.3	1.0	-	45.2
Impairment provision recognised in income statement	-	-	0.9	-	0.1	1.0
Disposals during the year	(0.5)	-	(4.8)	(0.1)	-	(5.4)
At 31 March 2021	160.0	36.7	1,212.8	19.2	1.8	1,430.5
Provided during the year	7.8	1.1	28.5	0.7	-	38.1
Impairment provision recognised in income statement	-	-	-	-	0.1	0.1
Transfer of impairment provision	-	-	1.7	-	(1.8)	(0.1)
Disposals during the year	0.3	-	(1.2)	0.4	-	(0.5)
At 31 March 2022	168.1	37.8	1,241.8	20.3	0.1	1,468.1
Carrying amount						
At 31 March 2022	78.6	3.0	156.5	2.5	161.9	402.5
At 31 March 2021	86.6	4.1	134.0	3.6	217.8	446.1
At 1 April 2020	94.5	5.2	167.4	4.5	192.5	464.1

The company conducts annual reviews of the carrying values of its property, plant and equipment where there is an indicator of impairment. During the year, the company incurred impairment charges of £0.1m (2021: £1.0m) relating to operational assets and assets in the course of construction and installation reflecting a reassessment of certain projects and assets, and the likelihood of benefits being realised in full, to write these assets down to their carrying amount.

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

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

15. Right-of-use assets

	Leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Total £m
Cost				
At 1 April 2020	60.0	2.0	1.0	63.0
Additions during the year	-	-	0.1	0.1
Effect of modification to lease terms	0.4	-	-	0.4
Terminations during the year	-	-	(0.1)	(0.1)
At 31 March 2021	60.4	2.0	1.0	63.4
Effect of modification to lease terms	0.4	-	-	0.4
Terminations during the year	-	-	(0.1)	(0.1)
Transfers during the year	(0.1)	-	-	(0.1)
At 31 March 2022	60.7	2.0	0.9	63.6
Accumulated depreciation and impairment				
At 1 April 2020	5.5	0.8	0.3	6.6
Provided during the year	4.0	0.2	0.3	4.5
Charge capitalised in the year	1.1	-	-	1.1
Impairment provision recognised in income statement	7.9	-	-	7.9
Terminations during the year	-	-	(0.1)	(0.1)
At 31 March 2021	18.5	1.0	0.5	20.0
Provided during the year	3.6	0.2	0.3	4.1
Charge capitalised in the year	0.6	-	-	0.6
Terminations during the year	-	-	(0.1)	(0.1)
Transfers during the year	(0.1)	-	-	(0.1)
At 31 March 2022	22.6	1.2	0.7	24.5
Carrying amount				
At 31 March 2022	38.1	0.8	0.2	39.1
At 31 March 2021	41.9	1.0	0.5	43.4
At 1 April 2020	54.5	1.2	0.7	56.4

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

In the prior year, the company took advantage of the practical expedient available under IFRS16 for rent concessions that were a direct consequence of covid and did not account for those concessions as a modification to the lease under IFRS16. Lease consideration of £0.3m was deferred and has now been paid in the current year.

16. Financial and other assets

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

Trade and other receivables

	2022 £m	2021 £m
Non-current		
Receivable from customers gross	1.0	2.8
Prepayments	4.5	4.8
	5.5	7.6
Current		
Receivable from customers gross	96.4	58.5
Less: expected credit loss provision	(11.7)	(16.6)
	84.7	41.9
Other debtors	1.6	4.0
Amounts due from fellow subsidiary undertaking	-	0.1
Prepayments	10.8	8.8
	97.1	54.8

Amounts recoverable under regulatory agreement

	2022 £m	2021 £m
Non-current		
Amounts recoverable under regulatory agreement	667.4	442.5
Current		
Amounts recoverable under regulatory agreement	57.2	2.4

The average credit period on sales of services is 39 days (2021: 109 days). Interest is charged by Eurocontrol to UK en route customers at 9.48% (2021: 9.67%) on balances outstanding after more than 30 days.

Receivables from customers which are current include unbilled revenue for services provided in March 2022. Prior year receivables from customers included unbilled revenue for services provided in March 2021 and services billed for April and May 2020 that had been deferred to May 2021 and August 2021 respectively in response to Covid.

Amounts recoverable under regulatory agreement which are non-current include the net present value of regulatory allowances under-recovered, which will be recovered after 31 March 2023 and across the next two five year price control periods from 2023 and pension pass through of £34.0m (2021: £42.3m), £6.3m of which relates to Reference Period 1 and is being recovered over a 15 year period to 31 December 2030 and £27.7m to Reference Period 2 which is being recovered over a 15 year period to 31 December 2035.

Amounts recoverable under regulatory agreement which are current relate to Reference Period 1 and are due to be recovered by 31 March 2023. Amounts recoverable under regulatory agreement in the prior year relate to Reference Period 1 and were recovered by 31 March 2022.

Movement in the expected credit loss provision

	2022 £m	2021 £m
Balance at the beginning of the year	16.6	20.2
Decrease in allowance recognised in the income statement	(4.7)	(1.5)
Foreign exchange movement in the year	(0.1)	(1.9)
Amounts written off as irrecoverable	(0.1)	(0.2)
Balance at the end of the year	11.7	16.6

The company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. In order to measure the expected credit losses, the credit risk characteristics of trade receivables and contract assets have been considered. Based on this, trade receivables and contract assets have been grouped into sub-groups as they are considered to have different credit risk characteristics and for each of these sub-groups separate provisions matrices based on the days past due are used to summarise historic loss patterns. The historical loss rates calculated reflect the economic conditions in place during the period to which the historical data relates. Consideration needs to be made as to whether these historical loss rates were incurred in economic conditions that are representative of those expected to exist during the exposure period at the balance sheet date. Therefore we have reassessed lifetime expected credit losses at 31 March 2022 to reflect the default risk by customers due to recovering demand within the aviation sector and the settlement of almost all amounts deferred at 31 March 2021, following agreement by States to defer settlement of national en route charges for April and May 2020 to May and August 2021. The historic loss rates have been adjusted accordingly to reflect the appropriate expected credit losses.

16. Financial and other assets (continued)

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 company has concluded that the expected credit loss rates for trade receivables are a reasonable approximation of the expected credit loss rates for contract assets.

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

	2022								
		Receivables - months past due							
	Unbilled income	Current	1 month	2-3 months	4-6 months	7-12 months	>12 months	In admin-istration	Total £m
Expected credit loss rate (%)	2.7%	2.5%	47.4%	29.9%	60.5%	39.6%	68.5%	100.0%	
Gross carrying amount (£m)	44.9	42.2	0.8	0.2	0.2	0.1	0.6	8.4	97.4
Lifetime expected credit loss (£m)	1.2	1.1	0.4	0.1	0.1	-	0.4	8.4	11.7

	2021								
		Receivables - months past due							
	Unbilled income	Current	1 month	2-3 months	4-6 months	7-12 months	>12 months	In admin-istration	Total £m
Expected credit loss rate (%)	5.9%	3.8%	9.8%	55.1%	77.7%	51.0%	92.8%	100.0%	
Gross carrying amount (£m)	19.8	20.8	1.1	0.3	0.1	9.9	1.3	8.0	61.3
Lifetime expected credit loss (£m)	1.2	0.8	0.1	0.2	0.1	5.0	1.2	8.0	16.6

Non-current trade and other receivables represent SESAR receivables of £1.0m, of which the majority is expected to be recovered by 31 March 2025. None of these receivables have been subject to a significant increase in credit risk since initial recognition.

As at 31 March 2022, trade receivables of £8.4m (2021: £8.0m) had lifetime expected credit losses of the full value of the receivables. These receivables are in administration, receivership or liquidation.

Cash and cash equivalents

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

Overall, the maximum credit risk relating to cash and cash equivalents and trade and other receivables, excluding amounts recoverable under regulatory agreement, prepayments and VAT receivable, would be £136.7m (2021: £218.9m).

17. Borrowings

	2022 £m	2021 £m
Unsecured at amortised cost		
Bank loans (variable rate revolving and bridge facility agreements expiring 2025 and 2024, respectively)	200.0	-
£450m 1.375% Bond due 2031	448.2	-
£300m 1.750% Bond due 2033	298.8	-
Advances of en route charges	-	67.4
	947.0	67.4
Secured loans at amortised cost		
£600m 5.25% Guaranteed Secured Amortising Bond due 2026	-	251.7
Bank loans	-	395.0
Gross borrowings	947.0	714.1
Unamortised bond issue costs and bank facility fees	(8.1)	(3.1)
	938.9	711.0
Amounts due for settlement within 12 months	-	108.1
Amounts due for settlement after 12 months	938.9	602.9

In June 2021 NERL completed a full refinancing of its bank facilities and its publicly traded bonds which delivered £750m of new fixed rate bonds and £850m of new bank facilities. The new bonds were issued in two tranches: £450m of 10-year amortising bonds to be repaid by 31 March 2031; and £300m of 12.5-year bonds with a bullet repayment at 30 September 2033. The new bank facilities consist of a £450m bridge facility and a £400m revolving facility agreement. In March 2022 the bridge facility was extended by one year to now expire in May 2024 and the first option to extend the revolving facility agreement by a year was also exercised, such that its expiry is now May 2025 (with one remaining option to extend the latter, subject to bank agreement, for a further year to May 2026). This new debt has been arranged on a senior unsecured basis.

Advances of en route charges from Eurocontrol have now been fully settled as at 31 March 2022 via deduction by Eurocontrol against flight charges remitted to the DfT through the period.

The average effective interest rate on the bank loans in the year was 0.8% (2021: 1.1%) and was determined based on the Sterling Overnight Index Average (SONIA) rates plus a margin of 0.45% and utilisation fee.

Bonds and bank borrowings are initially recognised at fair value net of any directly attributable transaction costs. These are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried on the balance sheet. Interest expense includes initial transaction costs as well as any interest payable while the liability is outstanding. Costs associated with the issue of the £600m 5.25% Guaranteed Secured Amortising Bond and previous bank facilities not fully amortised on refinancing in June 2021 were written off at that date in the income statement.

Undrawn committed facilities	2022 £m	2021 £m
Undrawn committed facilities expire as follows:		
Between one and two years	-	385.0
Expiring in more than two years	650.0	-
	650.0	385.0

At 31 March 2022, NERL had outstanding drawings of £200.0m (2021: £395.0m) against its revolving bank facility.

18. 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 company's lease liabilities:

	2022 £m	2021 £m
Due within one year or less	7.9	7.7
Due between one and two years	6.9	7.1
Due between two and five years	20.5	27.2
Due in more than five years	26.0	25.8
	61.3	67.8
Less: future finance charges	(6.2)	(7.6)
	55.1	60.2
Analysed as:		
Current	6.7	6.3
Non-current	48.4	53.9
	55.1	60.2

The income statement shows the following amounts relating to leases:

	2022 £m	2021 £m
Interest on lease liabilities (see note 10)	1.4	1.6
Short term lease expense	-	0.1
Expense relating to leases for cars provided as an employee benefit under IAS 19	-	0.1

Nature of leasing activities

The company 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 company also leases certain items of plant, equipment and vehicles. Leases of plant, equipment and vehicles comprise only fixed payments over the lease terms.

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

Year ended 31 March 2022	Lease contracts No.	Fixed payments %[i]	Variable payments %[i]	Sensitivity £m
Property leases with payments linked to inflation	51	n/a	24.2%	0.7
Property leases with periodic uplifts to market rentals	40	n/a	72.4%	2.0
Property leases with fixed payments	4	1.4%	n/a	n/a
Leases of plant and equipment	2	1.9%	n/a	n/a
Vehicle leases	22	0.1%	n/a	n/a
	119	3.4%	96.6%	2.7

Year ended 31 March 2021	Lease contracts No.	Fixed payments %[i]	Variable payments %[i]	Sensitivity £m
Property leases with payments linked to inflation	50	n/a	24.4%	0.7
Property leases with periodic uplifts to market rentals	41	n/a	73.1%	2.2
Property leases with fixed payments	3	0.5%	n/a	n/a
Leases of plant and equipment	1	1.8%	n/a	n/a
Vehicle leases	26	0.2%	n/a	n/a
	121	2.5%	97.5%	2.9

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

18. Leases (continued)

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

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

At 31 March 2022, the carrying amounts of lease liabilities are not reduced by the amount of payments that would be avoided from exercising break clauses where it was considered reasonably certain that the company would not exercise its right to break the lease. In addition, the carrying amounts of some leases include the period to which the company is reasonably certain that options to extend the leases will be exercised. The remaining lease payments on all these leases is £19.9m (2021: £19.6m), of which £12.4m (2021: £12.5m) is potentially avoidable if the leases were not extended and a further £6.3m (2021: £6.3m) is potentially avoidable were the company to exercise break clauses at the earliest opportunity.

The amount for leases not yet commenced to which the company is committed at 31 March 2022 is £nil (2021: £0.6m).

19. Derivative financial instruments

Fair value of derivative financial instruments

	2022 £m	2021 £m
Non-current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	0.1	-
	0.1	-
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	0.1	0.1
	0.1	0.1
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.9)	(5.4)
Derivative financial instruments at fair value through profit and loss		
Forward foreign exchange contracts (cash flow hedges)	-	(1.0)
Derivative financial instruments classified as held for trading		
Index-linked swaps	(8.5)	(15.1)
	(9.4)	(21.5)
Non-current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.5)	(2.3)
Derivative financial instruments at fair value through profit and loss		
Forward foreign exchange contracts (cash flow hedges)	-	(0.5)
Derivative financial instruments classified as held for trading		
Index-linked swaps	(67.4)	(78.3)
	(67.9)	(81.1)

Further details on derivative financial instruments are provided in note 20. The index-linked swaps are classified under international accounting standards as held for trading as it does not qualify for hedge accounting.

Hedge effectiveness is determined at the inception of the hedge relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The hedge ratio is established with reference to the cash flows associated with the hedged item and the hedging instrument. Ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the hedging instrument counterparties.

20. Financial instruments

Capital risk management

The company manages its capital to ensure that it is able to continue as a going concern, to meet its obligations under its air traffic services licence and to fund returns to shareholders. The capital structure of the company consists of borrowings, as disclosed in note 17, cash and cash equivalents, as shown in this note, and equity attributable to shareholders as disclosed in the statement of changes in equity.

External capital requirements

The 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 company to target a credit profile that exceeds BBB-/Baa3.

As at 31 March 2022, NERL had a credit rating of A+ (negative outlook) from Standard & Poor's (2021: A+ (negative outlook)) and A2 (negative outlook) from Moody's (2021: A2 (negative outlook)).

Gearing ratio

The company sets a monitoring threshold level over its gearing ratio, measured as the 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 the company to remedy the position if this cap is exceeded. NERL's gearing ratio at 31 March 2022 was 60.1% (2021: 49.6%).

Categories of financial instrument

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

	2022 £m	2021 £m
Financial assets		
Financial assets at amortised cost		
Trade and other receivables	85.8	46.7
Cash and cash equivalents	50.9	172.2
	136.7	218.9
Derivative financial instruments		
In designated hedge accounting relationships	0.2	0.1
	136.9	219.0
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables	(106.8)	(120.3)
Borrowings	(947.0)	(714.1)
Lease liabilities	(55.1)	(60.2)
	(1,108.9)	(894.6)
Derivative financial instruments		
In designated hedge accounting relationships	(1.4)	(7.7)
At fair value through profit and loss	(75.9)	(94.9)
	(77.3)	(102.6)
	(1,186.2)	(997.2)

Financial assets at amortised cost includes balances for trade and other receivables (excluding prepayments of £15.3m (2021: £13.6m) and VAT of £1.5m (2021: £2.1m), cash and cash equivalents and short term investments.

Financial liabilities at amortised cost includes balances for trade and other payables (excluding contract liabilities of £82.6m (2021: £76.3m) and deferred income of £23.7m (2021: £31.8m), advances of en route charges, the bond and bank borrowings (excluding unamortised bond issue costs and bank facility fees) and lease liabilities.

The index-linked swaps are categorised as held for trading. During the year £61.3m (2021: £14.1m) was repaid in relation to the index-linked swaps, this included settlement of index-linked swaps of a market value of £55.0m with one of the counterparties. The charge arising from the change in fair value of £43.8m has been recorded in the income statement in the year (2021: £0.4m credit). This increase in the charge for the year largely relates to fair value changes for the £200m (notional) of 10 year index-linked swaps that were entered into in June 2021.

20. 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 company'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 company 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 company gradually resumed its pre-Covid approach to management of foreign exchange risk arising from UK en route services revenue. From August 2021 it has entered into forward foreign exchange contracts on a monthly basis to hedge up to 95% of the forecast UK en route revenue up to four months' hence, based on short term forecasts of chargeable service units. All prior year forward foreign exchange contracts to buy euro to hedge the foreign exchange risks linked with NERL's receipt of funding from Eurocontrol, by means of advances of en route charge, expired and were settled prior to the end of the financial year.

The company 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.

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

	Assets		Liabilities	
	2022	2021	2022	2021
	£m	£m	£m	£m
Euro	36.2	20.2	(6.6)	(90.2)
US dollar	1.4	0.7	-	(7.0)
Canadian dollar	0.1	0.3	(0.2)	(0.3)
	37.7	21.2	(6.8)	(97.5)

20. Financial instruments (continued)

Foreign currency sensitivity analysis

The company has assets and liabilities denominated in foreign currencies including cash balances of £0.3m at 31 March 2022 (2021: £1.4m) in euro, Canadian dollars and US dollars. Furthermore, the company has entered into forward foreign currency contracts to hedge exchange risk relating to customer receipts and supplier costs which will arise in future periods.

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

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

Currency	2022 Impact £m	2021 Impact £m
Euro	0.5	(4.6)
US dollar	(3.8)	(6.4)
Canadian dollar	(0.1)	(0.1)
	(3.4)	(11.1)

There was an overall decrease in currency exposure reflecting a decrease in forward contract purchases both of euro (due to the settlement of the advances of en route charges from Eurocontrol) and US dollar (due to the close out of forward purchases related to satellite data services). The company believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk.

Forward foreign exchange contracts

The company paused the purchases of foreign exchange contracts in the prior year in light of the impact of Covid on flight volumes and charges. This year the company recommenced purchases of forward foreign exchange contracts to sell euro forecast to be received from Eurocontrol in respect of UK en route revenues. The company also continued to enter into various forward foreign exchange contracts to fund capital purchases and services, which have been designated as cash flow hedges. At the year end, all forward foreign exchange contracts were determined to be effective. Forward foreign exchange contracts taken out in the prior year to buy euro to hedge the foreign exchange risks linked with NERL's receipt of funding from Eurocontrol, via advances of en route charges, expired and were settled prior to 31 March 2022. Similarly, most of the forward foreign exchange agreements to purchase US dollars deemed ineffective in the prior year (due to a reduction in demand for satellite data services) matured or were closed out in the year. The following contracts were outstanding at year end:

	2022			2021		
			Average exchange rate			Average exchange rate
Euro sold	£m	€m		£m	€m	
0-90 days	62.8	74.9	0.8387	0.5	0.5	0.9002
91-365 days	1.1	1.3	0.8503	-	-	-
> 365 days	9.6	10.9	0.8864	-	-	-
	73.5	87.1	0.8448	0.5	0.5	0.9002
Euro bought	€m	£m		€m	£m	
0-90 days	3.4	2.9	0.8760	34.9	31.1	0.8914
91-365 days	15.6	13.6	0.8712	79.1	71.5	0.9042
> 365 days	24.7	22.2	0.8979	15.4	13.6	0.8847
	43.7	38.7	0.8866	129.4	116.2	0.8984
US dollar sold	£m	US$ m		£m	US$ m	
0-90 days	-	-	-	0.8	1.1	1.3721
91-365 days	0.6	0.8	1.3745	-	-	-
> 365 days	-	-	-	0.6	0.8	1.3745
	0.6	0.8	1.3745	1.4	1.9	1.3732

20. Financial instruments (continued)

	2022			2021		
			Average exchange rate			Average exchange rate
US dollar bought	US$ m	£m		US$ m	£m	
0-90 days	6.3	4.8	1.3098	7.9	6.0	1.3077
91-365 days	15.0	11.4	1.3161	16.5	12.6	1.3049
> 365 days	27.1	20.5	1.3242	69.7	52.8	1.3199
	48.4	36.7	1.3198	94.1	71.4	1.3162
Canadian dollar bought	CAD m	£m		CAD m	£m	
0-90 days	0.8	0.5	1.7689	0.8	0.5	1.7691
91-365 days	0.4	0.2	1.6997	-	-	-
> 365 days	1.5	0.9	1.7429	1.4	0.8	1.7848
	2.7	1.6	1.7443	2.2	1.3	1.7790
Danish krone bought	DKK m	£m		DKK m	£m	
0-90 days	-	-	-	1.5	0.2	8.2456

At 31 March 2022, 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 £0.9m (2021: £3.2m unrealised losses). The majority of these contracts will mature within the next financial year at which stage the amount deferred in equity will be realised in the income statement.

Gains and losses on the ineffective portion of the cash flow hedges are recorded immediately in the income statement. For the year ended 31 March 2022, a charge of £43.8m was recorded in the income statement (2021: £0.4m credit). This increase in the charge for the year largely relates to fair value changes for the £200m (notional) of 10-year index-linked swaps that were entered into in June 2021.

In addition to the above, NERL has entered into average rate forward agreements with a fixing date after 31 March 2022 to sell euro anticipated to be received in July 2022 in respect of UK en route revenues, for this reason they are not included in the table above. The value of these cash flows is £38.5m (2021: £nil).

Interest rate risk management

NERL 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 are kept under continuous review.

The company seeks to minimise exposure to movements in interest rates by ensuring that it 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 company's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section of this note. The company held no interest rate swaps at 31 March 2022 (2021: none).

20. Financial instruments (continued)

Economic interest rate exposure

The company's cash balances were as follows:

Currency	2022 Amount £m	2022 Economic interest rate %	2022 Average maturity days	2021 Amount £m	2021 Economic interest rate %	2021 Average maturity days
Sterling	50.6	0.3	4	170.8	-	7
Euro	0.1	-	1	0.8	-	1
Canadian dollar	0.1	-	1	0.3	-	1
US dollar	0.1	-	1	0.2	-	1
Danish Krone	-	-	-	0.1	-	1
	50.9			172.2		

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

The economic interest rate exposure of the company's borrowings is presented below:

	Total £m	Variable rate £m	Fixed rate £m	Economic interest rate %	Weighted average time for which rate is fixed years
At 31 March 2022					
Sterling:					
£450m 1.375% Bond due 2031	448.2	-	448.2	1.38%	5.9
£300m 1.750% Bond due 2033	298.8	-	298.8	1.76%	11.5
Bank loans	200.0	200.0	-	1.17%	0.0
Lease liabilities	55.1	-	55.1	2.47%	8.9
Total	1,002.1	200.0	802.1		
At 31 March 2021					
Sterling:					
5.25% guaranteed secured bonds	251.7	-	251.7	5.26%	3.2
Bank loans	395.0	395.0	-	0.48%	0.5
Advances of en route charges	67.4	67.4	-	1.50%	1.0
Lease liabilities	60.2	-	60.2	2.46%	10.0
Total	774.3	462.4	311.9		

The following table shows the percentage of fixed, index-linked and floating rate debt as a percentage of net debt. Net debt is defined for this purpose as borrowings and lease liabilities net of cash and cash equivalents, as distinct from the definition used for financial covenants purposes. Index-linked debt in this table reflects the notional of outstanding inflation swaps only. As a result, the fixed debt represents total fixed debt less the notional of outstanding inflation swaps.

	2022 £m	2022 %	2021 £m	2021 %
Fixed (net of bond discount and issue costs)	557.2	59.1	195.1	32.6
Index-linked (effected via inflation swaps)	240.0	25.4	116.0	19.4
Floating (net of cash and facility costs)	145.9	15.5	287.9	48.0
Net debt	943.1	100.0	599.0	100.0

20. Financial instruments (continued)

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 company's cash and floating rate bank loans on profit for the year and on equity. A positive number represents an increase in profit and equity and a negative number a decrease in profit and equity.

	2022 Impact £m	2021 Impact £m
Cash at bank and short term deposits (2022: £50.9m, 2021: £172.2m)	0.5	1.7
Borrowings (2022: £200.0m, 2021: £462.4m)	(2.0)	(4.6)
	(1.5)	(2.9)

Overall the company's sensitivity to interest rate changes has decreased. This reflects a reduction in floating rate assets and liabilities.

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 company'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 2022							
Inflation swaps							
Amortising swap fixed to RPI, maturing in 2026	9.4	30.6	-	40.0	39.6	4.05%	5.25%
Bullet repayment swap fixed to RPI, maturing in 2031	-	-	200.0	200.0	36.3	(2.14%)	1.53%
	9.4	30.6	200.0	240.0	75.9		
At 31 March 2021							
Inflation swaps							
Amortising swap fixed to RPI, maturing in 2026	22.0	94.0	-	116.0	93.4	3.43%	5.25%

20. Financial instruments (continued)

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 the company is required to make under the swap contracts and so impact their mark to market value.

The following table shows the effect of a 1% increase in inflation on the amount of interest payable in respect of the swaps and the impact on their value when marked to market. A positive number indicates an increase in profit and equity and a negative number a reduction in profit and equity. There would be a fairly equal and opposite impact on profit and equity if inflation falls by 1%. Due to the introduction of new swaps during the financial year ended 31 March 2022, the sensitivity of profit and equity to changes in inflation is higher.

	2022 Impact £m	2021 Impact £m
Change in mark to market value	(24.9)	(4.7)

The mark to market value of the index-linked swaps is also sensitive to the discount rates that are used to determine the net present value of the cash flows under the swap agreements. The discount rate is determined by reference to market yields on interest rate swaps. The effect of a 1% increase in the discount rate would be to increase profit and equity by £4.3m (2021: £2.9m). There would be a fairly equal and opposite impact on profit and equity if discount rates decreased by 1%.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company's exposure to credit risk arises from the risk of default by customers on settlement of trade receivables and from the risk of a failure of a financial institution in which funds are invested for return or held for trading purposes or with whom derivative contracts are entered into. The risk of loss from default by customers and the mitigations against this risk are explained in note 16. With regard to funds or contracts held with financial institutions, the company's policy is to transact with counterparties that hold a minimum credit rating as supplied by independent rating agencies, Standard & Poor's, Moody's and Fitch Ratings.

The NATS group 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 of the ratings is applied.

The company's cash and cash equivalents take the form of cash at bank of £0.5m (2021: £3.0m), bank term deposits of £5.0m (2021: £37.3m) and money market fund investments of £45.4m (2021: £131.9m). Bank term deposits with maturities up to 3 months and between 3 and 6 months are only entered into with institutions holding a long term minimum credit rating of A- and A+ respectively from Standard & Poor's or Fitch Ratings and A3 and A1 respectively from Moody's. Money market fund investments are restricted to AAA rated liquidity funds and must have same-day access.

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

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

	2022			2021		
Rating (Standard & Poor's)	Number of institutions	£m	By credit rating %	Number of institutions	£m	By credit rating %
AAA	4	45.4	89.2	5	131.9	76.6
A+	1	5.0	9.8	1	30.0	17.4
A	1	0.5	1.0	2	10.3	6.0
		50.9	100.0		172.2	100.0

20. Financial instruments (continued)

Liquidity risk management

The responsibility for liquidity risk management, the risk that the company will have insufficient funds to meet its obligations as they fall due, rests with the Board of NATS Holdings Limited with oversight provided by the Treasury Committee. The company 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.

The policy is to:

a. maintain free cash at a level equivalent to between one and two months' of UK en route services revenues (see below) and at any time not less than £50m. Free cash is defined as cash and cash equivalents and short term investments;

b. ensure access to committed bank facilities sufficient to withstand a credible range of downside scenarios relative to the prevailing price control business plan. At 31 March 2022 NERL had access to undrawn bank facilities totalling £650m;

c. ensure access to long term funding to finance its long term assets;

d. ensure that the ratio of bank funding to total gross borrowings does not exceed 75%; and

e. maintain a portfolio of debt diversified by source and maturity.

The following table shows the ratio of free cash to average monthly UK en route services income receipts during the year:

	2022 £m	2021 £m
Average monthly UK en route services income	42.1	47.5
Free cash at 31 March	50.9	113.6
Ratio of free cash to UK en route services income	1.2	2.4

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

	2022 £m	2021 £m
Bank borrowings	200.0	395.0
Gross borrowings (including lease liabilities)	1,002.1	774.3
Bank borrowings as a percentage of gross borrowings	20.0%	51.0%

Maturity of borrowings

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

	2022				2021			
	Unsecured leases £m	Unsecured loans £m	Other liabilities £m	Total £m	Unsecured leases £m	Secured loans £m	Other liabilities £m	Total £m
Due within one year or less	7.9	13.3	102.9	124.1	7.7	57.8	186.1	251.6
Between one and two years	6.9	59.3	0.3	66.5	7.1	448.7	1.6	457.4
Due between two and five	20.5	368.4	1.9	390.8	27.2	187.2	-	214.4
Due in more than five years	26.0	613.4	1.7	641.1	25.8	-	-	25.8
	61.3	1,054.4	106.8	1,222.5	67.8	693.7	187.7	949.2
Effect of interest, discount and unamortised bond issue and bank facility fees	(6.2)	(115.5)	-	(121.7)	(7.6)	(50.1)	-	(57.7)
	55.1	938.9	106.8	1,100.8	60.2	643.6	187.7	891.5

Other liabilities above include trade and other payables (excluding deferred income of £23.7m (2021: £31.8m), contract liabilities of £82.6m (2021: £76.3m)) and advances of en route charges £nil (2021: £67.4m).

20. Financial instruments (continued)

The following table sets out the maturity profile of the 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	Between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
2022					
Index-linked swaps receivable	8.0	8.2	21.8	33.4	71.4
Index-linked swaps payable	(8.5)	(10.8)	(85.1)	(57.0)	(161.4)
	(0.5)	(2.6)	(63.3)	(23.6)	(90.0)
Foreign exchange forward contract receivables	101.4	16.6	33.5	3.3	154.8
Foreign exchange forward contract payables	(102.3)	(16.8)	(33.9)	(3.4)	(156.4)
	(0.9)	(0.2)	(0.4)	(0.1)	(1.6)
	(1.4)	(2.8)	(63.7)	(23.7)	(91.6)
2021					
Index-linked swap receivable	5.8	4.6	6.6	-	17.0
Index-linked swap payable	(20.9)	(21.3)	(69.3)	-	(111.5)
	(15.1)	(16.7)	(62.7)	-	(94.5)
Foreign exchange forward contract receivables	116.6	28.4	36.6	-	181.6
Foreign exchange forward contract payables	(123.1)	(29.6)	(38.2)	-	(190.9)
	(6.5)	(1.2)	(1.6)	-	(9.3)
	(21.6)	(17.9)	(64.3)	-	(103.8)

Fair value measurements

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2022				2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Derivative financial instruments in designated hedge accounting relationships	-	0.2	-	0.2	-	0.1	-	0.1
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(1.4)	-	(1.4)	-	(7.7)	-	(7.7)
Derivative financial instruments at fair value through profit and loss	-	-	-	-	-	(1.5)	-	(1.5)
Derivative financial instruments classified as held for trading	-	(75.9)	-	(75.9)	-	(93.4)	-	(93.4)
	-	(77.3)	-	(77.3)	-	(102.6)	-	(102.6)

There were no transfers between individual levels in the year.

20. 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 swaps curve at the reporting date, as well as observable sources of credit risk values;

- the fair value of the fixed rate bond has been derived from its externally quoted price.

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

	Carrying amount		Fair value	
	2022 £m	2021 £m	2022 £m	2021 £m
Financial liabilities				
£450m 1.375% Bond due 2031	(448.2)	-	(423.6)	-
£300m 1.750% Bond due 2033	(298.8)	-	(274.2)	-
£600m 5.25% Guaranteed Secured Amortising Bond	-	(251.7)	-	(285.1)
	(747.0)	(251.7)	(697.8)	(285.1)

21. Financial and other liabilities

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

Trade and other payables

	2022 £m	2021 £m
Current		
Trade payables	18.4	40.2
Other payables	1.0	0.4
Amounts due to parent company	47.5	35.9
Amounts due to fellow undertaking	1.9	1.0
Contract liabilities	27.8	12.3
Accruals and deferred income	35.5	43.7
	132.1	133.5
Non-current		
Trade payables	1.7	-
Other payables	0.1	0.1
Contract liabilities	54.8	64.0
Accruals and deferred income	24.4	30.8
	81.0	94.9

Amounts payable under regulatory agreement

	2022 £m	2021 £m
Current		
Amounts payable under regulatory agreement	37.3	34.9
Non-current		
Amounts payable under regulatory agreement	131.8	104.5

21. Financial and other liabilities (continued)

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 34 days (2021: 64 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

Amounts payable under regulatory agreement that are non-current include regulatory allowances over-recovered for previous regulatory control periods, which will be repaid after 31 March 2023 through 2023 and 2024 charges. Amounts payable under regulatory agreement that are current include regulatory allowances over-recovered for previous regulatory control periods, which will be repaid by 31 March 2023 through 2022 and 2023 charges.

22. Provisions

	Total £m
At 1 April 2021	9.8
Additional provision in the year	0.9
Release of provision in the year	(0.7)
Utilisation of provision	(0.8)
At 31 March 2022	9.2

	2022 £m	2021 £m
Amounts due for settlement within 12 months	0.1	1.2
Amounts due for settlement after 12 months	9.1	8.6
	9.2	9.8

Provisions represent the best estimate of liabilities, including property related costs. The ageing of the provision reflects the best estimate of when these potential liabilities will fall due.

23. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefits £m	Financial instruments £m	Tax credits and unutilised tax losses £m	Other £m	Total £m
At 1 April 2020	133.8	32.9	(3.2)	-	(7.1)	156.4
Charge to income	4.0	4.5	0.7	-	-	9.2
Credit to equity	-	(41.9)	(1.6)	-	-	(43.5)
At 31 March 2021	137.8	(4.5)	(4.1)	-	(7.1)	122.1
At 1 April 2021	137.8	(4.5)	(4.1)	-	(7.1)	122.1
Charge/(credit) to income	53.9	(1.2)	1.3	(15.5)	(2.7)	35.8
Charge to equity	-	65.7	0.4	-	-	66.1
At 31 March 2022	191.7	60.0	(2.4)	(15.5)	(9.8)	224.0

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

	2022 £m	2021 £m
Deferred tax liabilities	251.7	137.8
Deferred tax assets	(27.7)	(15.7)
	224.0	122.1

24. 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 2021 and 31 March 2022	10,000,000	10.0	10,000,000	10.0

25. Notes to the cash flow statement

	2022 £m	2021 £m
Operating profit/(loss) from continuing operations	90.2	(7.4)
Adjustments for:		
Impairment of goodwill	-	111.0
Depreciation of property, plant and equipment	38.1	45.2
Amortisation of intangible assets	36.8	35.8
Depreciation of right-of-use assets	4.1	4.5
Impairment losses	1.7	12.7
Deferred grants released	(0.2)	(0.2)
Profit on disposal of property, plant and equipment	(0.2)	(0.4)
R&D expenditure above the line tax credits	(1.2)	(0.9)
Adjustment for pension funding	(6.5)	(23.3)
Operating cash flows before movements in working capital	162.8	177.0
Increase in trade and other receivables, and amounts recoverable under regulatory agreement	(315.8)	(400.8)
Decrease in trade and other payables, amounts payable under regulatory agreement and provisions	(47.1)	(22.6)
Cash used in operations	(200.1)	(246.4)
Tax received/(paid)	15.0	(12.0)
Net cash used in operating activities	(185.1)	(258.4)

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

Reconciliation of net financial liabilities

The table below analyses those net financial liabilities for which cash flows arise from financing activities in each of the periods presented.

	2022 £m	2021 £m
Cash and cash equivalents	50.9	172.2
Borrowings	(938.9)	(711.0)
Lease liabilities	(55.1)	(60.2)
Net debt	(943.1)	(599.0)
Index-linked swaps	(75.9)	(93.4)
Net financial liabilities	(1,019.0)	(692.4)
Cash and liquid investments	50.9	172.2
Gross debt - fixed interest rates (net of unamortised bond issue costs)	(797.2)	(311.1)
Gross debt - variable interest rates (net of unamortised bank facility fees)	(196.8)	(460.1)
Net debt	(943.1)	(599.0)
Index-linked swaps	(75.9)	(93.4)
Net financial liabilities	(1,019.0)	(692.4)

25. Notes to the cash flow statement (continued)

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

	Assets		Liabilities from financing activities (excluding derivatives)				Net debt	Derivatives	Net financial liabilities
	Cash and cash equivalents £m	Short term invest-ments £m	Lease liabilities £m	Bonds (i) £m	Advances of en route charges £m	Bank loans (ii) £m	Sub-total £m	Index-linked swaps £m	Total £m
Net financial liabilities as at 1 April 2020	451.0	37.3	(65.3)	(292.1)	-	(394.1)	(263.2)	(107.9)	(371.1)
Cash flows	(278.8)	(37.3)	5.6	41.6	(101.5)	1.2	(369.2)	14.1	(355.1)
New leases in the year	-	-	(0.1)	-	-	-	(0.1)	-	(0.1)
Effect of modification to lease terms	-	-	(0.4)	-	-	-	(0.4)	-	(0.4)
Fair value movements	-	-	-	-	-	-	-	0.4	0.4
Other non-cash movements (iii)	-	-	-	(0.4)	34.1	0.2	33.9	-	33.9
Net financial liabilities as at 31 March 2021	172.2	-	(60.2)	(250.9)	(67.4)	(392.7)	(599.0)	(93.4)	(692.4)
Net financial liabilities as at 1 April 2021	172.2	-	(60.2)	(250.9)	(67.4)	(392.7)	(599.0)	(93.4)	(692.4)
Cash flows	(121.3)	-	5.5	(451.1)	-	198.6	(368.3)	61.3	(307.0)
Effect of modification to lease terms	-	-	(0.4)	-	-	-	(0.4)	-	(0.4)
Fair value movements	-	-	-	-	-	-	-	(43.8)	(43.8)
Loss on redemption of £600m 5.25% Bond	-	-	-	(38.4)	-	-	(38.4)	-	(38.4)
Other non-cash movements (iii)	-	-	-	(1.7)	67.4	(2.7)	63.0	-	63.0
Net financial liabilities as at 31 March 2022	50.9	-	(55.1)	(742.1)	-	(196.8)	(943.1)	(75.9)	(1,019.0)

(i) The amounts shown under bonds are net of unamortised bond issue costs.
(ii) The amount shown under bank loans is net of unamortised bank facility fees and accrued bank facility fees.
(iii) Other non-cash flow movements include amortisation of bond issue costs of £1.7m (2021: £0.4m) and amortisation of bank facility fees of £2.7m (2021: £0.2m). The £67.4m (2021: £34.1m) represents the settlement of advances of en route charges, which have been deducted from income receipts.

Interest due on bonds and bank loans was fully paid to 31 March 2022 (2021: fully paid) and therefore accrued interest does not form part of net debt.

26. Financial commitments

	2022 £m	2021 £m
Amounts contracted but not provided for in the accounts	38.5	21.5

Guarantees

NATS Holdings Limited has given guarantees to the Ministry of Defence in relation to the company's performance under its Future Military Area Radar Services contract with the MOD.

27. Share based payments

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

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

	No. employee shares outstanding at 31 March 2022	No. employee shares outstanding at 31 March 2021
Date of share awards		
Free share awards		
21 September 2001	130,240	136,260
20 October 2003	126,175	131,675
10 September 2004	197,485	207,485
11 January 2008	157,308	165,668
18 September 2009	175,406	183,607
Partnership shares		
1 March 2011	159,993	167,357
26 September 2012	198,685	207,455
30 May 2014	178,153	186,103
31 October 2016	292,482	304,470
31 October 2018	397,719	411,502
Matching shares		
1 March 2011	159,740	167,104
26 September 2012	198,835	207,605
30 May 2014	178,469	186,419
31 October 2016	292,644	304,632
31 October 2018	381,041	413,702
	3,224,375	3,381,044
Dividend shares issued on 28 June 2005	16,192	16,907
Total employee shares in issue at 31 March	3,240,567	3,397,951

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

	Movement in the no. of shares during the year ended 31 March 2022	Movement in the no. of shares during the year ended 31 March 2021
Balance at 1 April	3,397,951	4,186,075
Forfeited during the year	(31,481)	(18,458)
Exercised during the year	(104,597)	(757,633)
Staff transfers between group companies	(21,306)	(12,033)
Balance at 31 March	3,240,567	3,397,951

Typically these shares are valued every six months by independent valuers using discounted cash flow and income multiple methods of valuation. Valuations are approved by HMRC for a period of six months unless a significant event arises which has a material impact on the share value. The outbreak of Covid had a significant and material impact and the scheme has been closed for leavers and joiners since 1 April 2020. The fair value of an employee share was estimated by reference to forecasts of discounted future cash flows to be £2.41 at 31 March 2022 (2021: £3.12). The last equivalent independent valuation at 31 December 2019 was £3.75. The liability for the employee shares at 31 March 2022 was £10.1m (2021: £12.6m), which includes amounts owing to good leavers since 1 April 2020, and is included in amounts due to parent company. The income statement includes a credit of £2.5m (2021: £1.3m debit).

28. Retirement benefit schemes

Defined contribution scheme

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

The company operates a salary sacrifice arrangement whereby employees sacrifice an element of their salary in favour of contributions to the pension scheme. The company matches employee contributions to the scheme in a ratio of 2:1, up to a maximum employer contribution of 18%. For the year ended 31 March 2022 employer contributions of £12.3m (2021: £12.4m), excluding salary sacrifice contributions of £6.9m (2021: £6.7m), represented 16.3% of pensionable salaries (2021: 16.1%). In addition, the company paid £nil (2021: £0.9m) in lieu of redundancy payments to defined contribution schemes.

The defined contribution scheme had 1,330 members at 31 March 2022 (2021: 1,388).

Defined benefit scheme

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

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

During 2013 the parent company consulted on further pension reforms to mitigate rising pension costs. These included a change to the limit on annual increases in pensionable 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.

Trustees' funding assessment

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

The last Trustees' funding assessment of the NATS' section was carried out at 31 December 2020 and used the projected unit credit method. The assumptions which have the most significant effect on the liabilities assessed at the valuation and hence the contribution requirement are those relating to the rate of return on investments, the rate of increase in salaries, the rate of increase in pensions and life expectancy.

The market value of the NATS' section's assets as at 31 December 2020 was £5,496.2m. For the purpose of the Trustees' funding assessment assets were taken at market value. The shortfall of assets relative to the value of benefits that had accrued to existing members was £171.9m, corresponding to a funding ratio of 97.0%.

The 2020 valuation showed that, based on long term financial assumptions, the contribution rate required to meet the future benefit accrual was 71.9% of pensionable pay (66.2% employers and 5.7% employees). The employer contribution includes an allowance to cover administration costs, including the Pension Protection Fund (PPF) levy.

Contributions to the pension scheme

Following the 2020 valuation, NATS and the Trustees agreed a recovery plan which would see the funding deficit repaid by 31 December 2029. Under the schedule of contributions, normal contributions are paid at 41.7% of pensionable pay until 31 December 2022 and 66.2% thereafter. The NATS group paid deficit recovery contributions of £26.0m in 2021 calendar year, which will increase by 2.37% for 2022 calendar year. From 1 January 2023 to 31 December 2029, deficit recovery contributions will be paid at £27.2m in 2023 and increase annually by 2.37% for 2024 to 2029. Contributions to the scheme are funded by NATS Limited's two principal operating subsidiaries: NERL and NATS Services, in proportion to their pensionable payrolls. NERL's share of deficit recovery contributions is c. 77%.

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

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

28. Retirement benefit schemes (continued)

Contributions to the pension scheme (continued)

During the year the company paid cash contributions to the scheme of £68.9m (2021: £74.5m). This amount included £5.9m (2021: £6.3m) of wages and salaries sacrificed by employees in return for pension contributions as well as contributions of £0.1m in lieu of redundancy payments (2021: £2.3m). Excluding the effect of salary sacrifice and past service costs, employer cash contributions were paid at a rate of 61.2% (2021: 59.5%) of pensionable salaries.

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2023 is £78.7m, including salary sacrifice contributions estimated at £6.1m.

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 to the extent that it can be realised in full by the company.

An actuarial valuation for IAS 19 purposes was carried out at 31 March 2022 (based on 31 December 2021 membership data). The major assumptions used by the actuary for the purposes of the IAS 19 figures at the relevant year ends are set out in the table and narrative below:

	2022	2021	2020
RPI Inflation	3.40%	3.05%	2.45%
CPI Inflation	2.95%	2.55%	1.85%
Increase in:			
- salaries	2.95%	2.55%	1.85%
- deferred pensions	3.40%	3.05%	2.45%
- pensions in payment	3.40%	3.05%	2.45%
Discount rate for net interest expense	2.75%	2.15%	2.30%

The mortality assumptions have been drawn from actuarial tables 105% S3PMA light and 103% S3PFA light (2021: 105% S3PMA light and 103% S3PFA light) with future improvements in line with CMI 2019 (2021: CMI 2019) projections for male/female members, subject to a long term improvement of 1.5% p.a. (2021: 1.5% p.a.) These tables assume that the life expectancy, from age 60, for a male pensioner is 28.4 years and a female pensioner is 30.2 years. Allowance is made for future improvements in longevity, such that based on the average age of the current active membership (46), when these members reach retirement, life expectancy from age 60 will have increased for males to 29.5 years and for females to 31.3 years.

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

a) asset volatility: for accounting purposes, scheme liabilities are determined using a discount rate set by reference to high quality corporate bond yields. If scheme assets under-perform relative to this yield, this will create a deficit. As explained below, NATS and Trustees are reviewing measures to de-risk the scheme by investing more in assets which better match the liabilities.

b) changes in bond yields: a decrease in the yield on high quality corporate bonds will increase scheme obligations, although this is partly mitigated by an increase in the value of the scheme's holdings of bonds.

c) inflation risk: the scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. As discussed further below, the Scheme has implemented a liability driven investment programme to partially protect the funding position from changes in inflation. Furthermore, some of the scheme's assets (such as equities) are real in nature and so provide some additional inflation protection, but overall, an increase in inflation will adversely impact on the funding position.

d) life expectancy (mortality): the majority of the scheme's obligations are to provide benefits for the life of a member, so an increase in life expectancy will result in an increase in the scheme's obligations.

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

Assumption:	Change in assumption:	Impact on scheme liabilities:
Discount rate	Increase/decrease by 0.5%	Decrease by 9.7%/increase by 11.2%
Rate of inflation	Increase/decrease by 0.5%	Increase by 10.7%/decrease by 9.5%
Rate of pensionable salary growth	Increase/decrease by 0.5%	Increase by 2.4%/decrease by 2.3%
Rate of mortality	1 year increase in life expectancy	Increase by 3.5%

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

28. Retirement benefit schemes (continued)

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

	2022 £m	2021 £m
Current service cost	(61.1)	(51.6)
Past service cost	(0.1)	(2.7)
Net interest credit	0.3	4.8
Administrative expenses	(1.5)	(1.7)
Components of defined benefit costs recognised within operating profit	(62.4)	(51.2)

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

	2022 £m	2021 £m
Return on plan assets (excluding amounts included in net interest expense)	108.1	318.7
Actuarial gains and losses arising from changes in financial assumptions	186.1	(609.8)
Actuarial gains and losses arising from changes in demographic assumptions	-	81.0
Actuarial gains and losses arising from experience adjustments	(28.3)	(10.1)
	265.9	(220.2)

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

	2022 £m	2021 £m
Present value of defined benefit obligations	(3,720.3)	(3,856.2)
Fair value of scheme assets	3,969.1	3,832.6
Surplus/(deficit) in scheme	248.8	(23.6)

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

	2022 £m	2021 £m
At 1 April	(3,856.2)	(3,318.3)
Current service cost	(61.1)	(51.6)
Past service cost	(0.1)	(2.7)
Interest expense on defined benefit scheme obligations	(81.6)	(74.8)
Actuarial gains and losses arising from changes in financial assumptions	186.1	(609.8)
Actuarial gains and losses arising from changes in demographic assumptions	-	81.0
Actuarial gains and losses arising from experience adjustments	(28.3)	(10.1)
Benefits paid	120.9	130.1
At 31 March	(3,720.3)	(3,856.2)

The average duration of the scheme's liabilities at the end of the year is 20.8 years (2021: 21.8 years). The present value of the defined benefit obligation can be analysed by member group as follows:

	2022 £m	2021 £m
Active members	(1,479.3)	(1,553.7)
Deferred members	(380.8)	(457.3)
Pensioners	(1,860.2)	(1,845.2)
	(3,720.3)	(3,856.2)

28. Retirement benefit schemes (continued)

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

	2022 £m	2021 £m
At 1 April	3,832.6	3,491.6
Interest income on scheme assets	81.9	79.6
Return on plan assets (excluding amounts included in net interest expense)	108.1	318.7
Contributions from company	68.9	74.5
Benefits paid	(120.9)	(130.1)
Administrative expenses	(1.5)	(1.7)
At 31 March	3,969.1	3,832.6

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

	2022 £m	2021 £m
Cash and cash equivalents	21.5	32.4
Equity instruments		
- Emerging markets	56.3	35.8
- Global	576.5	470.9
	632.8	506.7
Bonds		
- Fixed income	1,820.7	1,881.5
- Index-linked gilts over 5 years	1,034.1	840.0
	2,854.8	2,721.5
Other investments		
- Property	119.7	173.7
- Hedge funds	157.7	96.8
- Private equity funds	135.5	109.5
- Other	36.9	-
	449.8	380.0
Derivatives		
- Futures contracts	10.2	4.6
Other receivables	-	187.4
	3,969.1	3,832.6

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

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

NATS and 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.

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

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

The actual return on scheme assets for the year ended 31 March 2022 was £190.0m (2021: £398.3m).

29. Related party transactions

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

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

Aquila Air Traffic Management Services Limited is a joint venture entity of NERL's fellow subsidiary, NATS (Services) Limited.

Trading transactions

	Sales		Purchases	
	Year ended 31 March 2022	Year ended 31 March 2021	Year ended 31 March 2022	Year ended 31 March 2021
	£m	£m	£m	£m
LHR Airports Limited	-	0.5	0.1	0.1
Ministry of Defence (MOD)	39.0	46.7	4.2	0.3
Department for Transport (DfT)	0.5	0.5	-	-
Meteorological Office	-	0.3	0.5	0.6
Aquila Air Traffic Management Services Limited	0.7	1.1	-	-

	Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2022	Year ended 31 March 2021	Year ended 31 March 2022	Year ended 31 March 2021
	£m	£m	£m	£m
Ministry of Defence (MOD)	4.5	6.6	7.1	21.8
Department for Transport (DfT)	0.1	-	-	-
Aquila Air Traffic Management Services Limited	-	0.1	-	-

The company also entered into transactions with its parent and fellow subsidiary undertakings. Sales and purchases to these related parties are disclosed in note 4 and 6 respectively. Amounts owed from/to these related parties are shown in note 16 and 21.

Sales are made to related parties at the company's usual rates and purchases at market prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. No expected credit loss provisions (2021: £nil) have been made for doubtful debts in respect of amounts owed by related parties.

Directors' remuneration

The total remuneration earned by the directors of the company in the year was £1,246,000 (2021: £979,000). The number of directors paid by the company during the year was two (2021: two). The highest paid director (see below) is a member of the defined contribution pension scheme in order to make employee contributions only and sacrificed £4,000 (2021: £4,000) of salary under the company's salary sacrifice arrangements. The company did not make any employer contributions. The remaining director does not participate in a company pension scheme.

Remuneration earned by the highest paid director of the company in the year was £713,000 (2021: £535,000). Contributions paid to a defined contribution pension scheme via salary sacrifice have been deducted from this remuneration figure.

Remuneration of key management personnel

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

	2022	2021
	£m	£m
Short term employee benefits	5.6	6.0
Post-employment benefits	0.4	0.4
Termination benefits	-	2.3
	6.0	8.7

30. Parent undertaking

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

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

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

1. NERL's gearing is the ratio of its net debt (as defined by its licence) to regulatory assets. Net debt for this ratio differs from statutory net debt in three areas: (i) borrowings are recorded at face value, rather than net of remaining capitalised original issue discounts and issuance costs; (ii) leases are included, but only to the extent that they would have been treated as finance leases prior to application of IFRS 16; and (iii) it includes a value for NERL's RPI swaps that represents the historic accretion on the notional of the swaps. This value differs from the fair value of the RPI swaps within the derivatives on the balance sheet.
   The regulatory asset base (RAB) represents the capital employed in the company's economically regulated businesses and is reported annually in regulatory accounts prepared on a calendar year basis. The regulatory accounts are published at www.nats.aero. The CAA's economic regulatory framework determines the basis for measuring regulatory assets. NERL's RAB was established at the time of the Public Private Partnership in 2001. The RAB is uplifted annually by RPI inflation and increases by capital expenditure and reduces by regulatory depreciation. The RAB excludes balances relating to tax, financing and the IAS 19 pension position. The CAA sets a net debt to RAB target and bank covenants are set on a net debt to RAB basis. At 31 December 2021 the value of NERL's RAB was £1,519.0m.
2. An Airprox is a situation in which, in the opinion of a pilot or controller, the distance between aircraft as well as their relative positions and speeds have been such that the safety of the aircraft involved was or may have been compromised. The severity of these incidents is assessed periodically by the UK Airprox Board, an independent body, in the interests of enhancing flight safety.
   Airprox events are classified A to D on the basis only of actual risk, not potential risk. An event classified as category B - safety not assured, is an aircraft proximity in which the safety of the aircraft may have been compromised.
3. Impact score is a measure of delay placing greater weight on long delays and departures in the morning and the evening peaks. Variability score is a daily excess delay score based on weighted delays exceeding pre-determined thresholds on a daily basis.
4. The three-dimensional inefficiency score (3Di) measures the environmental efficiency of a flight by comparing its actual radar track to an optimal profile. A lower score represents better flight efficiency. NATS has made the 3Di environmental insight tool freely available to aviation stakeholders to use to track their carbon efficiency.
5. 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.