NATS (En Route) plc

Financial statements

Year ended 31 March 2023

Company Number: 04129273

Financial highlights (year ended 31 March)

£m (unless specified)	2023	2022
Revenue and regulatory allowances	782.4	617.9
Profit/(loss) before tax	156.5	(5.1)
Debt adjusted cash inflow/(outflow)	51.8	(239.6)
Capital expenditure	107.1	95.4
Net debt[a]	903.2	943.1
Gearing[b] (%)	52.3%	60.1%
Dividends	nil	nil

Notes: [a]see note 20 to the financial statements. Net debt excludes derivative financial instruments; [b]ratio of NERL's net debt (as defined by its licence) to regulatory assets[1]. Debt adjusted cash flows exclude repayments/drawings on borrowings[1].

- The company reported a profit of £156.5m (2022: £5.1m loss, after refinancing costs of £41.7m). As for the prior year, the result includes our assessment of the regulatory allowances still to be determined by the CAA for the 2020-22 Covid period shortfall between flight income and costs incurred.
- In October, the CAA published its initial proposals for NERL's next price control (NR23: 2023 to 2027). While the CAA recognises the challenge we faced during Covid, we are concerned about material elements of their proposals. We have reiterated the importance of a price control with appropriate resources and risk mitigations to deliver the NR23 plan, critical to the service customers require now and in the future, which NERL has proposed. The CAA's decision is expected later in summer 2023.
- For the scale of the regulatory allowances outstanding, we expect the CAA will require their recovery over 10 years from 2023, as we also proposed, to ensure affordable charges as the sector recovers after Covid. The outstanding regulatory allowances account for the significant difference between our results and our cash flows since Covid.
- We have financed accordingly with borrowings aligned with recovery of these allowances and to facilitate delivery of our NR23 plan. This year we completed the refinancing which commenced during Covid with the issue of a further £145m of bonds repayable in 2033.

Operational highlights

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

[1] A number of alternative performance measures and explanatory notes are provided on pages 99 to 100 of this report.

Contents

	Page
Strategic report	
Highlights	1
Our business model	2
Our strategy to 2040	3
Chief Executive's review	4
Business review	9
Financial review	12
Going concern and viability statements	17
Principal risks and uncertainties	20
Engaging with our stakeholders	25
S172 statement	26
Governance report	
Governance framework	28
Report of the directors	31
Independent auditor's report	35
Financial statements	43
Additional information	
Alternative performance measures	99
Explanatory notes	100

Our business model

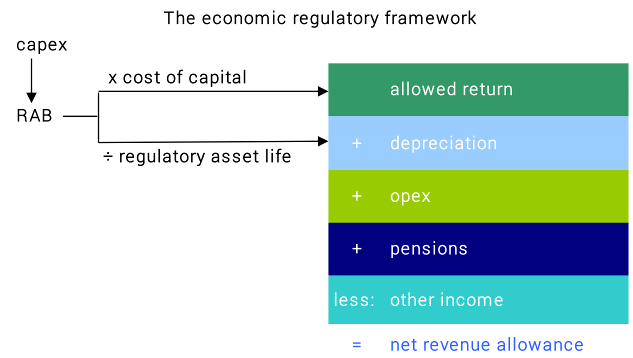
We generate income from Air Traffic Control (ATC) services for aircraft flying en route in UK airspace and the eastern part of the North Atlantic as well as other ATC related services.

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.

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

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

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



The CAA's price control framework also sets allowances, and provides incentives, for service, environmental performance, capital investment and gearing levels. If regulatory assumptions are borne out, and NERL efficiently meets its targets, then 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.

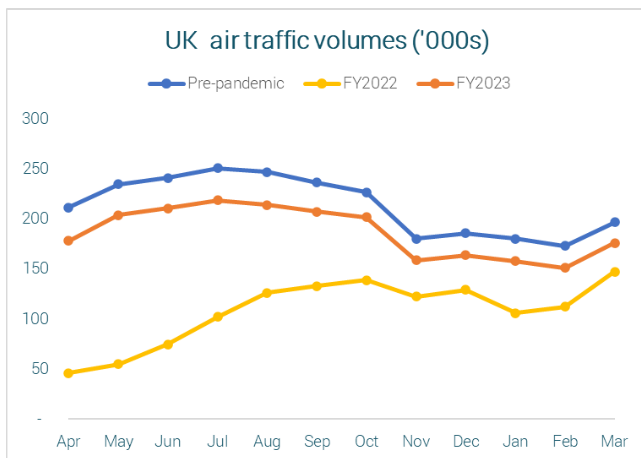
Our strategy is designed to drive the company's purpose of Advancing aviation, keeping the skies safe, which is at the heart of why we do what we do and what we are passionate about. It is supported by the guiding principles which underpin the company's culture and its core values, and is centred around four long term objectives, which are deliberately challenging, for delivery by 2040. The objectives are that:

- We will be a top 25 UK company to work for. We recognise that our employees are our future. We want to retain our brilliant people and attract the best new talent. Inclusion, career development and wellbeing are front and centre of our approach.
- Every airspace user will be able to rely on our services. We have a relentless focus on maintaining safety for all airspace users, whoever they are now and whoever they may be in the future, and we will develop the UK's critical national airspace infrastructure to seamlessly integrate their requirements.
- We will be carbon negative. We will run our operation sustainably and we will be pro-active in supporting the reduction of the wider aviation industry's impact on the environment.
- We will be delivering an additional £500m in revenue per year (in 2021 prices). We will achieve this by providing competitive and market leading propositions to new and existing UK and international customers aligned with their strategies which we will develop by working alongside our partners.

Chief Executive's review

A safe but at times turbulent recovery

It was a welcome relief to see air traffic volumes recover strongly last summer following the lifting of Covid travel restrictions in March 2022. Over the course of the year we handled 2.24m flights in the year or 87% of pre-pandemic levels (2022: 1.29m flights). It became clear early last summer that pent-up demand after two years of lockdowns would buoy the industry's recovery, despite inflationary pressures and geopolitical risks.



Our overriding priority, unsurprisingly, was to ensure that we enabled a safe recovery of air traffic. We had made a conscious decision during the pandemic to retain the essential skills to support the recovery, not least because it takes up to three years to train an air traffic controller. In addition, before restrictions lifted, we had supported operational employees with simulation programmes to maintain skills on higher levels of traffic. This meant we were able to ramp our operation back up very quickly and safely support the level of demand. This was achieved in spite of one of the most challenging operational environments we have seen.

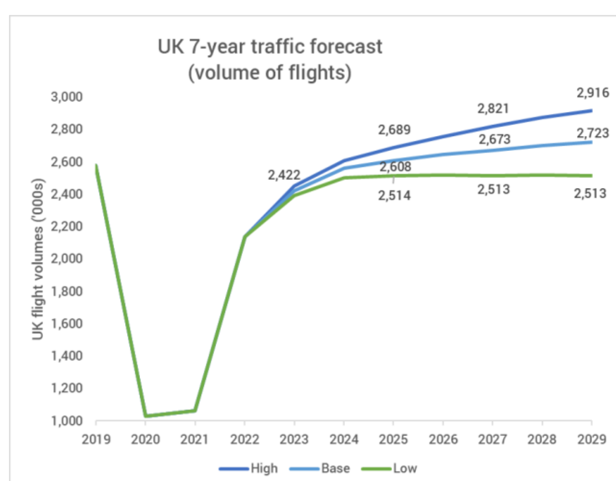
The aviation sector in the UK and much of Europe continued to contend with the after-effects of the pandemic - labour shortages and the struggle to rebuild operational capacity to keep pace with consumer demand. This presented us with a number of operational challenges in the first half of the year.

We plan our operational resourcing tactically according to the level of demand we anticipate and based on published flight schedules. As airlines and airports responded to the strength of consumer demand for travel last summer, traffic growth was not uniform across the airspace network and the daily flight schedule was much more volatile than expected. In peak periods and at certain times of day volumes often exceeded 90% of pre-pandemic levels. Certain sectors of airspace were unexpectedly busier than others, varying materially from filed schedule, and at times our resources could not match unplanned hourly variations in those airline schedules. To ensure a safe service we consequently had to regulate traffic flows, resulting in some air traffic delay. The level of traffic volatility abated from mid-summer 2022 as airlines aligned their schedules with their abilities to meet demand alongside Heathrow and Gatwick airports capacity restrictions to manage airline demand at their operations. With a more orderly network subsequently, our service performance improved to levels consistent with or better than 2019 and remained at a low level through the second half of the year.

Outlook for air traffic volumes

Demand for air travel is generally linked to the strength of the economy. The challenging economic environment and cost of living pressures on consumers, alongside upward pressures on airline ticket prices from higher jet fuel costs remain headwinds for growth over the next few years. Eurocontrol, Europe's network manager, recently published its March 2023 seven-year forecast together

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



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

Regulatory developments

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

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

require the appropriate resources and risk mitigations from the CAA's price control decisions to enable us to continue to develop and train the next generation of air traffic controllers to meet projected demand safely and provide further operational resilience, and to progress our technology transformation programme while sustaining our legacy technical equipment and advancing airspace modernisation to improve environmental performance and accommodate future traffic growth.

Employee relations

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

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

We reduced our workforce during Covid and since the start of the financial year have been hiring again across targeted areas of the business though, like many companies, we are finding recruitment challenging in key areas. The pandemic accelerated trends in remote working and career flexibility and, alongside employers' demand for well qualified employees, these are making for a competitive labour market particularly in relation to the engineering skills we require.

During Covid we retained our skilled air traffic controllers to support the recovery but we were unable to train new controllers due to the risk of spreading the virus within our operation as well as effective training in a live environment being unfeasible with such low flight volumes. In addition to providing the tactical service day to day, outside of the summer peak, we rely on operational staff to train new controllers and to support the development of new technology and changes to the airspace network. While we have sufficient resources today to meet our regulatory commitments, we are now training more new recruits than ever before to meet all of our operational and training needs in future, as the pipeline of newly trained controllers and less certain rates of staff retirements work through the system. We are striving to manage this with a key factor being the NR23 settlement providing an adequate financial envelope, robust to changes in inflation, and sufficient flexibility to respond to changing levels of traffic.

We are clear that building an inclusive culture and making the most of the talent in a diverse workforce are essential if we aspire to be a top 25 company in the UK to work for. Our employee networks continue to expand and propose positive changes that continue to make our workplace an ever more fair, equitable and enjoyable place for everyone. We joined National Inclusion Week again this year, building on the success of our first participation in the prior year. Alongside relevant experts, employee network representatives and senior leaders, executive colleagues and I hosted a number of live panel discussions and presentations. These covered a range of topics including diversity in recruitment, inclusive processes, and the barriers to disability inclusion. Additionally, we heard from key partners on their approaches to equality, diversity and inclusion. While this is an annual event our focus is not just on the week itself, but on how it can be an

extension of our everyday commitment to inclusion across the company for the long term.

For the first time in four years we asked our employees how they feel about working at NATS. The survey was conducted by Best Companies, employee engagement specialists, which enables our internal progress to be benchmarked and measured against their accreditation standards. Overall, 62% of employees responded. Based on their feedback, Best Companies rated us as a one-star organisation, one which is very good to work for. This is very encouraging and a high standard that we must maintain and improve on if we are to meet our long-term strategic objective.
With the help of colleagues from across the business, we will use the feedback from the survey to shape and deliver improvement plans particularly in areas of leadership, personal growth and giving something back. We will measure our progress through future surveys and through our ability to attract and retain talent.

Our role in a sustainable future

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

In 2020, the UK aviation industry, including NATS, made a commitment to net zero emissions by 2050 and we are working with our customers, partners and suppliers to support this. Our plan for NR23 set an ambitious target to reduce carbon emissions from flights under our air traffic control by 4.4% between 2020 and 2035. This is in line with independent assessments of the contribution air traffic control can make to overall aviation emissions reduction, through measures such as optimising flight paths and airspace changes. This is represented in our plan by a sustainable reduction in the 3Di score in the face of traffic growth, which is enabled by airspace modernisation, the biggest contribution we can make to reducing the carbon footprint of flying.

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

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

We also coordinated with Maastricht air traffic control on changes to airspace in the Humber region, which

optimises flight trajectories across the North Sea and will enable annual savings of up to 18,000 tonnes of CO_2 across the UK and European network. Finally we made changes to London City departure routes enabling annual savings of 3,300 tonnes of CO_2.

Aside from changes to airspace structures, our tools such as arrival manager and intelligent approach have the potential to support lower emissions.

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

Commercial developments

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

Executive team changes

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

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

Concluding remarks

Later this summer, after publication of this report, we expect the CAA to make its final decision on the NR23 price control. Our immediate focus is on ensuring that we continue to play our part in working with the rest of the aviation sector to deliver a safe and smooth summer 2023 for the travelling public. We have prepared together for this to ensure a more coordinated management of the demand for air travel.

Martin Rolfe, FRAeS

Chief Executive

Business review

Delivering a safe, secure, efficient and resilient service

- Service performance

Service performance: calendar year	2022		2021	
	Target	Actual	Target	Actual
C1: avg. en route delay all causes (seconds)	19.2	14.9	19.2	0.4
C2: NATS avg. delay per flight (seconds)	15.0	10.2	15.0	0.3
C3: delay impact (score)[5]	2.0	21.8	30.0	0.6
C4: delay variability (score)[5]	1,800.0	343.7	1,800.0	0.0
C3Di: 3Di metric (score)[4]	25.9-28.6	26.0	25.9-28.6	22.8

C3 target is the modulated target, reflecting that actual traffic for 2022 was significantly lower than the CAA's price control forecast.

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

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

- Safety management

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

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

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

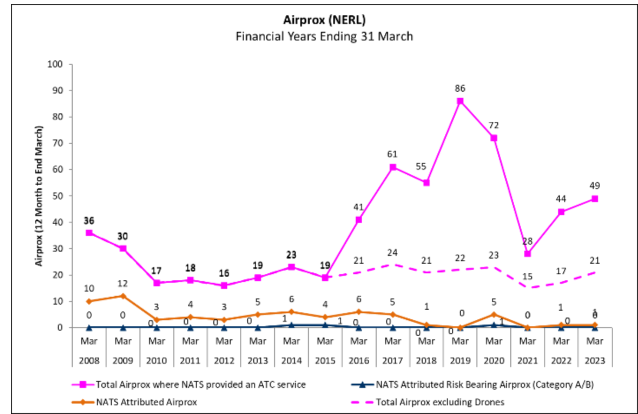
Having a strong Safety Culture is at the core of what we do. NATS works continuously to build and develop our Safety Culture, encouraging all employees to raise issues and learn lessons at every turn. We have recently completed our regular safety culture survey with an 83% response rate, demonstrating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

- Safety Performance

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

Our safety performance is measured using the Risk Analysis Tool (RAT[6], as a proxy measure for safety risk) to assess the severity of safety events and to drive the appropriate safety culture across the whole business, as well as the number of airprox incidents, which are assessed independently by the UK Airprox Board.

There were no-risk bearing category A or B airprox attributable to NATS during the financial year (2022: none). Although the total number of airprox in NATS



airspace remained well below the pre-pandemic peak when traffic volumes had been at historically high levels, there was an increase on the number reported in the prior year due to Remotely Piloted Aircraft System (RPAS or drone) related events. Recognising this, we are actively investigating ways to measure better the risks associated with encounters between crewed and uncrewed aircraft near airports, as well as collaborating with stakeholders to improve safety and influence UK drone policy. In 2021 we brought together the UK's leading commercial 'beyond visual line of sight' (BVLOS) RPAS operators, government and public body operations such as the MOD, police, Network Rail and Maritime & Coastguard Agency to facilitate collaborative development and understanding of the integration of these relatively new airspace users into current and future airspace structures.

The RAT point score is measured on a calendar year basis. For 2022 we recorded a total of 20.3 points per 100,000 flights (2021: 23.9), which is in line with our expectation following the increase in traffic volumes. The RAT events included one severity A and two severity B events against our target of less than eight for both combined. For each of the events a thorough investigation was performed and corrective actions

have been taken. We met all of our internal safety performance targets for 2022.

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

Technology transformation

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

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

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

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

Financial review

Results overview

The company reported a profit before tax of £156.5m (2022: £5.1m loss). This improvement mainly reflected:

- higher airspace revenue and regulatory allowances under the CAA's regulatory framework;
- costs of £41.7m in the prior year for refinancing the debt structure; and
- a lower fair value charge, mainly for derivatives reflecting the market's expectation of inflation.

These factors were partly offset by:

- higher staff and non-staff costs as the business scaled up to support the recovery in air traffic; and
- a full year's depreciation of the technical infrastructure deployed in 2022.

The principal year on year movements explaining the result are summarised below:

	£m	£m
2022 loss before tax		(5.1)
Revenue and regulatory allowance changes		
UK en route revenue	136.7	
North Atlantic en route	17.0	
Other (net)	10.8	
		164.5
Operating cost changes		
Salaries and pensions	(19.2)	
Employee share scheme	(7.9)	
Job retention scheme grant	(4.3)	
Capitalised internal labour	(4.9)	
Staff costs		(36.3)
Other non-staff costs net	(26.5)	
Depreciation and asset impairment	(18.1)	
		(44.6)
Finance cost changes		
Fair value movements	30.1	
Refinancing-related costs	40.9	
Other net finance costs	7.0	
		78.0
2023 profit before tax		156.5

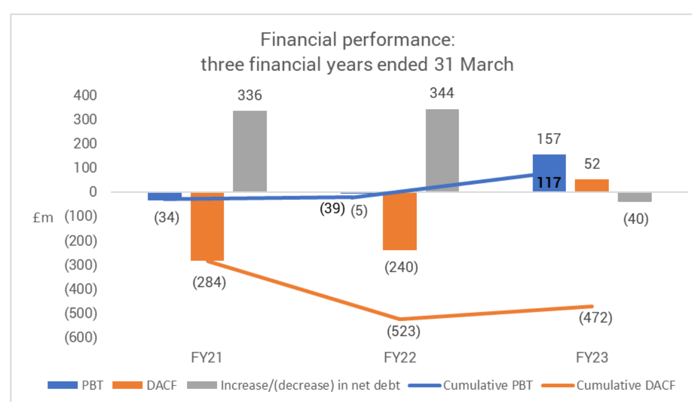
After the tax charge, which is explained below, the company reported a profit of £124.7m (2022: £40.7m loss).

Putting profit, cash flows and financial position in context

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

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

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



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

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

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

The scale of the shortfall in income receipts, particularly in 2021 and 2022, is also borne out by our debt adjusted cash flows in this period. These represent the cash flows from our operations, our investing activities and our debt service costs but exclude the cash flows relating to our financing capital structure such as bond issues and bank loan repayments. A reconciliation of the debt adjusted cash flows to the overall change in cash balances in each year is set out on page 99. Across the two years of 2021 and 2022, the company incurred debt adjusted cash outflows of £523m which reflected the income we lost when Covid travel restrictions significantly curtailed air travel and chargeable flight volumes. During the 2023 financial year, the recovery in flights volumes enabled a debt adjusted cash inflow of £52m as income receipts exceeded our operating costs, capital investment and debt service costs. We expect our cash receipts to improve as traffic levels continue to recover towards pre-pandemic levels, and as we start to recover the income shortfall.

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

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

During the three-year period, the shortfall in income relative to our outgoings meant that our net debt increased by £640m to £903m. Net debt did begin to reduce during 2023 as our cash receipts improved as traffic volumes recovered.

Refinancing

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

and when the outlook for air traffic volumes was more stable.

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

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

Revenue and regulatory allowances

	2023	2022
	£m	£m
Airspace	776.3	612.9
Other Service lines	6.1	5.0
Total	782.4	617.9

Overall, revenue and regulatory allowances at £782.4m (2022: £617.9m) were £164.5m higher than last year. The most significant developments relate to the Airspace service line. Revenue from contracts with customers and other revenue at £741.4m (2022: £415.9m), improved by £325.5m following the growth in air traffic volumes in the year. Regulatory allowances of £41.0m (2022: £202.0m) reflect the shortfall between the income we earned for the flights we actually handled and the costs we incurred to do so. This is the basis of CAA's retrospective reconciliation which will ensure NERL is able to recover efficiently incurred costs for operating and maintaining the UK's airspace infrastructure through the Covid period. Our assessment of regulatory allowances had regard to the CAA's initial proposals.

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

Operating costs

Operating costs increased by £80.9m or 15.3% as we scaled up our activities following Covid to support the recovery in air travel.

	2023	2022
	£m	£m
Staff costs	(356.3)	(320.0)
Non-staff costs	(156.7)	(129.9)
Depreciation and amortisation, net of grants	(98.4)	(80.5)
Profit on disposal of assets	0.0	0.2
Other operating income	2.8	2.5
Total operating costs	(608.6)	(527.7)

Staff costs were £36.3m higher at £356.3m (2022: £320.0m). This included a pay award, operational overtime to support last summer's traffic recovery and additional headcount as we lifted the freeze on recruiting trainee air traffic controllers as well as engineers to support the technology transformation programme. Less internal labour was capitalised during the year while we revised our planned approach to deliver customer benefits as early as possible (see Technology transformation). The cost of the employee shares increased in the year following an independent valuation. These factors were partly offset by lower defined benefit pension costs, explained below.

The number of employees in post at 31 March 2023 at 3,179 was an increase of 141 on the prior year.

Non staff costs increased by £26.8m to £156.7m (2022: £129.9m). This included the costs of delivering the engineering projects, satellite surveillance charges supporting more North Atlantic flights, data hosting

charges relating to the technical infrastructure and higher utility costs reflecting market energy prices. Prior year costs were also net of a larger write back by £3.9m in expected credit loss provisions.

Depreciation and amortisation (net of grants) increased by £17.9m to £98.4m (2022: £80.5m), following a full year's charge for the technical infrastructure deployed in November 2021 and a higher asset impairment charge.

Net finance costs and fair value movements on financial instruments

In the prior year one-off refinancing costs of £41.7m were incurred for NERL's debt refinancing transaction. Excluding these costs, net finance costs of £3.6m (2022: £9.8m) were £6.2m lower than the prior year mainly reflecting the discount rate effect on the regulatory allowance relating to the Covid income shortfall to be recovered in NR23 and NR28.
A fair value charge of £13.7m (2022: £43.8m) this year related to a change in market valuation of RPI swaps, reflecting the market's expectation of lower long-term inflation.

Taxation

The tax charge of £31.8m (2022: £35.6m) represents an effective rate of tax of 20.3%. This is higher than the headline rate of 19%, mainly due to the impact of deferred tax balances expected to be realised after April 2023, when the headline rate increases to 25%. The tax charge consists of a current tax charge of £11.5m and a net deferred tax charge of £20.3m. The deferred tax charge arises mainly from the deferred tax liabilities on capital expenditure, the defined benefit pension surplus and the use of the previous year's tax losses.

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

Regulatory return

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

Balance sheet

	2023	2022
	£m	£m
Goodwill	38.3	38.3
Tangible and intangible fixed assets	1,091.9	1,079.1
Right-of-use assets	34.7	39.1
Pension scheme surplus	43.9	256.6
Regulatory allowances recoverable	731.3	724.6
Regulatory allowances payable	(141.6)	(169.1)
Cash and cash equivalents	57.7	50.9
Derivatives (net)	(80.1)	(77.1)
Borrowings	(911.4)	(938.9)
Lease liabilities	(49.5)	(55.1)
Deferred tax liability	(195.6)	(225.9)
Other net balances	(60.6)	(115.7)
Net assets	559.0	606.8

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

Overall net assets reduced in the year, following a reduction in the IAS 19 funding surplus of the defined benefit pension scheme to £43.9m (2022: £256.6m - see below), partly offset by the profit after tax for the year.

Capital investment

	2023	2022
	£m	£m
SESAR deployment	47.9	56.5
Airspace modernisation	7.8	8.1
Infrastructure	9.8	7.1
Operational systems	29.5	18.5
Other	7.7	1.3
Regulatory capex	102.7	91.5
Military systems	-	0.3
Other non-regulatory capex	4.4	3.6
Capital investment	107.1	95.4

The company invested £11.7m more in the year as the capital investment programme continued to remobilise. It had been paused during the Covid pandemic to protect liquidity and to enable plans to be reviewed against the revised priorities of our customers and the regulator.

Defined benefit pensions

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

The cost of defined benefit pensions at £53.8m (2022: £62.4m) reflected a lower accrual rate of 44.9% (2022: 60.6%) of pensionable pay, as a result of higher real interest rates at the start of the financial year relative to those at the start of the prior year.

At 31 March 2023, the scheme's assets exceeded its liabilities by £43.9m (2022: £256.6m) as measured under International Accounting Standards (IAS 19) using best estimate assumptions.

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

IAS 19 pension surplus	£m
At 1 April 2022 (restated, see note 2)	256.6
Charge to income statement*	(53.8)
Actuarial gains/(losses):	
- on scheme assets	(1,388.5)
- on scheme liabilities	1,160.7
Employer contributions*	68.9
At 31 March 2023	43.9
Represented by:	
Scheme assets	2,660.7
Scheme liabilities	(2,616.8)
Surplus	43.9

* including salary sacrifice

The real yield on AA corporate bonds used to value RPI-linked pension obligations increased by 240 basis points over the 12-month period. This had the effect of reducing the value of pension liabilities. Partly offsetting this, experience losses of £180m reflected the impact of actual inflation on pensioner and deferred member liabilities. Overall, the scheme's pension liabilities (under IAS 19) reduced by £1,103.5m over the year.

The fair value of the scheme's assets reduced by £1,316.2m, with significant reductions in the value of fixed income investments in particular, reflecting broader interest rate increases and the impact of inflation on returns.

The scheme's liability driven investment (LDI) portfolio was managed appropriately through the events that occurred in the gilt market in September 2022. Subsequently, to further enhance resilience the company and trustees adjusted the level of collateral to withstand further increases in real interest rates and the growth portfolio to provide liquidity for the LDI

portfolio, while continuing to meet the scheme's expected return objective.

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

b. Trustee valuation and funding obligations

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

The Trustees completed their last formal valuation at 31 December 2020 which reported a funding deficit of £171.9m equivalent to a funding level of 97% (NERL's economic share of this deficit is c£132m). The scheme's actuary also determined that the cost of employee benefits accruing in future should be 66.2% of pensionable pay. Contributions have reflected this rate since January 2023, as well as a recovery plan agreed with Trustees, which aims to repair the deficit by December 2029. This will require deficit payments of £27.2m during calendar year 2023, increasing annually by 2.37%.

Under the schedule of contributions agreed following the 2020 valuation, during the financial year the company paid £18.8m towards the group's deficit contributions (of £24.5m) and normal contributions at a rate of 41.7% of pensionable pay until December 2022 and then at 66.2%.

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

Net debt, liquidity and cash flows

	Cash and cash equivalents	Borrowings (including lease liabilities)	Net debt
	£m	£m	£m
Balance at 31 March 2022	50.9	(994.0)	(943.1)
Cash flow	6.8	37.0	43.8
Non-cash movements	-	(3.9)	(3.9)
Balance at 31 March 2023	**57.7**	**(960.9)**	**(903.2)**

At 31 March 2023, the company's net debt was £903.2m (2022: £943.1m). It comprised £853.5m in bonds and £65.0m of drawings under bank facilities, less unamortised costs and fees, and £49.5m of lease liabilities recognised under IFRS 16. These were partly offset by £57.7m of cash and cash equivalents.

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

At 29 June 2023 the company had available liquidity of around £396m. 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.

As explained in the Financial Review, during the year the company raised £104m (net of costs) from the issue of a £145m unsecured bond and cancelled its £450m unsecured bridging facility. At 31 March 2023, the company had access to liquidity of £393m comprising cash of £57.7m and undrawn committed bank facilities of £335.0m. At 29 June 2023, the company had access to cash and undrawn bank facilities of around £396m.

When considering the appropriateness of the going concern basis of preparation of the financial statements, the directors have reviewed the cash flow forecasts prepared by management covering a period to 30 June 2024, being at least 12 months from the date of approval of these financial statements. The directors have had regard to reasonably plausible changes in trading performance as well as severe traffic volume scenarios individually and in combination and the principal risks discussed on pages 20 to 24.

The severe traffic volume scenarios modelled were: an up to 65% reduction in air traffic volumes for a 12-month period, as a proxy for a traffic shock such as a further wave of Covid and related travel restrictions, being the most severe traffic scenario; Eurocontrol's March 2023 pessimistic case (see page 5) which assumed a slower recovery in air traffic volumes in light of the continuing challenging economic and geopolitical situation; adverse impacts of higher than planned inflation of our operating costs and capital expenditure programme; and higher cash outflows simulating the risk of unremunerated committed costs following the NR23 price control decision. Finally, a combination scenario was also performed of lower air traffic volumes and higher operating costs. Under the most severe scenario the company maintains adequate liquidity (of £166m) and headroom (gearing at 58%) to meet its debt covenant (gearing at 85%), prior to mitigating actions (such as other cost saving measures and deferring capital investment).

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

Viability statement

The directors have assessed the viability of the 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 pages 20 to 24, and the effectiveness of currently available mitigating actions.

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

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

Specific consideration has been given to:

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

Alistair Borthwick

Chief Financial Officer

Principal risks and uncertainties

Enterprise Risk Framework

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 on a monthly basis which address changes in risk, risk appetite and tolerance, internal controls and the progress of actions associated with NATS' risks.

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

Taking into account the work of the Committees, the Board formally reviews emerging and principal risks on a six-monthly basis. Safety risks remain a priority for the business and as such are considered at every Board meeting in addition to the regular six-month review.

Our Principal Risks

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

The list below is not intended to be exhaustive and reflects the Board's assessment as at the date of this report. The risks outlined are the most important risks facing the company in seeking to achieve its objectives. The company focuses on mitigating these risks, although many remain outside of our control – for example changes in regulation, security threats, environmental factors and the impact of longevity and financial markets on pension funding.

These risks are reflected in and have been considered in assessing viability and going concern on pages 17 to 19.

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 NERL. The reputational damage could result in the loss of future contracts and a reduction in revenue. The financial loss could also be significant. If notice were given by the Secretary of State requiring NERL to take action as a result of the accident and NERL were unable or failed to comply then ultimately this could result in revocation of NERL's licence.

As a provider of a safety-critical service, safety is the company's highest priority. NERL targets compliance with all targets set out in the regulatory price control. The company maintains an explicit Safety Management System, which includes investigations

and reviews of operational safety performance and individual incidents to identify and respond to contributors to safety risk. The effectiveness of the Safety Management System is overseen by the Executive level NATS Safety Steering Group and the Board level Safety Review Committee.

This year, preparing for traffic recovery following the Covid pandemic has been a key area of focus, particularly over the summer months. A company wide Regeneration Review Board met on a fortnightly basis to review the ongoing risks and ensure appropriate activities were in place to mitigate these. A range of training packages were delivered to support the expected increase in traffic, supplemented by an Operations wide safety campaign which raised awareness of potential risks associated with traffic regeneration.

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

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

NERL's regulatory allowances are recovered through charges based on the CAA's forecast of air traffic volumes and inflation during a price control period. The regulatory framework includes a traffic risk mechanism which enables NERL to recover shortfalls of income through future charges, as well as an adjustment for inflation. A general duty on the CAA and Secretary of State to ensure that NERL does not find it unduly difficult to finance its licensed activities provides mitigation against severe traffic shocks, as has been the case with Covid, resulting in a redetermination of the price control.

Strategy: regulatory settlement

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

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

As outlined on page 5, the CAA has not yet reached a final NR23 price control decision, and therefore the potential impact remains unknown.

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

this purpose, and day to day oversight is provided by the CFO.

Strategy: sustainable aviation

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

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

Operational: business continuity and resilience

A catastrophic event, many of which are outside of our control such as adverse weather, another pandemic or terrorist attack, has the potential to disrupt ATC operations and our ability to resume a safe service to an acceptable performance level within a pre-defined period. A resilience plan, setting out NERL's approach to resilience and how we meet our service obligations to our customers, is required to be submitted every two years to the CAA by NERL's licence. The framework underpinning the disclosures in the resilience plan has been expanded to cover all NERL operations.

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

Operational: systems security

A malicious cyber-attack could affect the integrity, availability, confidentiality or resilience of NERL operational ATC and business IT systems, adversely impacting the provision of a safe and efficient ATC service and resulting in additional regulatory scrutiny. A cyber-attack on a non-operationally critical part of the business could be reputationally damaging and result in extensive management effort. NERL seeks to mitigate the risk through robust security controls, including physical security, security vetting, identity and access management and security patching, employee training, security monitoring and incident management. The threat of disruptive attacks (such as denial of service) on critical infrastructure elevated since the invasion of Ukraine. The threat of ransomware remains high. This is being managed by increased and focussed vigilance including additional technology security controls and heightening employee awareness of cyber threats. Close working relationships are maintained between NERL and the UK's security services, including the National Cyber Security Centre and the National Protective Service Authority to monitor threats and minimise the risk of a damaging cyber-attack.

Operational: recovery from pandemic restrictions

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

During Covid we retained our skilled air traffic controllers to support the recovery but we were unable to train new controllers due to the risk of spreading the virus within our operation as well as training in a live environment being unfeasible with such low flight volumes. As a result, there is a risk that during NR23 we may not have adequate resource to meet all of our operational and training needs, as the pipeline of newly trained controllers and less certain rates of staff retirements work through the system. The Operational Resourcing and Training Board and portfolio governance continues to focus on these risks and ensuring we can respond to changing demand, including implementing actions to make our training programme more efficient so that new controllers can validate more quickly.

Operational: employee relations

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

The impact of Covid, high inflation and the cost of living crisis on our employees and the company's financial position has required more dialogue with trades unions on a range of challenging issues, including employee pay, as it has done across the UK economy. We strive for constructive relationships with our trades unions, and these relationships have enabled us to agree three year pay deals for grades negotiated by PCS and Prospect. We remain committed to the partnership approach, and to engaging and consulting in a constructive and positive manner recognising the contribution our employees make and the wider challenges facing the aviation sector.

Transformation: portfolio delivery

The complex deployment of new technology and retirement of legacy systems could affect our ability to maintain service levels during transition and require additional costs to sustain legacy systems and support deployment during this period. NERL targets to deliver the change portfolio within the constraints of the business plan agreed with the CAA. If we are found to have been demonstrably inefficient or wasteful in expenditure on capital assets, the CAA may reduce recovery of such expenditure under the regulatory regime. We maintain programme governance and risk management processes overseen by the Executive, the Transformation Review Committee and the Board. We have adopted industry best practice, by using a Portfolio, Programme and Project approach. 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. Trustees will undertake their next formal valuation as at 31 December 2023.

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

The directors monitor the funding position of the scheme. The company'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 NERL instigated a full refinancing of its debt structure in response to Covid. This was completed in March 2023 with a further £145m of bonds to replace one of its bank facilities. These actions ensure it is well placed for a range of air traffic recovery outcomes and taking account of the extended period for settlement of the Covid income shortfall.

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

Our stakeholders	Why are they important to us?	How we engage and have regard to their views in our decisions?
CUSTOMERS	A safe ATC service is an essential given for customers in the aviation industry to which we provide our services and expertise, and for the travelling public. Their requirements are key drivers of our business plan, defining demand for the ATC network, our staffing and capital investment. We operate a joint and integrated civil military operation with the MOD.	We consult airspace users, airports and the public on their priorities and our plans for our regulated activities for each price control period. We reflect on their feedback and update our plans accordingly before review by the CAA. We discuss with both airspace users and airports our service performance, our charges, cost efficiency and our capital investment plans. In anticipation of the lifting of Covid travel restrictions last year we engaged to ensure a coordinated industry re-start. Following the industry's challenge in meeting pent-up demand last year, we discussed preparations for summer 2023 across Europe with Eurocontrol (the network manager), customers and other key stakeholders.
EMPLOYEES	Our ATC service and infrastructure depends on the skill and professionalism of our employees. They make a critical difference to our success, and our investment in them protects and strengthens our safety and business culture. Most of our employees are members of trades unions.	The executive and senior leaders have an open dialogue with trades unions and receive feedback on pay and benefits, a safe and healthy working environment, flexible working, talent development and career opportunities, and a diverse and inclusive culture. The CEO and executive communicate regularly to employees via our intranet and to senior leaders in regular virtual meetings. The Board receives a monthly report from the CEO which includes employee relations, diversity and inclusion and other employee matters. The Board collectively seeks opportunities to engage with groups of employees during the year. We operate a Just Safety culture, enabling employees to raise safety matters, and we seek feedback on a safety culture survey. We also survey employee wellbeing and maintain a whistleblowing facility. This year we conducted an employee opinion survey (b-Heard), as a baseline for our strategic objective to be a top 25 company to work for by 2040. Further details on the Board's regard to employees in its decision-making is provided below.
REGULATORS:	Our regulators ensure we provide our service and develop our infrastructure in accordance with our ATC licence and international safety standards. Ensuring we fulfil our licence obligations and develop the business for the long-term ensures the success of the company for all our stakeholders.	As economic regulator, the CAA is consulting stakeholders on our plan for NR23 ahead of determining the charges, safety, service performance and capital investment targets and incentives. We are engaging with them on our plan and provided feedback to their initial proposals on the balance of service targets and incentives, risk mechanisms and financial resources they propose. The CAA's safety regulator oversees the safety integrity of our training, operational processes and technical systems and we receive recommendations on improvements, which we implement to ensure safety standards are met. The CAA approves changes to airspace design over the UK by reference to legal requirements including safety, environment and user need. This year the CAA approved changes in the Humber region and to airspace above 7,000 feet over Southwest England and Wales.
GOVERNMENT	The government sets UK Aviation Strategy which provides a long-term vision for the industry and a framework for future ATC provision.	The CEO maintains a regular dialogue with the Department for Transport. The government engages on aviation policy that affects NATS, including the recovery in air travel after Covid restrictions were lifted and preparations for summer 2023.
SHAREHOLDERS	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. Our shareholders provide equity investment which finances our activities and enables us to invest in our ATC service and infrastructure, for which they expect a return.	The Board Chair, CEO and CFO met informally with shareholders and discussed the Board's strategy review and alignment with shareholder interest, the recovery in air travel demand and the NR23 price control. The Strategic Partnership Agreement enables shareholders to appoint representatives to the Board. Shareholders wish to see remuneration policies which drive executive management to deliver strong sustainable performance aligned with the interests of key stakeholders.
COMMUNITIES AND ENVIRONMENT	Local communities around airports expect the aviation sector to pay attention to aircraft noise, fuel and CO_2 emissions and local air quality. Our ATC service can help mitigate some environmental impacts. Society expects improvements in sustainability, and we are committed to net zero greenhouse gas emissions from our estate by 2035, being carbon negative by 2040 and being an enabler to aviation's target of net zero by 2050. We are a significant employer where our UK operations are based.	We follow the CAA's guidance on public consultation on airspace use, aircraft movements and environmental impacts. We work with communities affected by flights below 7,000ft at an early stage of any airspace change, to ensure they have a voice in airspace design. Changes mean some communities may be subject to more overflights than previously, while others are no longer overflown. Following consultation, we appraise design options before making our recommendation to the CAA.
LENDERS	Lenders provide debt finance that we repay over time and compensate by way of a commercial return. Access to debt finance is necessary to fund our business activities efficiently.	We meet lenders at least annually to discuss our performance, business plan and capital investment. Lenders wish to understand the company's financial strength over the long-term and the principal risks it faces. The importance of these relationships was demonstrated by NERL's June 2021 refinancing which secured funding of £1.6bn and the further £145m bond issued in March 2023.
SUPPLIERS	Our suppliers provide goods and services to maintain and develop our operation. Working closely with them minimises risk and combines our expertise to develop innovative ATC solutions. We engage with them on ESG matters.	Our supply chain management approach involves regular and ongoing engagement with suppliers for procurement, risk management and performance measurement. We complete due diligence using industry JOSCAR methodology. We tailor engagement to critical suppliers and undertake Executive reviews, conferences and joint workshops. Our approach is an open and constructive relationship based on fair terms, good performance and high standards of conduct. We are ISO44001 accredited and hold CIPS Platinum standard of assurance.

Having regard to our stakeholders in Board decision-making

Section 172 (1) statement

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

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

How our Board and its committees operate, and the way decisions are reached, including the matters discussed during the year, are set out in the Governance section on pages 28 to 30.

Set out below are explanations of how the directors have had regard to section 172(1) in respect of employee matters and in reaching their key decisions in the year.

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

NERL has 3,179 employees and 104 contract staff. It is fundamentally a people-based organisation which relies on highly trained professionals to deliver a safe, resilient service to customers and the public day to day. The Board's Safety committee oversees occupational health and employee wellbeing, in addition to the safe provision of air traffic services and security, enabling the Board to engage with, and have regard to, employee matters.

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

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

Diversity and Inclusion (D&I): D&I continued to be a Board focus in the year with progress made in the year explained in the Chief Executive's review. This year we became a member of Inclusive Companies and signed the Equal Skies Charter as a commitment to equality and the disabled community, respectively. In April 2022 we published our first Ethnicity Pay Gap, which while not yet a legal requirement is the first step in measuring our performance. We felt it an important step to take proactively, recognising its importance to our future employees and to attracting the very best talent. We continue to work with Fantasy Wings to recruit more people from ethnic minorities into aviation and participated in National Inclusion week, which is now a fixture in the calendar. We also established a Faith network, introduced a domestic abuse policy and enabled employees to reassign religious festivals. Our latest gender and ethnicity pay report shows some improvement which reflects the focus of effort including a focus on gender and ethnic diversity in our recruitment processes and early careers campaign.

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

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

Strategy review (see page 3) and annual business plan alignment: adopted by the Board in the year, the group's long-term direction is defined by the purpose, vision, values, strategy and four objectives for 2040 developed with regard to the value the company will bring to its members, employees as well as other key stakeholders and wider society. In March 2023 the Board approved the budget for 2024 and its three-year business plan, aligned to the strategy.

NR23 price control (see page 5): the Board's sub-committee oversaw the response to the CAA's initial proposals for NR23. Its members were Paul Golby, Martin Rolfe, Alistair Borthwick, Harry Bush, Mike Campbell and Richard Keys (and subsequently David Smith following Richard's retirement from the Board), who met regularly during the financial year. They were briefed on the CAA's initial proposals and input to the company's response to the challenges presented by the proposals and its balance of operational and financial resources, airspace user demand and service performance delivery, airspace change and technology implementation having regard to the interests of members, employees, airspace users, passengers and wider society.

Summer 2022 traffic regeneration (see page 4): The Board's priority was the safe regeneration of traffic last summer. In 2020, supported by airspace users and other key stakeholders, the company committed that it would not impair the recovery of aviation post pandemic and took the decision in the best interests of the wider industry to retain capacity and critical skills. Simulation training for operational employees ensured skills were maintained for higher traffic levels. These measures enabled a safe regeneration in the interests of employees, airspace users, airports and passengers.

Refinancing (see page 13): the Board completed NERL's refinancing to mitigate refinancing risk in NR23 in the interests of members and wider stakeholders by tapping existing bondholders after considering alternative approaches and assessing liquidity requirements in light of CAA's NR23 initial proposals and traffic scenarios.

De-risking technology transformation (see page 11): responding to challenges faced since Covid and following consultation with airspace users and key suppliers, the Board agreed a revised plan for delivering DP En Route and Voice platforms to deliver customer benefit as early as possible.

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

Richard Churchill Coleman, Secretary

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

Access to legal and professional advice

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

independent professional advice at the 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 seven times.

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.

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

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 has applied the principles of the Corporate Governance Code 2018 since 1 April 2020, to the extent considered appropriate by the Board. A number of the principles and provisions in the Code are not relevant to the partnership nature of NATS' ownership and the principal areas where the company did not comply are summarised below.

Provision 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 19: Chair nine-year period

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

The Chair's period of service to the NERL Board is seven years.

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 David Smith and Greg Bagwell have letters of appointment to 30 September 2025 and Maria Antoniou to 31 May 2024. The Chair has a service contract with NATS 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 2023 was as follows:

Name	Date of appointment	Years of service to 31 March 2023
Paul Golby	1/4/16	7 years
Maria Antoniou	1/8/16	6 years 8 months
Greg Bagwell	1/10/22	6 months
Harry Bush	1/4/16	7 years
Mike Campbell	26/5/17	5 years 10 months
Kathryn Leahy	31/5/18	4 years 10 months
Gavin Merchant	1/4/16	7 years
Bart Prudon	30/3/23	0 months
David Smith	1/10/22	6 months
Louise Street	29/11/18	4 years 4 months

The 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 to the Board of NATS Holdings Limited.

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 2023.

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 (2022: nil). The Board recommends a final dividend for the year of nil (2022: nil).

Directors and their interests

The directors of the company at the date of this report, and details of changes made to the Board during the year and to the date of this report are set out below:

Maria Antoniou

Greg Bagwell (appointed 1 October 2022)

Alistair Borthwick

Dr Harry Bush CB

Michael Campbell

Dr Paul Golby CBE

Richard Keys (resigned 30 September 2022)

Kathryn Leahy (resigned 4 June 2023)

Hugh McConnellogue (resigned 23 December 2022)

Iain McNicoll CB CBE (resigned 30 September 2022)

Gavin Merchant

Bart Prudon (appointed 30 March 2023)

Martin Rolfe

David Smith (appointed 1 October 2022)

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.

The directors have regard to the safety, health and well-being of employees (and contract staff). The

NATS CEO maintains high visibility with employees through visits to NATS sites, or through virtual engagements where more appropriate, where he talks to them about current business issues and takes questions in an open and straightforward manner. The NATS CEO and the Executive team provided regular updates to employees through the company's internal media. Such actions enable employees to achieve a common awareness of those factors affecting the performance of the company. An employee engagement survey was conducted in the year and its feedback will shape and deliver improvement plans. Also, employees' views are represented through an open dialogue with Prospect and the Public and Commercial Services Union (PCS), the recognised unions on all matters affecting employees. Formal arrangements for consultation with employees exist through a local and company-wide framework agreed with the Trades Unions.

The 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 and viability statements

The directors' assessment of going concern and their viability statement are set out on pages 17 to 19.

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 UK adopted International Accounting Standards, 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

29 June 2023

Registered office

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

Registered in England and Wales

Company No. 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 2023 and of the profit 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 2023 which comprise the Income statement, the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity, the Cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

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 2023 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 ended 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 9 years, covering the years ended 31 March 2015 to 31 March 2023. We remain independent of the 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 the Directors' reverse stress testing on forecasts and consideration of the downside scenarios that would result in a breach of the net debt to Regulatory Asset Base ("RAB") covenant. We considered the Directors' assessment of the likelihood of such circumstances arising in determining their conclusion related to going concern.
- Assessing the accuracy of the Directors' financial model by testing the mechanical integrity of forecasts, assessing the historical forecasting accuracy and future air traffic assumptions by comparing these to third party forecasts from June 2023 through to at least June 2024.
- Reviewing the terms of the Company's facility agreements and other key documents for significant matters that could impact the going concern assessment.
- Considering the adequacy of the disclosures in the financial statements against the requirements of the accounting standards and consistency of the disclosure against the forecasts and reverse stress test assessment.

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

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

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

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

Materiality

Company financial statements as a whole

£5.4m (2022: £4.7m) based on 0.9% (2022: 0.9%) of operating costs

An overview of the scope of our audit

Our 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 the carrying value of goodwill 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.

<table>
<tr><th colspan="2">Key audit matter</th><th>How the scope of our audit addressed the key audit matter</th></tr>
<tr>
<td>Recognition of licence fee revenue and amounts recoverable under regulatory agreement

Total revenue and regulatory allowances in the year is £782.4m (2022: £617.9m), of which regulatory allowances under-recovered is £41.0m (2022: £202.0m).

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

Note 4 includes details of total revenue and regulatory allowances. Notes 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.</td>
<td>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.</td>
<td>Our procedures included:
• Understanding the regulatory framework in respect of licence fee revenue and regulatory allowances under recovered and assessing that these have been appropriately accounted for in accordance with the applicable accounting standards.
• Completing a test in total on the NERL revenue, corroborating each of the underlying revenue streams to supporting contract documentation, to check that the revenue is appropriately recognised.
• Checking that airspace revenue is being accounted for in line with the provisions of the air traffic services licence, the regulatory charging mechanisms for the reference period and the basis for the on-going price control review being conducted by the CAA.
• Reviewing publicly available information, including CAP2394 published in October 2022 which set out the CAA's initial proposals for the next price control review (NR23), in comparison to Management's approach to determining licence fee entitlement.
• Challenging management's judgement as to whether it is highly probable their assessment of the costs the CAA will determine to be recoverable, will not give rise to a significant risk of revenue reversal. This included challenging management's assessment of:
  o 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
  o the determination of an efficient cost base by reviewing the appropriateness of the costs included.
• Confirming the appropriateness of the discount rate used by management to determine the present value of the regulatory allowances under-recovered by comparing to external market data.
• Challenging management's basis for spreading the recognition of the annual licence fee revenue and regulatory allowance entitlement throughout the year by considering the appropriateness of alternative input and output based recognition bases.
• Reviewing the disclosures presented in respect of the above within the financial statements and checking compliance with the requirements of the accounting standards.

Key observations

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

Key audit matter		How the scope of our audit addressed the key audit matter
Impairment of assets in the course of construction The carrying value of assets in the course of construction within other intangible assets is £418.0m (2022: £380.7m) and within property, plant and equipment is £178.8m (2022: £161.9m). The accounting policy for these is included in note 2. Notes 13 and 14 set out details of amounts invested.	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. Management makes judgements around the useful economic lives of currently deployed systems, in assessing indicators of impairment and considering the feasibility of individual projects. Due to the two judgements noted above, the carrying value of assets in the course of construction and the related disclosures were considered an area of focus for our audit.	Our procedures included: • Reviewing management's assessment of any indicators of impairment for a sample of current capital projects carried forward as either tangible or intangible assets and checking the appropriateness of their conclusions through challenge of the project managers, outside of the finance team, to gain an understanding of the capital projects. • Testing a sample of capitalised projects that included verifying the appropriateness of the labour rates being used and the amount of labour time being capitalised per project to supporting payroll information. • In considering the feasibility of individual projects we challenged the project managers and reviewed the performance to date against the expected performance. • Testing the operating effectiveness of the control relating to the review and documentation which takes place on a project-by-project basis. • Reviewing the related disclosures within the financial statements and checking that they complied with the requirements of the accounting standards. Key observations We consider that the impairment of assets under the course of construction is appropriately treated and the related disclosures to be acceptable.
Valuation of pension scheme liabilities As disclosed in note 28, the Company has recorded a gross defined benefit obligation of £2,616.8m (2022: £3,720.3m) in the valuation of the net defined benefit pension asset recorded on the 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 on the 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. The Company's allocation of the plan liabilities from the Group scheme is a matter of management judgement. As a result of the above the valuation of pension scheme liabilities and the related disclosures were considered an area of focus for our audit.	Our procedures included: • With the assistance of our actuarial experts, challenging the appropriateness of the actuarial assumptions used by the 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. • Assessing the competence and objectivity of management's expert. • 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, the Company's share from the Group scheme, and the related disclosures to be appropriate.

<table>
<tr><th colspan="2">Key audit matter</th><th>How the scope of our audit addressed the key audit matter</th></tr>
<tr><td>Valuation of certain pension scheme assets
As disclosed in note 28, the Company had £2,660.7m (2022: £3,976.9m) of plan assets that are included in the valuation of the net defined benefit asset recorded on the balance sheet.

Those assets include investments in hedge funds and private equity funds which make up £272.1m (2022: £293.6m) of plan assets.</td><td>The quantum of the Company's plan assets recorded in the net defined benefit 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 highly subjective.

The Company's allocation of the plan assets from the Group scheme is a matter of management judgement.

As a result of the above the valuation of hedge fund and private equity fund scheme assets were considered an area of focus for our audit.</td><td>Our procedures included:
• Comparing the values of investments held at the balance sheet date to external investment manager asset confirmations and statements to confirm the accuracy of the underlying valuation.
• Assessing the competence of the investment fund managers and, where different, the valuers, by obtaining and reviewing relevant controls reports to understand the controls they have in place over valuation and to identify any control findings which might impact the reliability of the valuations.
• Where control reports or bridging letters were not available, confirming the reasonableness of asset valuations and movements to corroborating evidence such as audited accounts.
• 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 Trustees and management's expert.
• Reviewing, with the assistance of our own internal valuation experts, management's assessment of the existence of any significant valuation movements between the date of the most recent audited financial statements of the private equity funds and the balance sheet date, with reference to any available relevant market data.

Key observations
As a result of performing the procedures above, we found that the valuation of hedge fund and private equity fund plan assets and the allocation of the Company's share from the Group scheme to be appropriate.</td></tr>
</table>

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	
	2023	2022
Materiality	£5.4m	£4.7m
Basis for determining materiality	0.9% of operating costs	0.9% of operating costs
Rationale for the benchmark applied	The level of uncertainty in respect of the COVID-19 pandemic reduced during the year with the resulting increase in air traffic. Given that costs incurred will form the basis on which the licence fee for the period will be set by the CAA, we considered that operating costs continue to provide the most appropriate measure on which to base materiality.	Due to the COVID-19 pandemic, the 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.
Performance materiality	£4.1m	£3.5m
Basis for determining performance materiality	75%	75%
Rationale for the percentage applied for performance materiality	We set our performance materiality at 75% of overall materiality. In setting the level of performance materiality, we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.	

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £108,000 (2022: £94,000). 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 to 19; and • 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 page 19.
Other Code provisions	• Directors' statement on fair, balanced and understandable as set out on page 33; • Board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out on page 20; • The section of the financial statements that describes the review of effectiveness of risk management and internal control systems as set out on page 20; and • 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 by the Company, 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:

Non-compliance with laws and regulations

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

Fraud

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

Our procedures in response to the above included:

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

We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members 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.

DocuSigned by:
Chris Pooles
F75710324A07463...

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

29 June 2023

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

Income statement
for the year ended 31 March

	Notes	2023 £m	2022 £m
Revenue from contracts with customers	4	715.2	406.8
Regulatory allowances under-recovered	4	41.0	202.0
Other revenue	4	26.2	9.1
Total revenue and regulatory allowances		782.4	617.9
Staff costs	7	(356.3)	(320.0)
Services and materials		(61.2)	(54.7)
Repairs and maintenance		(41.1)	(37.3)
External research and development		(0.7)	(0.4)
Depreciation, amortisation and impairment of property, plant, equipment, intangible and right-of-use assets	6	(98.6)	(80.7)
Change in expected credit losses	16	0.8	4.7
Other operating charges		(54.5)	(42.2)
Other operating income		2.8	2.5
Profit on disposal of non-current assets		-	0.2
Deferred grants released	6	0.2	0.2
Net operating costs		(608.6)	(527.7)
Operating profit	6	173.8	90.2
Investment income	8	26.0	11.4
Fair value movement on derivative contract	9	(13.7)	(43.8)
Finance costs	10	(29.6)	(62.9)
Profit/(loss) before tax		156.5	(5.1)
Tax	11	(31.8)	(35.6)
Profit/(loss) for the year attributable to equity shareholders		124.7	(40.7)

Statement of comprehensive income
for the year ended 31 March

	Notes	2023 £m	Restated 2022 £m
Profit/(loss) for the year after tax		124.7	(40.7)
Items that will not be reclassified subsequently to profit and loss:			
Actuarial (loss)/gain on defined benefit pension scheme	28	(227.8)	273.7
Deferred tax relating to actuarial (loss)/gain on defined benefit pension scheme	23	50.9	(67.6)
Currrent tax relating to actuarial loss on defined benefit pension scheme	11	2.9	-
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of hedging derivatives		2.7	7.9
Transfer to income statement on cash flow hedges		(0.9)	(5.7)
Deferred tax relating to items that may be reclassified subsequently	23	(0.3)	(0.4)
Other comprehensive (loss)/income for the year, net of tax		(172.5)	207.9
Total comprehensive (loss)/income for the year attributable to equity shareholders		(47.8)	167.2

Balance sheet
at 31 March

	Notes	2023 £m	Restated 2022 £m
Non-current assets			
Goodwill	12	38.3	38.3
Other intangible assets	13	681.4	676.6
Property, plant and equipment	14	410.5	402.5
Right-of-use assets	15	34.7	39.1
Retirement benefit asset	28	43.9	256.6
Trade and other receivables	16	8.4	5.5
Amounts recoverable under regulatory agreement	16	631.1	667.4
Derivative financial instruments	19	1.5	0.1
		1,849.8	2,086.1
Current assets			
Trade and other receivables	16	139.2	97.1
Amounts recoverable under regulatory agreement	16	100.2	57.2
Current tax assets		1.3	4.0
Cash and cash equivalents	20	57.7	50.9
Derivative financial instruments	19	1.5	0.1
		299.9	209.3
Total assets		2,149.7	2,295.4
Current liabilities			
Trade and other payables	21	(119.2)	(132.1)
Amounts payable under regulatory agreement	21	(91.4)	(37.3)
Borrowings	17	(45.0)	-
Lease liabilities	18	(6.7)	(6.7)
Provisions	22	(0.2)	(0.1)
Derivative financial instruments	19	(12.6)	(9.4)
		(275.1)	(185.6)
Net current assets		24.8	23.7
Non-current liabilities			
Trade and other payables	21	(78.7)	(81.0)
Amounts payable under regulatory agreement	21	(50.2)	(131.8)
Borrowings	17	(866.4)	(938.9)
Lease liabilities	18	(42.8)	(48.4)
Deferred tax liability	23	(195.6)	(225.9)
Provisions	22	(11.4)	(9.1)
Derivative financial instruments	19	(70.5)	(67.9)
		(1,315.6)	(1,503.0)
Total liabilities		(1,590.7)	(1,688.6)
Net assets		559.0	606.8
Equity			
Called up share capital	24	10.0	10.0
Hedge reserve		0.7	(0.8)
Special reserve		34.9	34.9
Other reserves		5.6	6.5
Retained earnings		507.8	556.2
Total equity		559.0	606.8

The financial statements (Company No. 04129273) were approved by the Board of directors and authorised for issue on 29 June 2023 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	Restated Retained earnings £m	Restated Total £m
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 (restated: note 2)	-	1.8	-	(0.9)	207.0	207.9
Total comprehensive income/(loss) for the year	-	1.8	-	(0.9)	166.3	167.2
At 31 March 2022	10.0	(0.8)	34.9	6.5	556.2	606.8
At 1 April 2022	10.0	(0.8)	34.9	6.5	556.2	606.8
Profit for the year	-	-	-	-	124.7	124.7
Other comprehensive income/(loss) for the year	-	1.5	-	(0.9)	(173.1)	(172.5)
Total comprehensive income/(loss) for the year	-	1.5	-	(0.9)	(48.4)	(47.8)
At 31 March 2023	10.0	0.7	34.9	5.6	507.8	559.0

[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	2023 £m	2022 £m
Net cash generated from/(used in) operating activities	25	175.7	(185.1)
Cash flows from investing activities			
Interest received on short term investments		1.2	0.3
Purchase of property, plant and equipment and other intangible assets		(112.1)	(109.3)
Proceeds of disposal of property, plant and equipment		-	0.2
Net cash outflow from investing activities		(110.9)	(108.8)
Cash flows from financing activities			
Interest paid		(19.0)	(17.1)
Interest received on derivative financial instruments		7.3	5.4
Repayment of old bonds		-	(290.1)
New bonds issued		105.5	747.0
Bond arrangement fees		(1.3)	(5.8)
Drawdown of bank loan under the £380m (August 2020) liquidity facility		-	40.0
Repayment of bank loan under the £380m (August 2020) liquidity facility		-	(40.0)
Repayment of bank loan under the £400m (July 2015) revolving facility		-	(395.0)
Drawdown of bank loan under the £400m (May 2021) revolving facility		40.0	200.0
Repayment of bank loan under the £400m (May 2021) revolving facility		(175.0)	-
Principal paid on lease liabilities		(5.8)	(5.5)
Interest paid on lease liabilities		(1.3)	(1.4)
Index-linked swaps payments		(8.0)	(61.3)
Bank facility fees		(0.4)	(3.6)
Net cash (outflow)/inflow from financing activities		(58.0)	172.6
Increase/(decrease) in cash and cash equivalents during the year		6.8	(121.3)
Cash and cash equivalents at 1 April		50.9	172.2
Cash and cash equivalents at 31 March		57.7	50.9
Net debt (representing borrowings and lease liabilities, net of cash and cash equivalents (see notes 20 and 25))		(903.2)	(943.1)

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.

As explained in the Financial Review, during the year the company raised £104m from the issue of a £145m unsecured bond and cancelled its £450m unsecured bridging facility. At 31 March 2023, the company had access to liquidity of £393m comprising cash of £57.7m and undrawn committed bank facilities of £335.0m. At 29 June 2023, the company had access to cash and undrawn bank facilities of around £396m.

When considering the appropriateness of the going concern basis of preparation of the financial statements, the directors have reviewed the cash flow forecasts prepared by management covering a period to 30 June 2024, being at least 12 months from the date of approval of these financial statements. The directors have had regard to reasonably plausible changes in trading performance as well as severe traffic volume scenarios individually and in combination and the principal risks discussed on pages 20 to 24.

The severe traffic volume scenarios modelled were: an up to 65% reduction in air traffic volumes for a 12-month period, as a proxy for a traffic shock such as a further wave of Covid and related travel restrictions, being the most severe traffic scenario; Eurocontrol's March 2023 pessimistic case (see page 5) which assumed a slower recovery in air traffic volumes in light of the continuing challenging economic and geopolitical situation; adverse impacts of higher than planned inflation of our operating costs and capital expenditure programme; and higher cash outflows simulating the risk of unremunerated committed costs following the NR23 price control decision. Finally, a combination scenario was also performed of lower air traffic volumes and higher operating costs. Under the most severe scenario the company maintains adequate liquidity (of £166m) and headroom (gearing at 58%) to meet its debt covenant (gearing at 85%), prior to mitigating actions (such as other cost saving measures and deferring capital investment).

The directors have also considered, through a reverse stress test, the point at which liquidity would be utilised or the financial covenant would be breached before both mitigating action and regard to the financeability duties of the CAA and Secretary of State for Transport. The reverse stress tests considered severe traffic volumes, unplanned expenditure and the recoverability of regulatory allowances. Taking all this into account, the 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 referred to in the Viability statement, the company have adequate resources to continue to operate for a period of at least twelve months from the date of approval of the

financial statements, and have therefore adopted the going concern basis in the preparation of the financial statements.

Accounting standards

The financial statements have been prepared in accordance with UK adopted International Accounting Standards, IFRS and IFRIC. The financial information has also been prepared in accordance with IFRSs issued by the International Accounting Standards Board (IASB).

Accounting standards adopted in the year

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

- IAS 16 (amendments): *Property, Plant and Equipment – Proceeds Before Intended Use*, effective 1 January 2022 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.
- IAS 37 (amendments): *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts - Cost of Fulfilling a Contract,* effective 1 January 2022 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.
- IFRS 3 (amendments): *Business Combinations*, effective 1 January 2022 includes minor amendments to update references to the *Conceptual Framework for Financial Reporting* and to add an exception for the recognition of liabilities and contingent liabilities within the scope *of* IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- Annual Improvements to IFRS Standards 2018 – 2020, effective on or after 1 January 2022.

Future accounting developments

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

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

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

Prior year restatement

It was identified that, at 31 March 2022, the carrying value of the retirement benefit asset had been understated by £7.8m and the related deferred tax liability understated by £1.9m, as a result of an error relating to the valuation of pension scheme assets. This has been corrected by restating each of the affected financial statement line items at that reporting date. In the comparative balance sheet the retirement benefit asset has been increased by £7.8m and the deferred tax liability has increased by £1.9m.

The net impact being to increase the net assets by £5.9m. In the statement of comprehensive income, the actuarial gain on defined benefit pension scheme for the year ended 31 March 2022 has increased by £7.8m and the deferred tax relating to actuarial gain on defined benefit pension scheme charge, increased by £1.9m. The net impact is to increase other comprehensive income, retained earnings and total equity by £5.9m.

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

Company background

At completion of the Public Private Partnership (PPP) transaction on 26 July 2001, a transfer scheme hived down certain of the operating assets and liabilities of National Air Traffic Services Limited (now NATS Limited) 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's final decision on the reconciliation of actual costs and revenue in this period and consultation on a new five-year price control (NR23) from 2023. In its October 2022 initial proposals for the NR23 price control, the CAA proposed the recovery of the revenue shortfall over an extended 10-year period.

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 allowances 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 December 2022 (i.e. the period to date which will be assessed through the CAA's retrospective reconciliation), as explained in note 3, are such that related regulatory allowances under recovered are currently considered to be unrealised for this purpose. The directors will continue to keep this judgement under review in the light of the outcome of the CAA's determination process.

Operating segments

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

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

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

Operating profit

Operating profit is stated after charging restructuring costs but before 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. A premium of 5% was determined for 2023, reflecting market precedent transactions and the independent assessment undertaken in 2022 (2022: 5%) - see notes 3 and 12.

Property, plant and equipment

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

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

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

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

Borrowing costs

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

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

In order to benefit airspace users, NERL obtains funding from the EC's 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 20 years. Assets in the course of construction are not amortised until ready for use. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

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

At each balance sheet date, the 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 depends on the company's business model for managing the financial asset and its cash flow characteristics.

The company has financial assets at amortised cost. The company does not have financial assets at fair value through 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 period up to 31 December 2022 based on actual traffic volumes.

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

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

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

There is uncertainty with respect to the final outcome of the CAA's reconciliation process, which is expected in the summer of 2023 and this has required the company to estimate the amount of revenue and regulatory allowances for the year ended 31 March 2023, limiting recognition to an amount for which it is highly probable that a subsequent

reversal will not occur. In assessing this amount, the company has made the following critical judgements:

- An assessment of the licence revenue allowance for calendar years 2020 to 2022 having regard to the CAA's initial proposals for efficient costs for calendar years 2020 to 2022 (being £648m, £556m and £589m respectively). The final outcome of the CAA's reconciliation of costs and revenue will not be completed until the summer of 2023, and therefore remains uncertain. As a result, the company has made a judgement as to the CAA's assessment of costs incurred, having regard to a similar assessment undertaken by the European Commission for air navigation service providers it regulates as well as stakeholder responses to the CAA's consultation, and has recognised an amount for which it is highly probable that a significant reversal will not subsequently occur, as required by accounting standards, following the CAA's assessment.
- The basis for determining the amount to be recognised in the three-month period to 31 March 2023. In making this assessment, consistent with the prior year judgement, the company considered that an input-based approach based on the proportion of operating costs actually incurred in this period relative to those planned to be incurred over calendar year 2023 was the most appropriate method for measuring progress in delivery of the air traffic control service. This resulted in 24.9% of the calendar year licence revenue allowance being recognised in this three-month period of £173m (2022: 23.9% or £136m). Other methods considered included a straight-line approach, which would have recognised 25%, an output-based measure on actual traffic volumes relative to forecast volumes for 2023 which would have recognised 20.8%, and the NR23 traffic forecast which would have recognised 21.1% of the 2023 revenue allowance in this period;
- The extended period for the recovery of the shortfall in regulatory allowances includes a significant financing component. Charges from January 2023 have commenced recovery of this shortfall and will do so until 2032. The company has recognised the significant financing component by discounting future cash flows at a rate, determined according to the requirements of the accounting standards, which reflects i) an assessment of the market cost of NERL's borrowing at the balance sheet date based on a gilt yields and the market implied margins on bonds of similar tenor to the average period of recovery of the revenue shortfall; and ii) an allowance for credit risk based on historic recovery experience. We have assumed a profile of 50% recovery of regulatory allowances in NR23 and 50% in NR28, in accordance with the CAA's initial proposals. A 0.5% change in the discount rate would change regulatory allowances by c£14m.

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

In carrying out impairment reviews of goodwill, intangible, tangible and right-of-use assets, (including assets in the course of construction), a number of significant assumptions have to be made when preparing cash flow projections from which to determine value in use and also in assessing fair values less costs of disposal (see judgement relating to goodwill below). These include air traffic growth, the extent and timing of future cash flows and realisation of contract pipeline revenue, the value of the regulated asset bases, the scope for outperformance of the regulatory contract, market premia for transactions in similar economically regulated businesses, 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% (2022: 5%). This reflected market precedent transactions in the year, the result of an independent assessment in 2022, the CAA's initial proposals for NR23 and the retrospective reconciliation of

income and costs during 2020 to 2022, the recovery in air traffic volumes during the year and the outlook for the growth in air traffic volumes.

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

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

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 2023 the funding position of the scheme reported in the financial statements was a surplus of £43.9m (2022: £256.6m).

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:	2023 £m	2022 £m
Revenue from contracts with customers	715.2	406.8
Regulatory allowances under-recovered	41.0	202.0
Other revenue: EU funding passed to UK en route customers (see note 4a)	22.7	6.1
Other revenue: rental and sub-lease income	3.5	3.0
Total revenue and regulatory allowances (see operating segments)	782.4	617.9

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), 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.

4. Total revenue and regulatory allowances (continued)

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

	2023			2022		
	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	576.5	-	576.5	303.0	-	303.0
London Approach services	13.5	-	13.5	5.9	-	5.9
Infrastructure services to the MOD	41.4	-	41.4	37.6	-	37.6
Services for North Sea helicopters	8.8	-	8.8	8.4	-	8.4
Other income	4.0	-	4.0	1.0	-	1.0
	644.2	-	644.2	355.9	-	355.9
North Atlantic air traffic services:						
Services to oceanic en route customers	43.7	-	43.7	26.7	-	26.7
Intercompany revenue	-	21.2	21.2	-	19.2	19.2
Total Airspace revenue from contracts with customers	687.9	21.2	709.1	382.6	19.2	401.8
Other Service lines	6.1	-	6.1	4.5	0.5	5.0
Total revenue from contracts with customers	694.0	21.2	715.2	387.1	19.7	406.8
Regulatory allowances under-recovered						
Airspace						
UK air traffic services:						
Services to UK en route customers	41.5	-	41.5	196.5	-	196.5
London Approach services	(0.5)	-	(0.5)	5.5	-	5.5
Total regulatory allowances under-recovered	41.0	-	41.0	202.0	-	202.0
Other revenue: EU funding passed to UK en route customers						
Airspace	22.7	-	22.7	6.1	-	6.1
Other revenue: rental and sub-lease income						
Airspace	1.5	0.8	2.3	2.0	1.0	3.0
Other Service lines	1.2	-	1.2	-	-	-
Total revenue from other sources	2.7	0.8	3.5	2.0	1.0	3.0
Total revenue and regulatory allowances	760.4	22.0	782.4	597.2	20.7	617.9

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 2023, £22.7m (2022: £6.1m) of European funding was passed to airspace users. Accordingly, an equivalent amount was released from contract liabilities to offset the cost of the discount. As a result, the 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 £21.9m (2022: £20.6m) and to NATSNav Limited of £0.1m (2022: £0.1m).

4. Total revenue and regulatory allowances (continued)

b) Revenue and regulatory allowances disaggregated based on economic regulation

	2023			2022		
	External £m	Intercompany £m	Total £m	External £m	Intercompany £m	Total £m
Regulated income						
Airspace						
Services to UK en route customers	576.5	-	576.5	303.0	-	303.0
London Approach services	13.5	-	13.5	5.9	-	5.9
Services to oceanic en route customers	43.7	-	43.7	26.7	-	26.7
Revenue from contracts with customers	633.7	-	633.7	335.6	-	335.6
Regulatory allowances under-recovered	41.0	-	41.0	202.0	-	202.0
Other revenue: EU funding passed to UK en route customers	22.7	-	22.7	6.1	-	6.1
Total regulated income	697.4	-	697.4	543.7	-	543.7
Non-regulated income						
Airspace						
Infrastructure services to the MOD	41.4	-	41.4	37.6	-	37.6
Services for North Sea helicopters	8.8	-	8.8	8.4	-	8.4
Other income	4.0	-	4.0	1.0	-	1.0
Intercompany revenue	-	21.2	21.2	-	19.2	19.2
Other Service lines	6.1	-	6.1	4.5	0.5	5.0
Revenue from contracts with customers	60.3	21.2	81.5	51.5	19.7	71.2
Other revenue: rental and sub-lease income	2.7	0.8	3.5	2.0	1.0	3.0
Total non-regulated income	63.0	22.0	85.0	53.5	20.7	74.2
	760.4	22.0	782.4	597.2	20.7	617.9

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).

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

	2023			2022		
	External £m	Intercompany £m	Total £m	External £m	Intercompany £m	Total £m
Over time						
Revenue from contracts with customers	694.0	21.2	715.2	387.1	19.2	406.3
Regulatory allowances under-recovered	53.2	-	53.2	202.0	-	202.0
Other revenue: EU funding passed to UK en route customers	22.7	-	22.7	6.1	-	6.1
Other revenue: rental and sub-lease income	2.7	0.8	3.5	2.0	1.0	3.0
	772.6	22.0	794.6	597.2	20.2	617.4
At a point in time						
Revenue from contracts with customers	-	-	-	-	0.5	0.5
Regulatory allowances over-recovered	(12.2)	-	(12.2)	-	-	-
	760.4	22.0	782.4	597.2	20.7	617.9

4. Total revenue and regulatory allowances (continued)

d) Total revenue and regulatory allowances disaggregated by geographical area

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

	2023 £m	2022 £m
Revenue and regulatory allowances, including Other revenue: EU funding passed to UK en route customers		
United Kingdom	279.0	211.5
Other European countries	113.9	86.8
United States of America	112.5	86.0
Republic of Ireland	94.4	68.7
Countries in Asia	60.9	57.5
Germany	50.4	46.0
Netherlands	34.6	35.5
Other North American countries	26.5	16.1
Countries in Africa	4.3	4.6
Countries in South America	1.2	1.2
Countries in Oceania	1.2	1.0
	778.9	614.9
Other revenue: rental and sub-lease income		
United Kingdom	3.5	2.4
Other European countries	-	0.6
	3.5	3.0
	782.4	617.9

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 2022 or 31 March 2023. Significant changes in the contract liabilities balances during the year are as follows.

	Contract liabilities	
	2023 £m	2022 £m
At 1 April	(82.6)	(76.3)
Opening contract liabilities which have now been recognised as revenue	29.6	8.0
Increases due to cash received, excluding amounts recognised as revenue during the year	(13.5)	(14.3)
At 31 March	(66.5)	(82.6)

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.

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

For the year ended 31 March 2023, a reduction of £12.2m was recognised for regulatory allowances over-recovered for performance obligations satisfied in previous periods (2022: £nil). This amount represents variable consideration relating to true-ups for the difference between actual pension contributions and the regulator's assumption for the three calendar years 2020 to 2022 arising from the actions taken by the company to reduce its staff costs in response to Covid.

4. Total revenue and regulatory allowances (continued)

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:

	2023				
	Due within one year or less £m	Between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
Other Service lines	1.0	-	-	-	1.0

	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

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 £0.9m gain (2022: £4.1m gain).

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 profit/(loss) before tax is provided below:

	2023 £m	2022 £m
Airspace	340.6	221.8
Other Service lines	6.2	3.5
Service line contribution	346.8	225.3
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	(98.4)	(80.5)
Profit on disposal of non-current assets	-	0.2
Employee share scheme (costs)/credits	(5.4)	2.5
Redundancy costs	(0.1)	(1.6)
Other costs not directly attributed to service lines	(70.7)	(56.9)
R&D expenditure above the line tax credits	1.6	1.2
Investment income	23.2	11.4
Fair value movement on derivative contract	(13.7)	(43.8)
Finance costs	(26.8)	(62.9)
Profit/(loss) before tax	156.5	(5.1)

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

5. Operating segments (continued)

Supplementary information

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

	2023			2022		
	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	738.7	43.7	782.4	591.2	26.7	617.9
Operating costs	(570.8)	(37.8)	(608.6)	(498.2)	(29.5)	(527.7)
Operating profit	167.9	5.9	173.8	93.0	(2.8)	90.2

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 £103.8m (2022: £92.4m) and Other Service lines £3.3m (2022: £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 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	
	2023 £m	2022 £m
United Kingdom	1,171.9	1,159.7
Other European Countries	0.8	0.9
United States of America	0.3	0.4
	1,173.0	1,161.0

Information about major customers

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

6. Operating profit for the year

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

	2023 £m	2022 £m
The CAA regulatory charges	5.4	5.2
Amortisation of intangible assets (note 13)	40.9	36.8
Impairment of intangible assets (note 13)	9.3	1.6
Depreciation of property, plant and equipment (note 14)	43.4	38.1
Impairment of property, plant and equipment (note 14)	0.4	0.1
Depreciation of right-of-use assets (note 15)	4.6	4.1
Deferred grants released	(0.2)	(0.2)
Research and development costs	4.7	3.6
Redundancy costs	0.1	1.6
R&D expenditure above the line tax credits	(1.6)	(1.2)
Foreign exchange gains/(losses)	2.7	(2.4)
Auditors remuneration for audit services (see below)	-	-

6. Operating profit 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 £nil (2022: £1.6m gain).

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.

Transactions with group companies

	2023 £m	2022 £m
Net charges for services provided by parent undertaking	13.8	12.0
Charges for services provided by other group companies	18.3	17.8
Charges for seconded staff under the terms of the ISA provided by NATS Limited (see below)	390.2	358.9

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

	2023 £m	2022 £m
Salaries and staff costs were as follows:		
Wages and salaries	273.0	252.7
Social security costs	35.1	31.3
Pension costs (note 7b)	76.7	81.6
Share-based payments charges/(credits)	5.4	(2.5)
	390.2	363.1
Less:		
Amounts capitalised	(33.9)	(38.8)
Government grants	-	(4.3)
	356.3	320.0

Government grants of £nil (2022: £4.3m) 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.

b) Pension costs (see note 28)

	2023 £m	2022 £m
Defined benefit scheme	53.8	62.4
Defined contribution scheme	22.9	19.2
	76.7	81.6

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

	2023 No.	2022 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	1,160	1,186
Air traffic service assistants	496	456
Engineers	654	634
Others	820	775
	3,130	3,051
The number of employees (including executive directors) in post at 31 March was:	3,179	3,038

8. Investment income

	2023 £m	2022 £m
Interest on bank deposits	1.4	1.7
Other loans and receivables	24.6	9.7
	26.0	11.4

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

9. Fair value movement on derivative contract

	2023 £m	2022 £m
Charge arising from change in the fair value of derivatives not qualifying for hedge accounting	(13.7)	(43.8)

10. Finance costs

	2023 £m	2022 £m
Interest on bank loans and hedging instruments	7.3	2.4
Bond and related costs including financing expenses	14.1	15.3
Interest on lease liabilities (see note 18)	1.3	1.4
Other finance costs	6.1	2.1
One-off re-financing costs	0.8	41.7
	29.6	62.9

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

One-off re-financing costs relates to unamortised bank facility fees following the cancellation of the company's £450m bridge facility. In the prior year, as part of NERL's refinancing undertaken in June 2021, the carrying value of the Guaranteed Secured Amortising Bonds at amortised cost (excluding transaction costs and issue discount) at the date of redemption were lower than the redemption market value (excluding accrued interest). This difference resulted in a £38.4m loss on redemption that was taken to the income statement on derecognition and is included in one-off refinancing costs.

11. Tax

	2023 £m	2022 £m
Corporation tax		
Current tax	11.5	-
Adjustments in respect of prior year	-	(0.2)
	11.5	(0.2)
Deferred tax (see note 23)		
Origination and reversal of temporary timing differences	21.8	(3.6)
Adjustments in respect of prior year	1.7	(0.3)
Effects of tax rate change on opening balance	(3.2)	39.7
	20.3	35.8
	31.8	35.6

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

	2023		2022	
The total tax charge for the year can be reconciled to the profit/(loss) per the income statement as follows:	£m	%	£m	%
Profit/(loss) on ordinary activities before tax	156.5		(5.1)	
Tax on profit/(loss) on ordinary activities at standard rate in the UK of 19% (2022: 19%)	29.7	19.0%	(1.0)	19.0%
Tax effect of change in corporation tax rate from 19% to 25%	0.6	0.4%	38.6	(756.6%)
Tax effect of prior year adjustments - current tax	-	-	(0.2)	4.0%
Tax effect of prior year adjustments - deferred tax	1.7	1.1%	(0.3)	6.0%
Patent box	(1.2)	(0.8%)	(1.3)	25.6%
Employee share scheme	1.0	0.6%	(0.2)	4.0%
Total tax charge for year at an effective tax rate of 20.3% (2022: (698.0%))	31.8	20.3%	35.6	(698.0%)
Deferred tax (credit)/charge taken directly to equity (see note 23)	(50.6)		68.0	

Deferred tax is provided at the prevailing rate of corporation tax expected to apply in the period when the liability is settled or the asset realised. The company does not have any material uncertain tax positions.

Detailed reconciliation of the current tax charge

	2023		2022	
The current tax charge for the year can be reconciled to the profit/(loss) per the income statement as follows:	£m	%	£m	%
Profit/(loss) on ordinary activities before tax	156.5		(5.1)	
Tax on profit/(loss) on ordinary activities at standard rate in the UK of 19% (2022: 19%)	29.7	19.0%	(1.0)	19.0%
Expenses not deductible for tax purposes				
- employee share scheme adjustments	1.0	0.6%	(0.2)	4.0%
Capital allowances in excess of depreciation				
- capital allowances	(16.3)	(10.4%)	(19.3)	378.4%
- depreciation and amortisation on eligible assets	14.3	9.1%	9.2	(180.4%)
Other temporary differences				
- provisions	0.6	0.4%	(0.1)	2.0%
R&D expenditure tax credit	0.2	0.1%	0.5	(9.8%)
Pension contributions paid in excess of charge to income statement	(2.9)	(1.8%)	(1.2)	23.6%
Loan relationship	(1.7)	(1.1%)	(1.4)	27.6%
Patent box	(1.2)	(0.8%)	(1.3)	25.6%
Corporate interest restriction	(6.0)	(3.8%)	6.0	(117.6%)
Losses brought forward	(8.9)	(5.7%)	8.9	(174.5%)
Other permanent differences	(0.2)	(0.1%)	(0.1)	2.0%
Prior year adjustments	-	-	(0.2)	4.0%
Current tax charge for year at an effective tax rate of 5.5% (2022: 3.9%)	8.6	5.5%	(0.2)	3.9%

The total current tax charge comprises a £11.5m charge to the Income statement (2022: £0.2m credit) and a £2.9m credit to the Statement of comprehensive income (2022: £nil) in relation to contributions to the Defined benefit pension scheme.

12. Goodwill

	£m
Cost	
At 31 March 2022 and 31 March 2023	351.0
Accumulated impairment losses	
At 31 March 2022 and 31 March 2023	312.7
Carrying amount	
At 31 March 2023	38.3
At 31 March 2022	38.3
At 1 April 2021	38.3

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 £1,959.1m; 2022: £1,650.0m), opportunities for out-performance of regulatory settlements and market premia for economically regulated businesses, as well as estimated costs of disposal of £1.0m. A market premium is applied to the value of the RABs. It is assessed annually by reference to market precedent transactions and an independent assessment in 2022. The RAB premium at 31 March 2023 was determined to be 5% (2022: 5%). Overall, reflecting the value of the RAB and the premium assumption, goodwill was not impaired in the year (2022: £nil). This assessment reflected the impact of the recovery in the demand for air travel, the CAA's initial proposals with regard to the reconciliation of actual revenue and costs, the time period for the recovery of the revenue shortfall and its draft determination of the price control from 2023 which reflects new projections of air traffic volumes and associated safety, service performance targets and capital investment requirements. Goodwill would be impaired if the RAB premium was assessed to be a discount of 11% (2022: 0%).

Fair value less costs of disposal was higher than value in use at 31 March 2023. The carrying value of goodwill at 31 March 2023 was not impaired (2022: not impaired) as the book value of the net assets of the Airspace service line of £1,660m (2022: £1,576m) was below the fair value less costs of disposal of £1,958m (2022: £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 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
Additions internally generated	1.2	-	1.7	22.2	25.1
Additions externally acquired	0.6	-	0.4	32.5	33.5
Transfers during the year	2.0	(0.1)	3.7	(9.2)	(3.6)
At 31 March 2023	507.0	118.1	141.1	438.6	1,204.8
Accumulated amortisation					
At 1 April 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
Charge for the year	22.6	5.8	12.5	-	40.9
Impairment provision recognised in income statement	1.1	-	-	8.2	9.3
At 31 March 2023	337.7	105.6	59.5	20.6	523.4
Carrying amount					
At 31 March 2023	169.3	12.5	81.6	418.0	681.4
At 31 March 2022	189.2	18.4	88.3	380.7	676.6
At 1 April 2021	203.9	23.2	16.3	370.8	614.2

An annual review is performed to assess the carrying value of other intangible assets, including operating assets and assets in the course of construction. The accumulated amortisation of assets in the course of construction represents impairment provisions. During the year, impairment charges of £9.3m (2022: £1.6m) were made in respect of both operating software assets and airspace and support information software assets in the course of construction, reflecting a reassessment of certain projects and assets, and the likelihood of benefits being realised in full or projects being fully completed, to write these assets down to their carrying amount.

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

14. Property, plant and equipment

	Freehold land and buildings £m	Improvements to leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Assets in course of construction and installation £m	Total £m
Cost						
At 1 April 2021	246.6	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
Additions during the year	0.4	0.2	9.4	0.6	37.7	48.3
Disposals during the year	-	-	(0.3)	-	-	(0.3)
Other transfers during the year	0.1	0.3	22.8	0.7	(20.3)	3.6
At 31 March 2023	247.2	41.3	1,430.2	24.1	179.4	1,922.2
Accumulated depreciation and impairment						
At 1 April 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
Provided during the year	7.7	1.0	34.0	0.7	-	43.4
Impairment provision recognised in income statement	-	-	0.4	-	-	0.4
Transfer of impairment provision	-	-	(0.5)	-	0.5	-
Disposals during the year	-	-	(0.2)	-	-	(0.2)
At 31 March 2023	175.8	38.8	1,275.5	21.0	0.6	1,511.7
Carrying amount						
At 31 March 2023	71.4	2.5	154.7	3.1	178.8	410.5
At 31 March 2022	78.6	3.0	156.5	2.5	161.9	402.5
At 1 April 2021	86.6	4.1	134.0	3.6	217.8	446.1

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 £0.4m (2022: £0.1m) relating to operating air traffic control equipment and assets in the course of construction, reflecting a reassessment of certain projects and assets, and the likelihood of benefits being realised in full, to write these assets down to their carrying amount.

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

During the year the company capitalised £0.9m (2022: £0.6m) of general borrowing costs at a capitalisation rate of 1.70% (2022: 1.40%), in accordance with IAS 23: *Borrowing Costs* , relating to both property, plant and equipment and other intangible assets.

15. Right-of-use assets

	Leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Total £m
Cost				
At 1 April 2021	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
Additions during the year	-	-	0.2	0.2
Terminations during the year	(0.3)	-	(0.8)	(1.1)
At 31 March 2023	60.4	2.0	0.3	62.7
Accumulated depreciation and impairment				
At 1 April 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
Provided during the year	4.2	0.2	0.2	4.6
Terminations during the year	(0.3)	-	(0.8)	(1.1)
At 31 March 2023	26.5	1.4	0.1	28.0
Carrying amount				
At 31 March 2023	33.9	0.6	0.2	34.7
At 31 March 2022	38.1	0.8	0.2	39.1
At 1 April 2021	41.9	1.0	0.5	43.4

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 2023 or 31 March 2022.

16. Financial and other assets

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

Trade and other receivables

	2023 £m	2022 £m
Non-current		
Receivable from customers gross	0.3	1.0
Prepayments	8.1	4.5
	8.4	5.5
Current		
Receivable from customers gross	136.8	96.4
Less: expected credit loss provision	(10.8)	(11.7)
	126.0	84.7
Other debtors	2.6	1.6
Amounts due from fellow subsidiary undertaking	0.1	-
Prepayments	10.5	10.8
	139.2	97.1

Amounts recoverable under regulatory agreement

	2023 £m	2022 £m
Non-current		
Amounts recoverable under regulatory agreement	631.1	667.4
Current		
Amounts recoverable under regulatory agreement	100.2	57.2

The average credit period on sales of services is 37 days (2022: 39 days). Interest is charged by Eurocontrol to UK en route customers at 9.97% (2022: 9.48%) on balances outstanding after more than 30 days.

Receivables from customers which are current include unbilled revenue for services provided in March 2023. Prior year receivables from customers included unbilled revenue for services provided in March 2022.

Amounts recoverable under regulatory agreement which are non-current include the net present value of regulatory allowances under-recovered, which will be recovered after 31 March 2024 and across the two five year price control periods starting in 2023 and pension pass through of £29.3m (2022: £34.0m), £5.5m of which relates to Reference Period 1 and is being recovered over a 15 year period to 31 December 2030 and £23.8m to Reference Period 2 which is being recovered over a 15 year period to 31 December 2035. An assessment of credit risk has been included within the discount rate used to determine the net present value.

Amounts recoverable under regulatory agreement which are current relate to Reference Period 1 and the recovery of that part of the Covid income shortfall included in the unit rates to be charged in the financial year ending 31 March 2024. Amounts recoverable under regulatory agreement in the prior year relate to Reference Period 1 and were recovered by 31 March 2023.

Movement in the expected credit loss provision

	2023 £m	2022 £m
Balance at the beginning of the year	11.7	16.6
Decrease in allowance recognised in the income statement	(0.8)	(4.7)
Foreign exchange movement in the year	0.4	(0.1)
Amounts written off as irrecoverable	(0.5)	(0.1)
Balance at the end of the year	10.8	11.7

16. Financial and other assets (continued)

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 2023 to reflect the default risk by customers during the period of recovering demand within the aviation sector. The historic loss rates have been adjusted accordingly to reflect the appropriate expected credit losses.

Contract assets relate to unbilled work in progress and have substantially the same credit risk characteristics as trade receivables for the same types of contracts. The 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:

	2023								
		Receivables - months past due							
	Unbilled income	Current	1 month	2-3 months	4-6 months	7-12 months	>12 months	In administration	Total £m
Expected credit loss rate (%)	1.5%	1.5%	9.1%	27.8%	74.4%	43.8%	80.9%	100.0%	
Gross carrying amount (£m)	63.5	62.7	1.2	0.4	0.3	0.8	0.7	7.5	137.1
Lifetime expected credit loss (£m)	1.0	0.9	0.1	0.1	0.2	0.4	0.6	7.5	10.8

	2022								
		Receivables - months past due							
	Unbilled income	Current	1 month	2-3 months	4-6 months	7-12 months	>12 months	In administration	Total £m
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

As at 31 March 2023, trade receivables of £7.5m (2022: £8.4m) had lifetime expected credit losses of the full value of the receivables. These receivables are in administration, receivership or liquidation.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the 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 £184.4m (2022: £136.7m).

17. Borrowings

	2023 £m	2022 £m
Unsecured at amortised cost		
Bank loans	65.0	200.0
£450m 1.375% Bonds due 2031	448.7	448.2
£300m 1.750% Bonds due 2033	299.0	298.8
£145m 1.750% Bonds due 2033	105.8	-
Gross borrowings	918.5	947.0
Unamortised bond issue costs and bank facility fees	(7.1)	(8.1)
	911.4	938.9
Amounts due for settlement within 12 months	45.0	-
Amounts due for settlement after 12 months	866.4	938.9

In March 2023 NERL issued £145m of fixed rate bonds in the form of a tap of its existing £300m 1.750% bonds due in 2033. The bonds were issued at a price of 72.75%, reflecting the change in market conditions since the original 2033 bonds were issued in 2021. Upon issuance of these new bonds, NERL cancelled its £450m bridge facility. As at 31 March 2023, the remaining £400m revolving facility agreement, with drawings of £65m, had an expiry date in May 2025. On 27 April 2023, NERL and its syndicate of banks agreed to extend the expiry of this facility to May 2026.

The average effective interest rate on the bank loans in the year was 2.6% (2022: 0.8%) and was determined based on the Sterling Overnight Index Average (SONIA) rates plus a margin of 0.45% and utilisation fee.

Bonds and bank borrowings are initially recognised at fair value net of any directly attributable transaction costs. These are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried on the balance sheet. Interest expense includes initial transaction costs as well as any interest payable while the liability is outstanding.

Undrawn committed facilities	2023 £m	2022 £m
Undrawn committed facilities expire as follows:		
Expiring in more than two years	335.0	650.0
	335.0	650.0

At 31 March 2023, NERL had outstanding drawings of £65.0m (2022: £200.0m) against its 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:

	2023 £m	2022 £m
Due within one year or less	7.9	7.9
Due between one and two years	7.0	6.9
Due between two and five years	20.3	20.5
Due in more than five years	19.3	26.0
	54.5	61.3
Less: future finance charges	(5.0)	(6.2)
	49.5	55.1
Analysed as:		
Current	6.7	6.7
Non-current	42.8	48.4
	49.5	55.1

18. Leases (continued)

The income statement shows the following amounts relating to leases:

	2023 £m	2022 £m
Interest on lease liabilities (see note 10)	1.3	1.4
Short term lease expense	0.1	-
Expense relating to leases for cars provided as an employee benefit under IAS 19	-	-

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 2023	Lease contracts No.	Fixed payments %[(i)]	Variable payments %[(i)]	Sensitivity £m
Property leases with payments linked to inflation	50	n/a	24.2%	0.6
Property leases with periodic uplifts to market rentals	40	n/a	72.3%	1.8
Property leases with fixed payments	2	1.7%	n/a	n/a
Leases of plant and equipment	2	1.3%	n/a	n/a
Vehicle leases	20	0.5%	n/a	n/a
	114	3.5%	96.5%	2.4

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

(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.

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

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

At 31 March 2023, the carrying amounts of lease liabilities are not reduced by the amount of payments that would be avoided from exercising break clauses where it was considered reasonably certain that the company would not exercise its right to 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 £18.6m (2022: £19.9m), of which £11.1m (2022: £12.4m) is potentially avoidable if the leases were not extended and a further £7.1m (2022: £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 2023 is £0.1m (2022: £nil).

19. Derivative financial instruments

Fair value of derivative financial instruments

	2023 £m	2022 £m
Non-current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	1.5	0.1
	1.5	0.1
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	1.5	0.1
	1.5	0.1
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.9)	(0.9)
Derivative financial instruments classified as held for trading		
Index-linked swaps	(11.7)	(8.5)
	(12.6)	(9.4)
Non-current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.6)	(0.5)
Derivative financial instruments classified as held for trading		
Index-linked swaps	(69.9)	(67.4)
	(70.5)	(67.9)

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

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

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 2023, NERL had a credit rating of A+ (negative outlook) from Standard & Poor's (2022: A+ (negative outlook)) and A2 (stable outlook) from Moody's (2022: A2 (negative outlook)).

Gearing ratio

The 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 2023 was 52.3% (2022: 60.1%).

20. Financial instruments (continued)

Categories of financial instrument

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

	2023 £m	2022 £m
Financial assets		
Financial assets at amortised cost		
Trade and other receivables	126.7	85.8
Cash and cash equivalents	57.7	50.9
	184.4	136.7
Derivative financial instruments		
In designated hedge accounting relationships	3.0	0.2
	187.4	136.9
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables	(106.9)	(106.8)
Borrowings	(918.5)	(947.0)
Lease liabilities	(49.5)	(55.1)
	(1,074.9)	(1,108.9)
Derivative financial instruments		
In designated hedge accounting relationships	(1.5)	(1.4)
At fair value through profit and loss	(81.6)	(75.9)
	(83.1)	(77.3)
	(1,158.0)	(1,186.2)

Financial assets at amortised cost includes balances for trade and other receivables (excluding prepayments of £18.6m (2022: £15.3m) and VAT of £2.3m (2022: £1.5m)) and cash and cash equivalents.

Financial liabilities at amortised cost includes balances for trade and other payables (excluding contract liabilities of £66.5m (2022: £82.6m) and deferred income of £24.5m (2022: £23.7m)), bond and bank borrowings (excluding unamortised bond issue costs and bank facility fees) and lease liabilities.

The index-linked swaps are categorised as held for trading. During the year £8.0m of amortisation payments (2022: £6.3m) were made in relation to the index-linked swaps. In the prior year, there was an additional settlement payment of index-linked swaps of a market value of £55.0m with one of the counterparties. Taking into account the index-linked swap amortisation payments, a charge arising from the change in fair value of £13.7m has been recorded in the income statement in the year (2022: £43.8m charge). This decrease in the charge for the year largely relates to the impact that actual inflation and future inflation expectations have had on the fair value changes for the £200m (notional) of 10 year index-linked swaps that were entered into in June 2021.

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.

20. Financial instruments (continued)

Foreign currency risk management

During the course of the year the group continued to manage foreign exchange risk arising from UK en route services revenue. It did this by entering into forward foreign exchange contracts on a monthly basis to hedge up to 95% of the forecast UK en route revenue up to four months' hence, based on short term forecasts of chargeable service units.

The 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	
	2023 £m	2022 £m	2023 £m	2022 £m
Euro	60.4	36.2	(7.7)	(6.6)
US dollar	2.3	1.4	(2.0)	-
Canadian dollar	0.6	0.1	(1.4)	(0.2)
Norwegian krone	-	-	(0.1)	-
Swedish krona	-	-	(0.1)	-
	63.3	37.7	(11.3)	(6.8)

Foreign currency sensitivity analysis

The company has assets and liabilities denominated in foreign currencies including cash balances of £0.6m at 31 March 2023 (2022: £0.3m) in Canadian dollars, US dollars and euro. Trade and other receivables and trade and other payables contains £60.0m (2022: £36.0m) and £7.1m (2022: £5.3m) of euro denominated balances respectively. Furthermore, the company has entered into forward foreign currency contracts to hedge exchange risk relating to customer receipts and supplier costs which will arise in future periods.

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

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

Currency	2023 Impact £m	2022 Impact £m
Euro	5.7	0.5
US dollar	(3.8)	(3.8)
Canadian dollar	(0.3)	(0.1)
	1.6	(3.4)

There was an overall decrease in currency exposure reflecting an increase in forward contract sales of euro (due to the greater volume of flights driving higher billings compare to prior year). The company believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk.

20. Financial instruments (continued)

Forward foreign exchange contracts

Throughout the year the company applied its policy of entering into forward foreign exchange contracts to sell euro forecast to be remitted to the UK by Eurocontrol in respect of UK en route revenues. The 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. The following contracts were outstanding at year end:

	2023			2022		
			Average exchange rate			Average exchange rate
Euro sold	£m	€m		£m	€m	
0-90 days	163.5	184.6	0.8858	62.8	74.9	0.8387
91-365 days	3.7	4.2	0.8684	1.1	1.3	0.8503
> 365 days	7.7	8.6	0.8930	9.6	10.9	0.8864
	174.9	197.4	0.8857	73.5	87.1	0.8448
Euro bought	€m	£m		€m	£m	
0-90 days	5.4	4.8	0.8838	3.4	2.9	0.8760
91-365 days	23.4	20.6	0.8815	15.6	13.6	0.8712
> 365 days	43.6	39.5	0.9057	24.7	22.2	0.8979
	72.4	64.9	0.8962	43.7	38.7	0.8866
US dollar sold	£m	US$ m		£m	US$ m	
0-90 days	5.5	6.6	1.2017	-	-	-
91-365 days	-	-	-	0.6	0.8	1.3745
> 365 days	16.8	20.4	1.2127	-	-	-
	22.3	27.0	1.2100	0.6	0.8	1.3745
US dollar bought	US$ m	£m		US$ m	£m	
0-90 days	13.1	10.4	1.2603	6.3	4.8	1.3098
91-365 days	19.5	16.1	1.2092	15.0	11.4	1.3161
> 365 days	41.9	33.1	1.2652	27.1	20.5	1.3242
	74.5	59.6	1.2492	48.4	36.7	1.3198
Canadian dollar bought	CAD m	£m		CAD m	£m	
0-90 days	2.7	1.6	1.6289	0.8	0.5	1.7689
91-365 days	4.0	2.6	1.5847	0.4	0.2	1.6997
> 365 days	0.3	0.2	1.7098	1.5	0.9	1.7429
	7.0	4.4	1.6058	2.7	1.6	1.7443

At 31 March 2023, the aggregate amount of the unrealised gains under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £0.9m (2022: £0.9m 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 2023, a charge of £13.7m was recorded in the income statement (2022: £43.8m charge). This decrease in the charge for the year largely relates to the impact that actual inflation and future inflation expectations have had on the fair value changes for the £200m (notional) of 10-year index-linked swaps that were entered into in June 2021.

In addition to the above, NERL has entered into average rate forward agreements with a fixing date after 31 March 2023 to sell euro anticipated to be received in July 2023 in respect of UK en route revenues, for this reason they are not included in the table above. The value of these cash flows is £64.7m (2022: £38.5m).

20. Financial instruments (continued)

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 2023 (2022: none).

Economic interest rate exposure

The company's cash balances were as follows:

	2023			2022		
Currency	Amount £m	Economic interest rate %	Average maturity days	Amount £m	Economic interest rate %	Average maturity days
Sterling	57.1	4.0	29	50.6	0.3	4
Canadian dollar	0.3	-	3	0.1	-	1
US dollar	0.2	-	3	0.1	-	1
Euro	0.1	-	3	0.1	-	1
	57.7			50.9		

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 (excluding any unwind of original issue discount).

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 2023					
Sterling:					
£450m 1.375% Bonds due 2031	448.7	-	448.7	1.38%	4.9
£300m 1.750% Bonds due 2033	299.0	-	299.0	1.76%	10.5
£145m 1.750% Bonds due 2033	105.8	-	105.8	2.40%	10.5
Bank loans	65.0	65.0	-	4.66%	0.0
Lease liabilities	49.5	-	49.5	2.47%	8.9
Total	968.0	65.0	903.0		
At 31 March 2022					
Sterling:					
£450m 1.375% Bonds due 2031	448.2	-	448.2	1.38%	5.9
£300m 1.750% Bonds due 2033	298.8	-	298.8	1.76%	11.5
Bank loans	200.0	200.0	-	1.17%	0.0
Lease liabilities	55.1	-	55.1	2.47%	8.9
Total	1,002.1	200.0	802.1		

20. Financial instruments (continued)

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.

	2023		2022	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	666.6	73.8	557.2	59.1
Index-linked (effected via inflation swaps)	230.6	25.5	240.0	25.4
Floating (net of cash and facility costs)	6.0	0.7	145.9	15.5
Net debt	903.2	100.0	943.1	100.0

Interest rate sensitivity analysis

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

The following table shows the effect of a 1% increase in interest rates on the 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.

	2023 Impact £m	2022 Impact £m
Cash at bank and short term deposits (2023: £57.7m, 2022: £50.9m)	0.6	0.5
Borrowings (2023: £65.0m, 2022: £200.0m)	(0.7)	(2.0)
	(0.1)	(1.5)

Overall the company's sensitivity to interest rate changes has decreased. This reflects a reduction in the amount of floating rate 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 2023							
Inflation swaps							
Amortising swap fixed to RPI, maturing in 2026	10.2	20.4	-	30.6	34.2	4.05%	5.25%
Bullet repayment swap fixed to RPI, maturing in 2031	-	-	200.0	200.0	47.4	(2.14%)	1.53%
	10.2	20.4	200.0	230.6	81.6		
At 31 March 2022							
Inflation swaps							
Amortising swap fixed to RPI, maturing in 2026	9.4	30.6	-	40.0	39.6	4.05%	5.25%
Bullet repayment swap fixed to RPI, maturing in 2031	-	-	200.0	200.0	36.3	(2.14%)	1.53%
	9.4	30.6	200.0	240.0	75.9		

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%.

	2023 Impact £m	2022 Impact £m
Change in mark to market value	(20.6)	(24.9)

The mark to market value of the index-linked swaps is also sensitive to the discount rates that are used to determine the net present value of the cash flows under the swap agreements. The discount rate is determined by reference to market yields on interest rate swaps. The effect of a 1% increase in the discount rate would be to increase profit and equity by £3.4m (2022: £4.3m). There would be a fairly equal and opposite impact on profit and equity if discount rates decreased by 1%.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the 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 £0.8m (2022: £0.5m), bank term deposits of £22.7m (2022: £5.0m) and money market fund investments of £34.2m (2022: £45.4m). 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):

	2023			2022		
Rating (Standard & Poor's)	Number of institutions	£m	By credit rating %	Number of institutions	£m	By credit rating %
AAA	4	34.2	59.3	4	45.4	89.2
A+	2	20.8	36.0	1	5.0	9.8
A	1	2.7	4.7	1	0.5	1.0
		57.7	100.0		50.9	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 2023 NERL had access to undrawn bank facilities totalling £335m;

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:

	2023 £m	2022 £m
Average monthly UK en route services income	53.3	42.1
Free cash at 31 March	57.7	50.9
Ratio of free cash to UK en route services income	1.1	1.2

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

	2023 £m	2022 £m
Bank borrowings	65.0	200.0
Gross borrowings (including lease liabilities)	968.0	1,002.1
Bank borrowings as a percentage of gross borrowings	6.7%	20.0%

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.

	2023				2022			
	Unsecured leases £m	Unsecured loans £m	Other liabilities £m	Total £m	Unsecured leases £m	Unsecured loans £m	Other liabilities £m	Total £m
Due within one year or less	7.9	61.8	103.2	172.9	7.9	13.3	102.9	124.1
Between one and two years	7.0	61.2	-	68.2	6.9	59.3	0.3	66.5
Due between two and five	20.3	236.3	-	256.6	20.5	368.4	1.9	390.8
Due in more than five years	19.3	718.4	3.7	741.4	26.0	613.4	1.7	641.1
	54.5	1,077.7	106.9	1,239.1	61.3	1,054.4	106.8	1,222.5
Effect of interest, discount and unamortised bond issue and bank facility fees	(5.0)	(166.3)	-	(171.3)	(6.2)	(115.5)	-	(121.7)
	49.5	911.4	106.9	1,067.8	55.1	938.9	106.8	1,100.8

Other liabilities above include trade and other payables (excluding deferred income of £24.5m (2022: £23.7m) and contract liabilities of £66.5m (2022: £82.6m)).

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
2023					
Index-linked swaps receivable	8.4	8.7	23.0	24.8	64.9
Index-linked swaps payable	(11.7)	(12.6)	(85.6)	(56.0)	(165.9)
	(3.3)	(3.9)	(62.6)	(31.2)	(101.0)
Foreign exchange forward contract receivables	233.4	65.2	32.9	0.3	331.8
Foreign exchange forward contract payables	(232.5)	(64.3)	(33.7)	(0.3)	(330.8)
	0.9	0.9	(0.8)	-	1.0
	(2.4)	(3.0)	(63.4)	(31.2)	(100.0)
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)

Fair value measurements

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

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

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

	2023				2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Derivative financial instruments in designated hedge accounting relationships	-	3.0	-	3.0	-	0.2	-	0.2
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(1.5)	-	(1.5)	-	(1.4)	-	(1.4)
Derivative financial instruments classified as held for trading	-	(81.6)	-	(81.6)	-	(75.9)	-	(75.9)
	-	(83.1)	-	(83.1)	-	(77.3)	-	(77.3)

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 bonds have been derived from their externally quoted price.

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

	Carrying amount		Fair value	
	2023 £m	2022 £m	2023 £m	2022 £m
Financial liabilities				
£450m 1.375% Bonds due 2031	(448.7)	(448.2)	(386.3)	(423.6)
£300m 1.750% Bonds due 2033	(299.0)	(298.8)	(224.9)	(274.2)
£145m 1.750% Bonds due 2033	(105.8)	-	(108.7)	-
	(853.5)	(747.0)	(719.9)	(697.8)

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

	2023 £m	2022 £m
Current		
Trade payables	19.2	18.4
Other payables	0.3	1.0
Amounts due to parent company	49.5	47.5
Amounts due to fellow undertaking	1.0	1.9
Contract liabilities	14.2	27.8
Accruals and deferred income	35.0	35.5
	119.2	132.1
Non-current		
Trade payables	3.7	1.7
Other payables	-	0.1
Contract liabilities	52.3	54.8
Accruals and deferred income	22.7	24.4
	78.7	81.0

Amounts payable under regulatory agreement

	2023 £m	2022 £m
Current		
Amounts payable under regulatory agreement	91.4	37.3
Non-current		
Amounts payable under regulatory agreement	50.2	131.8

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 26 days (2022: 34 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

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

22. Provisions

	Total £m
At 1 April 2022	9.2
Additional provision in the year	2.5
Utilisation of provision	(0.1)
At 31 March 2023	11.6

	2023 £m	2022 £m
Amounts due for settlement within 12 months	0.2	0.1
Amounts due for settlement after 12 months	11.4	9.1
	11.6	9.2

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	Restated Retirement benefits £m	Financial instruments £m	Tax credits and unutilised tax losses £m	Other £m	Restated Total £m
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 (restated)	-	67.6	0.4	-	-	68.0
At 31 March 2022 (restated)	191.7	61.9	(2.4)	(15.5)	(9.8)	225.9
At 1 April 2022	191.7	61.9	(2.4)	(15.5)	(9.8)	225.9
Charge/(credit) to income	4.5	-	1.7	15.5	(1.4)	20.3
(Credit)/charge to equity	-	(50.9)	0.3	-	-	(50.6)
At 31 March 2023	196.2	11.0	(0.4)	-	(11.2)	195.6

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

	2023 £m	Restated 2022 £m
Deferred tax liabilities	207.2	253.6
Deferred tax assets	(11.6)	(27.7)
	195.6	225.9

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 2022 and 31 March 2023	10,000,000	10.0	10,000,000	10.0

25. Notes to the cash flow statement

	2023 £m	2022 £m
Operating profit from continuing operations	173.8	90.2
Adjustments for:		
Depreciation of property, plant and equipment	43.4	38.1
Amortisation of intangible assets	40.9	36.8
Depreciation of right-of-use assets	4.6	4.1
Impairment losses	9.7	1.7
Deferred grants released	(0.2)	(0.2)
Profit on disposal of property, plant and equipment	-	(0.2)
R&D expenditure above the line tax credits	(1.6)	(1.2)
Adjustment for pension funding	(15.1)	(6.5)
Operating cash flows before movements in working capital	255.5	162.8
Increase in trade and other receivables, and amounts recoverable under regulatory agreement	(42.3)	(315.8)
Decrease in trade and other payables, amounts payable under regulatory agreement and provisions	(34.2)	(47.1)
Cash generated from/(used in) operations	179.0	(200.1)
Tax (paid)/received	(3.3)	15.0
Net cash generated from/(used in) operating activities	175.7	(185.1)

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

Increase in trade and other receivables, and amounts recoverable under regulatory agreement represents the movement on the balance sheet adjusted for non-cash items such as discounting and pension pass through accruals, and for capital prepayments.

Decrease in trade and other payables, amounts payable under regulatory agreement and provisions represents the movement on the balance sheet adjusted for interest and capital accruals.

Reconciliation of net financial liabilities

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

	2023 £m	2022 £m
Cash and cash equivalents	57.7	50.9
Borrowings	(911.4)	(938.9)
Lease liabilities	(49.5)	(55.1)
Net debt	(903.2)	(943.1)
Index-linked swaps	(81.6)	(75.9)
Net financial liabilities	(984.8)	(1,019.0)
Cash and liquid investments	57.7	50.9
Gross debt - fixed interest rates (net of unamortised bond issue costs)	(897.2)	(797.2)
Gross debt - variable interest rates (net of unamortised bank facility fees)	(63.7)	(196.8)
Net debt	(903.2)	(943.1)
Index-linked swaps	(81.6)	(75.9)
Net financial liabilities	(984.8)	(1,019.0)

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	Lease liabilities £m	Bonds (i) £m	Advances of en route charges £m	Bank loans (ii) £m	Sub-total £m	Index-linked swaps £m	Total £m
Net financial liabilities as at 1 April 2021	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% Bonds	-	-	(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)
Net financial liabilities as at 1 April 2022	50.9	(55.1)	(742.1)	-	(196.8)	(943.1)	(75.9)	(1,019.0)
Cash flows	6.8	5.8	(104.2)	-	135.4	43.8	8.0	51.8
New leases in the year	-	(0.2)	-	-	-	(0.2)	-	(0.2)
Fair value movements	-	-	-	-	-	-	(13.7)	(13.7)
Other non-cash movements (iii)	-	-	(1.4)	-	(2.3)	(3.7)	-	(3.7)
Net financial liabilities as at 31 March 2023	57.7	(49.5)	(847.7)	-	(63.7)	(903.2)	(81.6)	(984.8)

(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 £1.4m (2022: £1.7m) and amortisation of bank facility fees of £2.0m (2022: £2.7m). The £67.4m in the prior year represents the settlement of advances of en route charges, which have been deducted from income receipts.

Interest due on bonds and bank loans was fully paid to 31 March 2023 (2022: fully paid) and therefore accrued interest does not form part of net debt.

26. Financial commitments

	2023 £m	2022 £m
Amounts contracted but not provided for in the accounts	47.4	38.5

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. Partnership shares vest at the point of issuance and are cash-settled. The free shares and matching shares have a vesting period of three years from date of award and may be cash-settled from this date. The shares may be forfeited if the employee leaves within three years of the date of the award, depending on conditions of departure.

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

	No. employee shares outstanding at 31 March 2023	No. employee shares outstanding at 31 March 2022
Date of share awards		
Free share awards		
21 September 2001	123,614	130,240
20 October 2003	117,910	126,175
10 September 2004	176,685	197,485
11 January 2008	141,268	157,308
18 September 2009	156,906	175,406
Partnership shares		
1 March 2011	142,424	159,993
26 September 2012	174,729	198,685
30 May 2014	151,706	178,153
31 October 2016	221,875	292,482
31 October 2018	381,760	397,719
Matching shares		
1 March 2011	142,971	159,740
26 September 2012	175,796	198,835
30 May 2014	151,872	178,469
31 October 2016	222,036	292,644
31 October 2018	365,482	381,041
	2,847,034	3,224,375
Dividend shares issued on 28 June 2005	14,995	16,192
Total employee shares in issue at 31 March	2,862,029	3,240,567

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

	Movement in the no. of shares during the year ended 31 March 2023	Movement in the no. of shares during the year ended 31 March 2022
Balance at 1 April	3,240,567	3,397,951
Forfeited during the year	-	(31,481)
Exercised during the year	(368,761)	(104,597)
Staff transfers between group companies	(9,777)	(21,306)
Balance at 31 March	2,862,029	3,240,567

Typically these shares are valued every six months by independent valuers using discounted cash flow and income multiple methods of valuation. Valuations are approved by HMRC for a period of six months unless a significant event arises which has a material impact on the share value. The outbreak of Covid had a significant and material impact and the scheme was closed for leavers and joiners from 1 April 2020. In February 2023, the scheme was reopened for leavers and sales following an independent valuation at 31 December 2022 which valued the shares at £3.70. At 31 March 2022, the fair value of an employee share was estimated by reference to forecasts of discounted future cash flows to be £2.41. The liability for the employee shares at 31 March 2023 was £10.7m (2022: £10.1m) and is included in amounts due to parent company. The income statement includes a cost of £5.4m (2022: £2.5m credit). Payments made to leavers and current employees for the shares they exercised during the year was £4.7m (2022: £nil).

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 2023 employer contributions of £14.7m (2022: £12.3m), excluding salary sacrifice contributions of £8.2m (2022: £6.9m), represented 16.4% of pensionable salaries (2022: 16.3%).

The defined contribution scheme had 1,532 members at 31 March 2023 (2022: 1,330).

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 were paid at 41.7% of pensionable pay until 31 December 2022 and increased to 66.2% from 1 January 2023. The NATS group paid deficit recovery contributions of £26.0m in the 2021 calendar year and £26.6m in the 2022 calendar year. From 1 January 2023 to 31 December 2029, deficit recovery contributions will be paid at £27.2m in 2023 and increase annually by 2.37% for 2024 to 2029. 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 (2022: £68.9m). This amount included £5.5m (2022: £5.9m) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice and past service costs, employer cash contributions were paid at a rate of 59.6% (2022: 61.2%) of pensionable salaries.

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2024 is £111.8m, including salary sacrifice contributions estimated at £7.2m.

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 2023 (based on 31 December 2022 membership data). The major assumptions used by the actuary for the purposes of the IAS 19 figures at the relevant year ends are set out in the table and narrative below:

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

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

The principal risks to the financial performance of the 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 8.2%/increase by 9.4%
Rate of inflation	Increase/decrease by 0.5%	Increase by 8.9%/decrease by 7.9%
Rate of pensionable salary growth	Increase/decrease by 0.5%	Increase by 1.7%/decrease by 1.6%
Rate of mortality	1 year increase in life expectancy	Increase by 2.6%

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

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:

	2023	2022
	£m	£m
Current service cost	(60.5)	(61.1)
Past service cost	-	(0.1)
Net interest credit	8.1	0.3
Administrative expenses	(1.4)	(1.5)
Components of defined benefit costs recognised within operating profit	(53.8)	(62.4)

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

		Restated
	2023	2022
	£m	£m
Return on plan assets (excluding amounts included in net interest expense)	(1,388.5)	115.9
Actuarial gains and losses arising from changes in financial assumptions	1,340.8	186.1
Actuarial gains and losses arising from experience adjustments	(180.1)	(28.3)
	(227.8)	273.7

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

		Restated
	2023	2022
	£m	£m
Present value of defined benefit obligations	(2,616.8)	(3,720.3)
Fair value of scheme assets	2,660.7	3,976.9
Surplus in scheme	43.9	256.6

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

	2023	2022
	£m	£m
At 1 April	(3,720.3)	(3,856.2)
Current service cost	(60.5)	(61.1)
Past service cost	-	(0.1)
Interest expense on defined benefit scheme obligations	(100.8)	(81.6)
Actuarial gains and losses arising from changes in financial assumptions	1,340.8	186.1
Actuarial gains and losses arising from experience adjustments	(180.1)	(28.3)
Benefits paid	104.1	120.9
At 31 March	(2,616.8)	(3,720.3)

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

	2023	2022
	£m	£m
Active members	(909.6)	(1,479.3)
Deferred members	(213.2)	(380.8)
Pensioners	(1,494.0)	(1,860.2)
	(2,616.8)	(3,720.3)

28. Retirement benefit schemes (continued)

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

	2023 £m	Restated 2022 £m
At 1 April	3,976.9	3,832.6
Interest income on scheme assets	108.9	81.9
Return on plan assets (excluding amounts included in net interest expense)	(1,388.5)	115.9
Contributions from company	68.9	68.9
Benefits paid	(104.1)	(120.9)
Administrative expenses	(1.4)	(1.5)
At 31 March	2,660.7	3,976.9

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

	2023 £m	Restated 2022 £m
Cash and cash equivalents	244.1	21.5
Equity instruments		
- Emerging markets	64.8	56.3
- Global	322.7	576.8
	387.5	633.1
Bonds		
- Fixed income	537.6	1,820.6
- Index-linked gilts over 5 years	1,055.7	1,042.4
	1,593.3	2,863.0
Other investments		
- Property	84.4	118.4
- Hedge funds	165.5	161.5
- Private equity funds	106.6	132.1
- Other	78.7	37.1
	435.2	449.1
Derivatives		
- Futures contracts	0.6	10.2
	2,660.7	3,976.9

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, bonds and cash, although the scheme also invests in property and investment (private equity and hedge) funds which are generally illiquid, unquoted assets and trade on a less regular basis. Unquoted investment funds are measured using their most recent net asset valuations adjusted for cash movements between the latest valuation date and 31 March 2023. Where appropriate, management also take into account movements in external quoted benchmarks in order to determine whether a risk adjustment is required in determining fair value as at 31 March 2023.

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

As a result of discussions between NATS and the Trustee the amount of interest rate and inflation hedging has increased over time, starting out at 25% in 2012 with subsequent increases to 50% in 2014 and to 65% in 2018, as measured on the Trustee funding basis. In March 2020, NATS and the Trustee agreed a further increase in the level of inflation and interest rate hedging to 75%, as measured on a long-term funding target basis of gilts + 0.5% p.a and the trades needed to achieve this were carried out between May and August 2020. Swap transactions are executed with carefully scrutinised banks and collateral is provided in the form of index-linked gilts to protect against the unlikely event of default by a counterparty bank.

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.

28. Retirement benefit schemes (continued)

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

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

The actual return on scheme assets for the year ended 31 March 2023 was a loss of £1,279.6m (2022: £197.8m gain).

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

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 2023	Year ended 31 March 2022	Year ended 31 March 2023	Year ended 31 March 2022
	£m	£m	£m	£m
LHR Airports Limited	-	-	0.3	0.1
Ministry of Defence (MOD)	44.0	39.0	2.1	4.2
Department for Transport (DfT)	0.6	0.5	-	-
Meteorological Office	0.3	-	0.6	0.5
Aquila Air Traffic Management Services Limited	1.0	0.7	-	-

	Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2023	Year ended 31 March 2022	Year ended 31 March 2023	Year ended 31 March 2022
	£m	£m	£m	£m
LHR Airports Limited	-	-	0.1	-
Ministry of Defence (MOD)	0.3	4.5	10.7	7.1
Department for Transport (DfT)	0.2	0.1	-	-
Meteorological Office	-	-	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 (2022: £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 £2,141,000 (2022: £1,246,000). The number of directors paid by the company during the year was two (2022: two). Neither director participates in a company pension scheme.

Remuneration earned by the highest paid director of the company in the year was £1,400,000 (2022: £713,000).

29. Related party transactions (continued)

Remuneration of key management personnel

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

	2023 £m	2022 £m
Short term employee benefits	8.0	5.6
Post-employment benefits	0.4	0.4
	8.4	6.0

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.

31. Events after the reporting period

There were no events after the report period.

Alternative Performance Measures

1 **Gearing:** Ratio of NERL's net debt (as defined by its licence) to its Regulatory Asset Base (RAB)

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 2022 the value of NERL's RAB was £1,646.5m.

	2023 £m
Net debt (per note 25)	(903.2)
Inclusion of items as defined in financial covenants:	
Unamortised bond discount	(41.5)
Unamortised bond issue cost and bank facility fees	(7.1)
RPI swaps stated on a bank covenant valuation basis	(72.2)
Exclusion of items as defined in financial covenants:	
Lease liabilities recognised on adoption of IFRS 16	48.9
Net debt (as defined in NERL's finance documents)	(975.1)
Regulatory Asset Base at 31 March 2023	1,865.8
Gearing	52.3%

2 **Debt Adjusted Cash Flows (DACF):** Increase/decrease in cash and cash equivalents for the year, adjusted to remove draw down or repayment of bank borrowings, bonds, index linked swaps and advances of en route charges.

	2023 £m	2022 £m	2021 £m
Net cash generated from/(used in) operating activities	175.7	(185.1)	(258.4)
Net cash outflow from investing activities	(110.9)	(108.8)	(35.8)
Net cash (outflow)/inflow from financing activities	(58.0)	172.6	15.4
Increase/(decrease) in cash and cash equivalents during the year	6.8	(121.3)	(278.8)
Advances of en route charges	-	67.4	(67.4)
Bonds issued	(105.5)	(747.0)	-
Bonds repaid	-	290.1	41.6
Bond and bank arrangement fees	1.7	9.4	1.2
Repayment of obligations under finance leases	5.8	5.5	5.6
Repayment of bank facilities	175.0	435.0	-
Drawdown on bank facilities	(40.0)	(240.0)	-
Index-linked swap repayment	8.0	61.3	14.1
Total debt adjustments	45.0	(118.3)	(4.9)
Debt-adjusted cash flow	51.8	(239.6)	(283.7)

Explanatory Notes

3 An Airprox is a situation in which, in the opinion of a pilot or controller, the distance between aircraft as well as their relative positions and speeds have been such that the safety of the aircraft involved was or may have been compromised. The severity of these incidents is assessed periodically by the UK Airprox Board, an independent body, in the interests of enhancing flight safety.
Airprox events are classified A to D on the basis only of actual risk, not potential risk. An event classified as category B - safety not assured, is an aircraft proximity in which the safety of the aircraft may have been compromised.

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

5 Impact score is a measure of delay placing greater weight on long delays and departures in the morning and the evening peaks. Variability score is a daily excess delay score based on weighted delays exceeding pre-determined thresholds on a daily basis.

6 The 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.