NATS (En Route) plc

Annual Report and Accounts
Year ended 31 March 2024

Company Number: 04129273

Financial results (year ended 31 March)

£m (unless specified)	2024	2023
Adjusted revenue and regulatory allowances[a]	906.2	759.2
Adjusted profit before tax[a]	273.7	133.3
Statutory profit before tax	397.0	156.5
Debt adjusted cash inflow[b]	116.9	51.8
Capital expenditure	109.9	107.1
Net debt[c]	817.0	903.2
Gearing[c] (%)	41.9%	52.3%
Regulatory Asset Base[a]	2,139.2	1,865.8
Regulatory return - adjusted[a]	4.9%	0.0%
Dividends	Nil	Nil

Notes: [a] Alternative performance measure (APM), see explanatory notes; [b] APM, representing cash flows excluding repayments/drawings on borrowings; [c] see note 20 to the financial statements. Net debt excludes derivative financial instruments; [c] APM, ratio of NERL's net debt (as defined by its licence) to regulatory assets[1].

- In November 2023, the CAA published its decision on NERL's price control for NR23, which covers calendar years 2023 to 2027. While the settlement fairly recompensed NERL for revenue lost during the pandemic it did so over a longer than usual 10-year period in recognition of customers' affordability requirements. Moreover, from an operational perspective the NR23 service quality targets are extremely challenging against a backdrop of significant growth in flight volumes, alongside live operational training requirements for the next generation of air traffic controllers and the need to progress airspace modernisation and technology transformation programmes.
- The company reported an adjusted profit of £273.7m (2023: £133.3m). The result mainly reflects the increase in charges set by the NR23 price control. Statutory profit before tax of £397.0m (2023: £156.5m) includes the one-off impact from the CAA's confirmation of the Covid income shortfall amount.
- As in 2023, our result is not yet reflected in our cash flows as a result of the 10-year period agreed for recovering the Covid income shortfall. Our current financing structure reflects this, with borrowings having financed the Covid income shortfall.

Operational headlines

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

[1] A number of alternative performance measures and explanatory notes are provided on pages 96 to 97 of this report.

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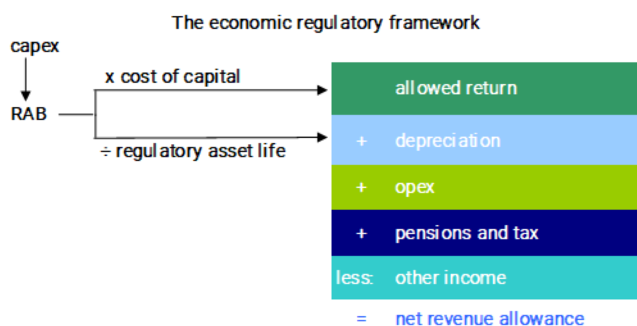
Our business model

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

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

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



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

Our purpose

Advancing aviation, keeping the skies safe.

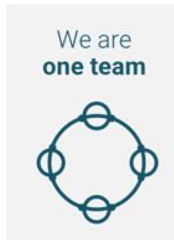
We exist to ensure the skies are a safe and efficient environment for aviation. Defined by the things we care about, our strategy is driven by our purpose, values and objectives.

Our company vision for 2040

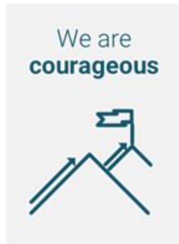
Passionate about aviation, we step forward and seize the opportunities across our evolving industry. Our talented team creates and operates sustainable solutions for all airspace users. Advanced products and services using the latest data, technology and automation result in the skies being safe, efficient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

Our values

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



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



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

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

Our strategic objectives

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

The objectives are that:

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

Chief Executive's review

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

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

Technical Incident

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

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

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

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

New airspace users

The year saw good progress on regulatory matters. The CAA's decision on the NR23 price control has drawn to a close a lengthy and complex regulatory review, providing a stable baseline now for the NR23 period to 2027 with broadly the financial resources we need. While the Board judged that the CAA's final decision fairly recompensed NERL for revenue lost during the pandemic it considered that from an operational perspective the service quality targets are extremely challenging given the projected significant growth in flight volumes, live operational training requirements for the next generation of air traffic controllers and the need to progress airspace modernisation and technology transformation programmes. There is a risk that these targets over-prioritise short-term performance against long-term

resilience and technical progress. We will take a responsible course of action that balances these needs, but we are unlikely to meet the targets set. However we are still likely to deliver a service that is measurably as good as, or better than, our European and other international peers.

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

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

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

- Distributed Beyond Visual Line of Sight Aviation System (DBAS), a new control room concept that can be used to co-ordinate airspace users for beyond visual line of flight operations;
- Project Caelus which is enabling essential medical deliveries for NHS Scotland; and
- the Air Mobility Ecosystem Consortium which has used simulations and visualisations to assess the impact of electric vertical take-off and landings (eVTOLs) in London's airspace.

People

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

I reported in the 2023 annual report that to enable our internal progress towards being a Top 25 employer to be benchmarked we had asked our employees how they felt about working at NATS. The survey was conducted by Best Companies, the employee engagement specialists. Based on their feedback, Best Companies rated us as "Very Good to Work For". At the time of publication of the previous annual report Best Companies had not concluded on our ranking. Subsequently they ranked us at

#13, which is clearly very encouraging. Since the survey and alongside a series of employee focus groups, colleagues from across the business have been using the feedback to shape and deliver improvement plans in areas of leadership, personal growth and giving something back. We will measure our progress through future surveys and through our ability to attract and retain talent.

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

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

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

Sustainability

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

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

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

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

We are incentivised by the regulator to provide fuel efficient flights to airlines based on our 3Di airspace efficiency metric. For the 2023 calendar year we were within the CAA's allowance with a score of 28.3 (2022 calendar year: 26.0, within CAA allowance). We are also sharing flight efficiency data with three of our largest airline customers to identify jointly opportunities for

further emissions savings. Ultimately, our aim is for all airlines using the UK air traffic network to have access to their own 3Di performance data.

Looking forward

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

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

Martin Rolfe, FRAeS

Chief Executive

Business review

Air traffic volumes

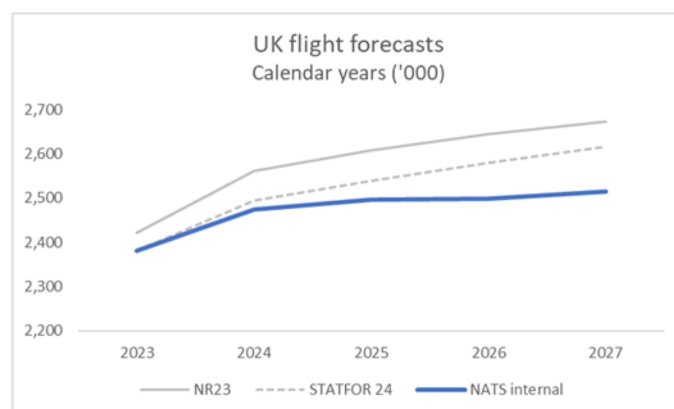
Over the course of the year we handled 2.41m flights, which was 7% more than the previous year driven largely by continued progress in recovery from the Covid pandemic (2023: 2.26m flights).

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

Outlook for air traffic volumes

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

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



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

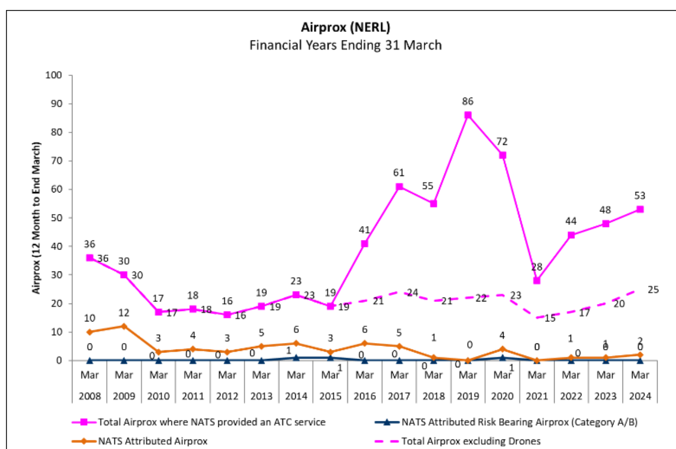
The traffic forecast assumed by the CAA for the NR23 price control was aligned with Eurocontrol's March 2023 seven-year base case forecast. In February 2024 Eurocontrol published an updated forecast (STATFOR 24) which reflects a weaker economic outlook for Europe, including the UK. This forecasts flight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

Safety Performance

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

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

Our key target is to achieve zero NERL-attributable category A or B risk-bearing airprox, based on the independent assessment of the UK Airprox Board. There were no NERL-attributable category A or B risk-bearing airprox in the financial year (2023: none).



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

We also measure our safety performance using the Risk Analysis Tool (RAT[8], as a proxy measure for safety risk) which assesses the severity of safety events and enables us to drive the appropriate safety culture across the whole business.

This financial year we recorded a total of 419 points (2023: 489) which, despite an increase in the volume of flights this year, is a further improvement on the previous year's record low level. RAT events in the year included two severity B events against our target of less than 10 for RAT A or B events. All serious events are subject to an additional level of scrutiny by the Safety Review Committee, ensuring that appropriate mitigating actions have been agreed and implemented.

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

Safety management

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

To ensure that we work effectively to understand, maintain and improve safety performance in a consistent way, we have a formalised Safety Management System (SMS). The application of the SMS goes hand-in-hand

with all of our activities so that safety is considered at every stage. This integration of safety in everything we do means that we can deliver safety and efficiency improvements across the company. The SMS is continually evolving to meet the needs of the business, incorporating lessons learned, changing regulation and the evolving use of airspace, including UAS and new industry concepts. We have also continued to enhance our SMS training.

Safety culture

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

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

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

Technology transformation

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

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

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

Financial review

Results overview

£m (unless specified)	2024	2023	*Change*
Revenue and regulatory allowances	1,029.5	782.4	*247.1*
Adjusting items	(123.3)	(23.2)	*(100.1)*
Adjusted revenue and regulatory allowances	906.2	759.2	*147.0*
Profit before tax	**397.0**	**156.5**	***240.5***
Adjusting items	(123.3)	(23.2)	*(100.1)*
Adjusted profit before tax	**273.7**	**133.3**	***140.4***
Operating cash flows	213.4	175.7	*37.7*
Cash flows from investing activities	(101.1)	(110.9)	*9.8*
Cash flows from financing activities	(78.9)	(58.0)	*(20.9)*
Net increase in cash and cash equivalents	**33.4**	**6.8**	***26.6***
Adjusting items	83.5	45.0	*38.5*
Debt-adjusted cash flows	**116.9**	**51.8**	***65.1***
Capital expenditure	109.9	107.1	*2.8*
Net debt (statutory basis)	(817.0)	(903.2)	*86.2*
Gearing (%)	41.9%	52.3%	*(10.4%)*
Regulatory Asset Base (RAB)	2,139.2	1,865.8	*273.4*
NERL's regulatory return - adjusted profit basis (%)	4.9%	0.0%	*4.9%*
Dividends	nil	nil	*n/a*

The company reported a statutory profit before tax of £397.0m (2023: £156.5m). The significant increase on the previous year is mainly a reflection of the NR23 price control and the CAA's assessment of the income shortfall owing to NERL for the Covid period (2020 to 2022), recognised as variable consideration in the prior year.

Alternative performance measures

In order to provide better insight for managing our financial performance, we have adopted a number of non-IFRS measures: adjusted revenue and revenue allowances, adjusted profit before tax, debt-adjusted cash flows (DACF), net debt, the regulatory asset base (RAB), regulatory return (adjusted) and gearing. These alternative performance measures (APMs) are not defined by international financial reporting standards (IFRS) and should be considered in addition to, and are not intended to be a substitute for, IFRS and statutory measures. A reconciliation of the APMs to IFRS measures is provided at page 96 and 97.

Putting profit and cash flows in context

a. NR23 price control

This year's statutory profit before tax reflects a full year's impact of NR23, which applied from 1 January 2023. The regulatory framework, explained on page 2, is a typical cash-based model of UK economic regulation adopted by the CAA when determining NERL's price control. At each price control review, the CAA re-sets the level of revenue for a five-year period which it considers appropriate to enable NERL to recover its costs, continue to invest in the airspace infrastructure and earn a reasonable return while operating efficiently and providing targeted levels of service performance for customers. This process of re-setting revenue allowances can result in a step change (up or down) in NERL's results in the first year of the price control.

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

The latter, being paid at 85.3% of pensionable pay, are based on the funding deficit and ongoing cost of benefits calculated at 31 December 2020 when real gilt yields were close to their historic low. The timing of that measurement means that these contributions are significantly higher, unprecedentedly so, than the charge to the income statement of 22.2% of pensionable pay measured under international accounting standards. This IAS 19 charge reflects the higher interest rate environment since 2022 which has significantly reduced

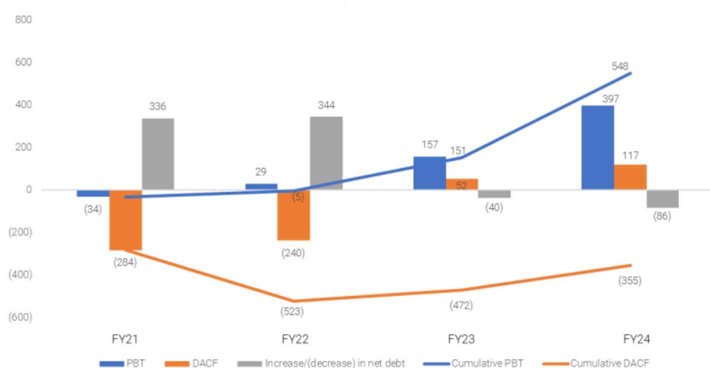
the cost of pensions. After taking a rebate of pension costs under the pass-through mechanism into account, the combination of a lower IAS 19 charge and the different basis for pensions alone accounts for an increase in profit of £41.1m.

b. The Covid income shortfall

The outcome of the CAA's retrospective reconciliation for determining the Covid income shortfall was accounted for in the prior year as variable consideration, constrained at an amount highly probable of not being reversed subsequently. In November 2023 the CAA confirmed the value of the shortfall at an amount higher than the variable consideration previously recognised. Accordingly, the results reflect an additional regulatory allowance of £123.3m for Airspace ATC services provided during Covid (2023: £23.2m). The measure of Adjusted profit before tax of £273.7m (2023: £133.3m) excludes this allowance to enable a better understanding of the company's underlying performance for the service provided in the financial year.

c. Debt adjusted cash flows

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



The chart above shows our statutory results before tax (PBT), our debt adjusted cash flows[2] (DACF) and the change in net debt in each of the last four years. DACF represent the cash flows from our operations, our investing activities and our debt service costs but exclude the cash flows relating to our financing capital structure such as bond issues and bank loan repayments. The scale of the shortfall in income receipts, particularly in 2021 and 2022, is borne out by our DACF across this period.

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

NERL's regulatory return – adjusted profit basis

NERL's regulatory return for calendar year 2023 adjusted for the one-off impact of the CAA's confirmation of the Covid income shortfall was 4.9% (2022 calendar year: 0.0%) compared with the CAA's NR23 cost of capital assumption of 3.2%. Operating costs were £61.0m lower than CAA's final determination assumption. This reflects the fact that the CAA sets annual revenue allowances assuming operating costs relating to the calendar year's actual CPI inflation. However, the impact of CPI on NERL's costs tends to lag by a year as these are generally indexed according to the prior year's inflation. While NERL has been able to contain temporarily some of the inflationary pressures on its cost base, its expectation is that the level of inflation currently projected on costs in 2024 and going forward will exceed the level assumed by

the CAA in those years. Accordingly NERL currently expects higher operating costs against the CAA's target for the later years of NR23. The savings in 2023 are therefore not anticipated to be repeated, and overall costs over the price control period to be more aligned with the CAA's final determination assumption in its entirety. This factor was partly offset by lower revenue for an expected rebate of pension costs in future price controls.

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

Revenue and regulatory allowances

	2024	2023
	£m	£m
Airspace	1,022.4	775.1
Other Service lines	7.1	7.3
Total	1,029.5	782.4

Overall, revenue and regulatory allowances at £1,029.5m (2023: £782.4m) were £247.1m higher than the prior year.

Airspace revenue and regulatory allowances were £247.3m (31.9%) higher. UK en route revenue at £806.5m (2023: £669.2m), improved by £137.3m mainly due to the increase in revenue allowances set for NR23 – outlined above. In addition, regulatory allowances of £136.5m increased by £95.5m (2023: £41.0m) includes the recognition of £123.3m of Covid income shortfall, recognised as variable consideration in the prior year as explained above.

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

Operating costs

Operating costs increased by £39.3m or 6.5%, mainly reflecting inflationary pressures on staff and non-staff costs and asset impairment charges.

	2024	2023
	£m	£m
Staff costs	(357.4)	(356.3)
Non-staff costs (net)	(174.6)	(153.9)
	(532.0)	(510.2)
Depreciation and amortisation (net)	(99.8)	(88.7)
Asset impairment charges	(16.1)	(9.7)
Operating costs	(647.9)	(608.6)

Staff costs were £1.1m higher at £357.4m (2023: £356.3m) with CPI-linked pay awards and additional overtime and headcount to support both operational resilience and our technology transformation programme being mitigated by increased internal capitalised labour and lower defined benefit pension costs. The number of employees in post at 31 March 2024 increased by 199 to 3,378 (2023: 3,179).

Non-staff costs increased by £20.7m to £174.6m (2023: £153.9m). This reflected additional costs required for data infrastructure, hosting and cyber security in line with the modernisation of our technical infrastructure.

Depreciation and amortisation increased by £11.1m to £99.8m (2023: £88.7m), following the deployment of a new back-up voice communication system and a new system to monitor the performance of airspace infrastructure assets. Asset impairment charges of £16.1m (2023: £9.7m) were recognised for a data integration system which is no longer considered to be commercially viable, and to write down the value of network infrastructure test equipment, following an assessment of potential alternative uses.

Net finance income and fair value movement on derivative contracts

	2024 £m	2023 £m
Net finance income/(costs)	24.4	(3.6)
Fair value movement on derivative contracts	(9.0)	(13.7)
Net financing income/(costs) and fair value movements	15.4	(17.3)

The net finance income of £24.4m (2023: net finance cost of £3.6m) principally related to unwinding the discount applied to regulatory allowances for the Covid income shortfall, which is being recovered over NR23 and NR28. This is alongside additional interest income earned on cash holdings. These factors more than offset bond and other debt interest costs.

A fair value charge of £9.0m (2023: £13.7m) was also recognised in the year in relation to the change in market value of the RPI swap liabilities.

Taxation

The tax charge of £97.2m (2023: £31.8m) represents an effective rate of tax of 24.5%. This is slightly lower than the headline rate of 25%.

The tax charge consists of a current tax charge of £78.5m and a net deferred tax charge of £18.7m. The deferred tax charge arises mainly from the deferred tax liabilities on capital expenditure.

NATS achieved Fair Tax Mark accreditation in the year. 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 company also pays other taxes such as employer's national insurance contributions (£35.8m), business rates (£5.7m) and the apprenticeship levy (£1.4m), which are significant operating costs. The group's tax strategy can be viewed at www.nats.aero.

Balance sheet

	2024 £m	2023 £m
Goodwill	38.3	38.3
Tangible and intangible fixed assets	1,087.7	1,091.9
Right-of-use assets	31.4	34.7
Pension scheme surplus	10.1	43.9
Regulatory allowances recoverable	799.0	731.3
Regulatory allowances payable	(54.8)	(141.6)
Cash and cash equivalents	91.1	57.7
Derivatives (net)	(79.9)	(80.1)
Borrowings	(864.9)	(911.4)
Lease liabilities	(43.2)	(49.5)
Deferred tax liability	(205.4)	(195.6)
Other net balances	(35.6)	(60.6)
Net assets	773.8	559.0

The increase in net assets reflects the statutory profit after tax, partly offset by the reduction in the defined benefit pension scheme's IAS 19 funding surplus to £10.1m (2023: £43.9m - see below).

Capital investment

	2024 £m	2023 £m
SESAR deployment	43.1	47.9
Airspace modernisation	8.9	7.8
Infrastructure	17.1	9.8
Operational systems	26.8	29.5
Other	10.2	7.7
Regulatory capex	106.1	102.7
Other non-regulatory capex	3.8	4.4
Capital investment	109.9	107.1

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

Defined benefit pensions

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 - the costs of this scheme increased by £6.0m in the year reflecting the growth in members and staff pay awards. 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 £30.1m (2023: £53.8m) reflected a reduction in the accrual rate to 22.0% (2023: 44.8%) 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 2024, the scheme's assets exceeded its liabilities by £10.1m (2023: £43.9m) as measured under International Accounting Standards (IAS 19) using best estimate assumptions.

IAS 19 pension surplus	£m
At 1 April 2023	43.9
Charge to income statement*	(30.1)
Actuarial gains/(losses):	
- on scheme assets	(245.5)
- on scheme liabilities	133.7
Employer contributions*	108.1
At 31 March 2024	10.1
Represented by:	
Scheme assets	2,534.1
Scheme liabilities	(2,524.0)
Surplus	10.1

* including salary sacrifice

The real yield on AA corporate bonds used to value RPI-linked pension obligations increased by 20 basis points over the 12-month period. In addition, demographic assumptions were updated to reflect actual mortality experience and future improvements in life expectancy in line with the CMI's 2022 projections. These had the effect of reducing the value of pension liabilities which reduced by £92.8m over the year. The fair value of the scheme's assets reduced by £126.6m.

b. Trustee valuation and funding obligations

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

The Trustees are currently undertaking a formal valuation of the scheme as at 31 December 2023, which is not yet complete. Until that valuation is agreed, the schedule of contributions remains based upon the Trustees 31 December 2020 valuation, which reported a funding deficit of £171.9m (equivalent to a funding level of 97%) (NERL's economic share of this deficit is c£132m). Alongside assessing the funding deficit, the scheme's actuary also determined that the cost of employee benefits accruing in future should be 66.2% of pensionable pay. Contributions have reflected this rate since January 2023, as well as a recovery plan agreed with Trustees, which aims to repair the deficit by December 2029. During calendar year 2023 the group paid deficit contributions of £27.2m and it will pay £27.8m in calendar year 2024. NERL's share of deficit recovery contributions is c.77%.

Net debt, liquidity and cash flows

	Cash and cash equivalents	Borrowings (including lease liabilities)	Net debt
	£m	£m	£m
Balance at 31 March 2023	57.7	(960.9)	(903.2)
Cash flow	33.4	72.7	106.1
Non-cash movements	-	(19.9)	(19.9)
Balance at 31 March 2024	91.1	(908.1)	(817.0)

At 31 March 2024, the company's net debt was £817.0m (2023: £903.2m). It comprised £864.9m in bonds less unamortised costs and fees, and £43.2m of lease

liabilities recognised under IFRS 16. These were partly offset by £91.1m of cash and cash equivalents.

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

At 27 June 2024 the company had available liquidity of around £470m. 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.

Alistair Borthwick

Chief Financial Officer

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.

At 31 March 2024, the company had access to liquidity of £491m comprising cash of £91.1m and undrawn committed bank facilities of £400.0m. At 27 June 2024, the company had access to cash and undrawn bank facilities of around £470m.

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 2025, being at least 12 months from the date of approval of these financial statements. The directors have had regard to reasonably plausible changes in trading performance as well as severe traffic volume scenarios individually and in combination and the principal risks discussed on pages 19 to 22.

The severe traffic volume scenarios modelled were: an immediate 15% reduction in air traffic volumes for a 12-month period, as a proxy for a traffic shock such as a major geopolitical incident and subsequent recession, being the most severe traffic scenario; a low case internal traffic forecast of 5.9% fewer flights than the NR23 decision assumed; an unplanned increase in operating costs and unremunerated increases in defined benefit pension contributions. Finally, a combination scenario was also performed of lower air traffic volumes, higher operating costs and higher pension contributions. Under the most severe scenario the company maintains adequate liquidity (of £291m) and headroom (gearing at 51%) 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, before mitigation, severe reductions in traffic volumes to 50% of expected levels or significant unplanned expenditure, which in this event would be broadly equivalent to the annual staff cost. Taking all this into account, the 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 19 to 22, and the effectiveness of currently available mitigating actions.

In particular, the directors assessed the solvency and liquidity risks arising from a traffic shock alongside a combination of other risk factors materialising, which the Board considered represented a reasonable worst-case scenario, as well as a reverse stress test. On the basis of this assessment, the directors have a reasonable expectation that the company will be able to continue in

operation and meet its liabilities falling due over the three-year period to June 2027.

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

Specific consideration has been given to:

- The risk of a traffic shock: the consequences for the company's en route income of a severe shock to air traffic volumes and the reasonably possible mitigating actions available to the company to manage its financial resources;
- Defined benefit pensions: the requirement to agree a new schedule of contributions following completion of the trustee's formal valuation at 31 December 2023. The directors consider that the company's contributions will be recovered through the NR23 price control, and future price controls, including any additional contributions required arising from unforeseen changes in financial market conditions during NR23. This is further supported by the CAA's issuance of a Pension Regulatory Policy Statement in April 2021; and
- the term of the company's bank facilities: the directors have a reasonable expectation that the company will meet the conditions of its banking covenant and be able to raise funds in the bank or debt capital markets as required, including refinancing bank facilities expiring in May 2026.

Principal risks and uncertainties

Enterprise Risk Framework

The system for the identification, evaluation and management of emerging and principal risks is embedded within the 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, as reported in later sections.

Taking into account the work of the Committees, the Board formally reviews emerging and principal risks on a six-monthly basis. Safety risks remain a priority for the business and as such are considered at every Board meeting in addition to the regular six-month review. In addition, in light of events in the year, the Board has had particular regard to risks impacting service resilience, operational resourcing and relating to technology enhancement.

Our Principal Risks

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

The list below is not intended to be exhaustive and reflects the Board's assessment as at the date of this report. The risks outlined are the most important risks facing the company in seeking to achieve its objectives. The 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 18.

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.

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

The demand for air travel can be sensitive to macro-economic and geopolitical conditions. Factors including

conflict in the Middle East and Ukraine, the cost of living crisis and public concern as to the sustainability of aviation have led to greater uncertainty within demand forecasting.

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

Strategy: regulatory settlement

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

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

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

In seeking to mitigate regulatory risks, 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 the Climate-related Financial Disclosures section of the 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, terrorist attack or conflict, has the potential to disrupt ATC operations and our ability to resume a safe service to an acceptable performance level within a pre-defined period. A resilience plan, setting out NERL's approach to resilience and how we meet our service obligations to our customers, is required to be submitted every two years to the CAA by NERL's licence. The framework underpinning the disclosures in the resilience plan has been expanded to cover all 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.

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

Operational: systems security

The threat of disruptive cyber-attacks (such as denial of service) on critical infrastructure continues to remain elevated given ongoing conflict in the Middle East and Ukraine. A malicious cyber-attack could affect the integrity, availability, confidentiality or resilience of 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 also 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. Effectiveness of security controls is assured through ISO 27001 certification and regulatory compliance. Close working relationships are maintained between NATS and the UK's security services, including the National Cyber Security Centre and the National Protective Service Authority to monitor threats and minimise the risk of a damaging cyber-attack.

Operational: air traffic controller resource availability

While we retained our skilled air traffic controllers during Covid to support the recovery we were unable to train new controllers due to the risk of spreading the virus within our operation as well as training in a live environment being unfeasible with such low flight volumes. Training recommenced when pandemic restrictions lifted in 2022. While we have sufficient resources today to meet our regulatory commitments, there is a risk that during NR23 we may not have adequate resource to meet all of our operational and training needs, as the pipeline of newly trained controllers and less certain rates of staff retirements work through the system. The Operations Leadership Team and portfolio governance continue to focus on these risks ensuring we can respond to changing demand, including implementing actions to make our training programme more efficient so that new controllers can validate more quickly. A new resource agreement has also been reached with the trades unions to increase resilience through additional air traffic controller attendances over the critical summer period.

Operational: employee relations

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

Regular dialogue takes place with trades unions on a range of challenging issues including air traffic controller supply, the impact of high inflation and the cost of living crisis on our employees and employee pay. We strive for constructive relationships with our trades unions, and these relationships enabled us to agree three year pay deals for grades negotiated by PCS and Prospect which run to December 2025. We remain committed to the partnership approach, and to engaging and consulting in a constructive and positive manner recognising the contribution our employees make and the wider challenges facing the aviation sector.

Transformation: portfolio delivery

The complex deployment of new technology and retirement of legacy systems could affect our ability to maintain service levels during transition and require additional costs to sustain legacy systems and support deployment during this period. 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.

Our capital programme developed following extensive customer consultation 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 are currently undertaking their next formal valuation based on the position as at 31 December 2023.

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

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), the risk of default by counterparties to financial transactions, and fluctuations in interest and foreign exchange rates. A detailed description of each of these risks and specific mitigations are set out in note 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?
AIRSPACE USERS, AIRPORTS AND OTHER CUSTOMERS	A safe ATC service is essential for airspace users and airports to which we provide our services and expertise, and for the travelling public. Their requirements are key drivers of our business plan, defining both the demand for the ATC network and the infrastructure that enables access to airspace and integration of users. It also determines our staffing and capital investment. We operate a joint and integrated civil military operation with the MOD.	We consult airspace users, airports and the public on their priorities and our plans for our regulated activities for each price control period, most recently NR23. We reflect on their feedback and update our plans accordingly before review by the CAA. We engage biannually with airspace users on our service performance, our charges, cost efficiency and our capital investment plans. We have discussed preparations for summer 2024 across Europe with Eurocontrol (the network manager), airlines and airports and other key stakeholders and hold discussions with the industry ahead of weather events. We are consulting the industry on our initial proposals for NATS OpenAir, a new air traffic management service enabling an integrated airspace for both existing and new types of airspace users.
EMPLOYEES	Our ATC service and infrastructure depends on the skill and professionalism of our employees. They make a critical difference to our success, and our investment in them protects and strengthens our safety and business culture. Most of our employees are members of trades unions.	The executive and senior leaders have an open dialogue with trades unions and receive feedback on pay and benefits, a safe and healthy working environment, flexible working, talent development and career opportunities, and a diverse and inclusive culture. The CEO and executive communicate regularly to employees via our intranet and to senior leaders in regular virtual meetings. The Board receives a monthly report from the CEO which includes employee relations, diversity and inclusion and other employee matters. The Board collectively seeks opportunities to engage with groups of employees during the year. We operate a Just Safety culture, enabling employees to raise safety matters, and we seek feedback on a safety culture survey. We also survey employee wellbeing and maintain a whistleblowing facility. We conduct employee opinion surveys to understand how colleagues feel and where we can improve. The March 2023 b-Heard survey is a baseline for our strategic objective to be a top 25 company to work for by 2040. Further details on the Board's regard to employees in its decision-making is provided below.
REGULATORS:	Our regulators ensure we provide our service and develop our infrastructure in accordance with our ATC licence and international safety standards. Ensuring we fulfil our licence obligations and develop the business for the long-term ensures the success of the company for all our stakeholders.	As economic regulator, the CAA consulted stakeholders on our plan for NR23 ahead of determining the charges, safety, service performance and capital investment targets and incentives. We engaged with them and provided feedback on the balance of service targets and incentives, risk mechanisms and financial resources. The CAA appointed an independent panel to review the technical issue we faced in August 2023. We shared the results of our internal investigation into the incident and the Executive and Board supported the panel's review. The CAA's safety regulator oversees the safety integrity of our training, operational processes and technical systems and we receive recommendations on improvements, which we implement to ensure safety standards are met. The CAA approves changes to airspace design over the UK by reference to legal requirements including safety, environment and user need.
GOVERNMENT	The government sets UK Aviation Strategy which provides a long-term vision for the industry and a framework for future ATC provision.	The CEO maintains a regular dialogue with the Department for Transport. The government engages on aviation policy that affects NATS, including preparations for summer 2024.
SHAREHOLDERS	Our shareholders provide equity investment which finances our activities and enables us to invest in our ATC service and infrastructure, for which they expect a return. An employee share trust owns 5% of the company which enables employees to share in the company's long-term success.	The Board Chair, CEO and CFO met informally with shareholders and discussed the Board's strategy review and alignment with shareholder interest and the NR23 price control. The Strategic Partnership Agreement enables shareholders to appoint representatives to the Board. Shareholders wish to see remuneration policies which drive executive management to deliver strong sustainable performance aligned with the interests of key stakeholders.
COMMUNITIES AND ENVIRONMENT	Local communities around airports expect the aviation sector to pay attention to aircraft noise, fuel and CO_2 emissions and local air quality. Our ATC service can help mitigate some environmental impacts. Society expects improvements in sustainability, and we are committed to net zero greenhouse gas emissions from our estate by 2035, being carbon negative by 2040 and being an enabler to aviation's target of net zero by 2050. We are a significant employer where our UK operations are based.	We follow the CAA's guidance on public consultation on airspace use, aircraft movements and environmental impacts. We work with communities affected by flights below 7,000ft at an early stage of any airspace change, to ensure they have a voice in airspace design. Changes mean some communities may be subject to more overflights than previously, while others are no longer overflown. Following consultation, we appraise design options before making our recommendation to the CAA.
LENDERS	Lenders provide debt finance that we repay over time and compensate by way of a commercial return. Access to debt finance is necessary to fund our business activities efficiently.	We meet lenders at least annually to discuss our performance, business plan and capital investment. Lenders wish to understand the company's financial strength over the long-term, the principal risks it faces and ESG matters. The importance of these relationships was demonstrated by NERL's June 2021 refinancing which secured funding of £1.6bn and the further £145m bond issued in March 2023.
SUPPLIERS	Our suppliers provide goods and services to maintain and develop our operation. Working closely with them minimises risk and combines our expertise to develop innovative ATC solutions. We engage with them on ESG matters.	Our supply chain management approach involves regular and ongoing engagement with suppliers for procurement, risk management and performance measurement. We complete due diligence using industry JOSCAR methodology. We tailor engagement to critical suppliers and undertake Executive reviews, conferences and joint workshops. Our approach is an open and constructive relationship based on fair terms, good performance and high standards of conduct. We are ISO44001 accredited and hold CIPS Platinum standard of assurance.

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. In doing so the directors have regard, to the long-term success of the business, the way we work with a large number of important stakeholders, and the importance of maintaining high standards of business conduct. The directors also have regard to the impact of the company's operations on the community and the environment.

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

How our Board and its committees operate, and the way decisions are reached, including the matters discussed during the year, are set out in the Governance section on pages 26 to 28.

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 3,378 employees and 127 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: the Board received reports from the Executive on the actions being taken to address the three b-Heard survey topics employees felt most strongly about: opportunities for personal growth, strength of leadership and support for local communities. The survey is the baseline for our strategic objective to be a Top 25 UK company to work for by 2040. The CEO, CFO and Director of Operations engaged directly with employee representatives at the annual trades union conference. Through the year, the CEO, CFO and wider Executive team also engaged with employees on the group's strategy, the NR23 price control decision, the August 2023 technical incident and other business developments.

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

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

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

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

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

August technical incident (see page 4): this was a matter of significant focus for the Board, which considered service resilience, technical resilience and safety performance, the service impacts on airline and airport customers and passengers, communications with the Department for Transport and the CAA and the responses from stakeholders. The Board's Transformation Review Committee assessed the cause of the technical incident and the remedial actions taken. The TRC and Safety Review Committee assured themselves that the overriding priority had been to maintain safety. The TRC oversaw NATS Major Incident Report and its recommended improvements. The Executive and NERL's Board supported the CAA's independent panel investigation, meeting with the panel to enable questions to be asked directly of NERL. The panel also met separately with Paul Golby (NATS Chair) and Greg Bagwell (Safety Review Committee Chair and member of the Transformation Review Committee). The Board studied the independent panel's Interim report.

NR23 price control (see page 4): a Board sub-committee comprising Paul Golby, Martin Rolfe, Alistair Borthwick, Harry Bush, Mike Campbell and David Smith met regularly during the financial year to oversee the CAA's proposals for NR23 and the balance of safety, service performance and investment priorities that benefit airspace users and the flying public, and returns to shareholders. The Board assessed the CAA's final decision and were very concerned with residual challenging service targets and the level of investment returns proposed. However, overall, the Board accepted the balance of operational and financial resources having regard to the interests of members, employees, airspace users, passengers and wider society.

Strategy review (see page 3) and annual business plan alignment: the Board held a strategy workshop which reviewed the progress to embed the four strategic objectives into business plans and, in March 2024, it approved the group's budget for 2025 and the three-year business plan, aligned to the strategy. Significant attention in the year was given to post-Covid challenges to technical engineering capacity, to be mitigated by greater contracted resources, and the alignment of capital investment priorities with available engineering capacity.

Traffic forecast (see page 8): the Board reviewed and approved NATS' internal long term forecast to 2040 for business planning. It reflects the macro-economic outlook and the DfT's Jet Zero sustainability strategy policies. The Board's understanding of the volume of air traffic in future is relevant to its assessment of the balance between, and allocation of resources to maintaining safety performance, service performance and resilience, ATCO resourcing and training plans and infrastructure investment, which determine future airspace capacity for airspace users. The Board was also concerned with the impact on shareholder returns during NR23 from the projected loss of income from volumes below those assumed by the price control.

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

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 the shareholders' investment and group assets, ensuring it delivers value to shareholders and fulfils its wider role as a provider of critical national infrastructure.

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 2023 to the date of approval of the accounts, there were the following changes to directors: Kathryn Leahy resigned on 4 June 2023 and was replaced by Ross Baker on 30 November 2023.

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 nine 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 10 years. His contract was extended in 2023 for a further year, to provide continuity ahead of the CAA final decision on NR23, and will expire on 31 August 2024. Warren East has been appointed as his successor and will start on 1 September 2024.

The Chair's period of service to the NERL Board is eight 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 2025. 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 2024 was as follows:

Name	Date of appointment	Years of service to 31 March 2024
Paul Golby	1/4/16	8 years
Maria Antoniou	1/8/16	7 years 8 months
Greg Bagwell	1/10/22	1 year 6 months
Ross Baker	30/11/23	4 months
Harry Bush	1/4/16	8 years
Mike Campbell	26/5/17	6 years 10 months
Gavin Merchant	1/4/16	8 years
Bart Prudon	30/3/23	1 year
David Smith	1/10/22	1year 6 months
Louise Street	29/11/18	5 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 formal 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 2024.

The Governance report is set out on pages 26 to 28 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 (2023: nil). The Board recommends a final dividend for the year of nil (2023: nil).

Directors and their interests

The directors of the company at the date of this report, 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

Ross Baker (appointed 30 November 2023)

Alistair Borthwick

Dr Harry Bush CB

Michael Campbell

Dr Paul Golby CBE

Kathryn Leahy (resigned 4 June 2023)

Gavin Merchant

Bart Prudon

Martin Rolfe

David Smith

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 hosts a quarterly executive open session for the whole organisation and a separate quarterly update for the wider management team. The CEO also hosts a monthly call with his senior leadership team. His weekly written update on the company's intranet has a 75% readership. Such actions enable employees to achieve a common awareness of those factors affecting the performance of the company. An employee engagement survey was conducted in

March 2023 and its feedback is shaping improvement plans. Also, employees' views are represented through an open dialogue with Prospect and the Public and Commercial Services Union (PCS), the recognised unions on all matters affecting employees. Formal arrangements for consultation with employees exist through a local and company-wide framework agreed with the Trades Unions.

The 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 and Sustainability Director.

Business relationships

We explain on pages 23 to 25 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 18.

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

Following the mandatory re-tender of the audit explained in the annual report of NATS Holdings Limited, the Board has resolved to appoint EY as statutory auditor for the financial year ending 31 March 2025.

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

Richard Churchill-Coleman

Secretary

27 June 2024

Registered office

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

Registered in England and Wales

Company No. 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 2024 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 2024 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 material accounting policy information. 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 2024 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 10 years, covering the years ended 31 March 2015 to 31 March 2024. 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 2024 through to at least June 2025.
- 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 voluntary reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

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

Overview

Key audit matters

	2024	2023
Recognition of licence fee revenue and amounts recoverable under regulatory agreement	No	Yes
Impairment of assets in the course of construction	Yes	Yes
Valuation of pension scheme liabilities	Yes	Yes
Valuation of certain pension scheme assets	Yes	Yes

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

Materiality

Company financial statements as a whole

£12.6m based on 4.6% of adjusted profit before tax (2023: £5.4m based on 0.9% of operating costs). Profit before tax was adjusted for the COVID income shortfall of £123.3m which is a one off item.

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 Recognition of licence fee revenue and amounts recoverable under regulatory agreement which is no longer deemed a key audit matter.

Key audit matters

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

Key audit matter		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 £380.9m (2023: £418.0m) and within property, plant and equipment is £145.9m (2023: £178.8m). 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 fixed assets and checking the appropriateness of their conclusions through discussions with 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 held discussions with the project managers and reviewed the performance to date against the expected performance. • Testing the operating effectiveness of the control relating to the review and documentation which takes place on a project-by-project basis. • Reviewing the related disclosures within the financial statements and checking that they complied with the requirements of the accounting standards. **Key observations** We consider that the impairment of assets under the course of construction is appropriately treated and the related disclosures to be acceptable.

Key audit matter		How the scope of our audit addressed the key audit matter
Valuation of pension scheme liabilities As disclosed in note 28, the Company has recorded a gross defined benefit obligation of £2,524.0m (2023: £2,616.8m) 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 Company's balance sheet is significant and the valuation is subjective. The determination of the gross defined benefit obligation is subject to a significant level of estimation uncertainty, based on the use of actuarial assumptions. When making these assumptions, the Directors take independent actuarial advice relating to their appropriateness. As a result of the above the valuation of pension scheme liabilities and the related disclosures were considered an area of focus for our audit.	Our procedures included: • With the 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 and the related disclosures to be appropriate.

Key audit matter		How the scope of our audit addressed the key audit matter
Valuation of certain pension scheme assets As disclosed in note 28, the Company had £2,534.1m (2023: £2,660.7m) 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 £277.0m (2023: £272.1m) of plan assets.	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. As a result of the above the valuation of hedge fund and private equity fund scheme assets were considered an area of focus for our audit.	Our procedures included: • Comparing the values of investments held at the balance sheet date to external investment manager asset confirmations and statements to confirm the accuracy of the underlying valuation. • Assessing the competence of the investment fund managers and, where different, the valuers, by obtaining and reviewing relevant controls reports to understand the controls they have in place over valuation and to identify any control findings which might impact the reliability of the valuations. • Where control reports or bridging letters were not available, confirming the reasonableness of asset valuations and movements to corroborating evidence such as audited accounts. • 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 management's assessment of the existence of any significant valuation movements between the date of the most recent audited financial statements of the private equity funds and the balance sheet date, with reference to any available relevant market data. Key observations As a result of performing the procedures above, we found that the valuation of hedge fund and private equity fund plan assets to be appropriate.

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.

Our application of materiality (continued)

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

	Company financial statements	
	2024	2023
Materiality	£12.6m	£5.4m
Basis for determining materiality	4.6% of adjusted profit before tax	0.9% of operating costs
Rationale for the benchmark applied	In November 2023 the CAA published their final licence fee entitlement decision in respect of both the previous price control period being calendar years 2020 to 2022 and the next price control period from 1 January 2023 – 31 December 2027. As a result of this certainty regarding the licence fee and return to the pre-COVID-19 regulatory framework we now consider adjusted profit before tax to be the most appropriate measure on which to base materiality. Profit before tax was adjusted for the COVID income shortfall of £123.3m which is a one off item.	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.
Performance materiality	£9.5m	£4.1m
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 £252,000 (2023: £108,000). 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 page 17 to 18; 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 18.
Other Code provisions	• Directors' statement on fair, balanced and understandable as set out on page 31; • Board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out on 19; • The section of the Financial statements that describes the review of effectiveness of risk management and internal control systems as set out on page 19; and • The section describing the work of the audit committee. As set out on page 28, 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

Based on:
- Our understanding of the Company and the industry in which it operates;
- Discussion with management, those charged with governance and the Audit Committee of the Parent Company; and
- Obtaining and understanding of the Company's policies and procedures regarding compliance with laws and regulations.

We considered the significant laws and regulations that could give rise to a material misstatement in the financial statements to be the Companies Act 2006, UK adopted international accounting standards, pension's legislation, tax legislation, the licence granted under the Transport Act 2000 and economic regulation regulated by the CAA.

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

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

Non-compliance with laws and regulations (continued)

Our procedures in respect of the above included:
- Enquiries of management, those charged with governance and the Audit Committee regarding any non-compliance with laws and regulations;
- Review of minutes of meetings of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;
- Review of legal confirmation letter responses obtained from the Company's key legal advisors;
- Review of financial statement disclosures and agreeing to supporting documentation;
- Involvement of tax specialists in the audit; and
- Review of legal expenditure accounts to understand the nature of expenditure incurred.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:
- Enquiry with management, those charged with governance and the Audit Committee of the Parent Company, regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Company's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

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

Our procedures in response to the above included:
- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation;
- Performing testing to identify journal entries impacting revenue which did not follow the expected business process; and
- Assessing significant assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to the valuation of certain defined benefit pension assets, the valuation of pension scheme liabilities and impairment of assets in course of construction as set out in the Key Audit Matters above.

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

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

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

Use of our report

This report is made solely to the 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

27 June 2024

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	2024 £m	2023 £m
Revenue from contracts with customers	4	881.3	715.2
Regulatory allowances under-recovered	4	136.5	41.0
Other revenue	4	11.7	26.2
Total revenue and regulatory allowances		1,029.5	782.4
Staff costs	7	(357.4)	(356.3)
Services and materials		(71.7)	(61.2)
Repairs and maintenance		(48.7)	(41.1)
External research and development		(0.8)	(0.7)
Depreciation, amortisation and impairment of property, plant, equipment, intangible and right-of-use assets	6	(115.9)	(98.6)
Change in expected credit losses	16	0.4	0.8
Other operating charges		(59.4)	(54.5)
Other operating income		5.6	2.8
Loss on disposal of non-current assets		(0.2)	-
Deferred grants released	6	0.2	0.2
Net operating costs		(647.9)	(608.6)
Operating profit	6	381.6	173.8
Investment income	8	49.8	26.0
Fair value movement on derivative contracts	9	(9.0)	(13.7)
Finance costs	10	(25.4)	(29.6)
Profit before tax		397.0	156.5
Tax	11	(97.2)	(31.8)
Profit for the year attributable to equity shareholders		299.8	124.7

Statement of comprehensive income

for the year ended 31 March

	Notes	2024 £m	2023 £m
Profit for the year after tax		299.8	124.7
Items that will not be reclassified subsequently to profit and loss:			
Actuarial loss on defined benefit pension scheme	28	(111.8)	(227.8)
Deferred tax relating to actuarial loss on defined benefit pension scheme	23	8.5	50.9
Currrent tax relating to actuarial loss on defined benefit pension scheme	11	19.4	2.9
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of hedging derivatives		(1.6)	2.7
Transfer to income statement on cash flow hedges		0.1	(0.9)
Deferred tax relating to items that may be reclassified subsequently	23	0.4	(0.3)
Other comprehensive loss for the year, net of tax		(85.0)	(172.5)
Total comprehensive income/(loss) for the year attributable to equity shareholders		214.8	(47.8)

Balance sheet
at 31 March

	Notes	2024 £m	2023 £m
Non-current assets			
Goodwill	12	38.3	38.3
Other intangible assets	13	697.2	681.4
Property, plant and equipment	14	390.5	410.5
Right-of-use assets	15	31.4	34.7
Retirement benefit asset	28	10.1	43.9
Trade and other receivables	16	6.4	8.4
Amounts recoverable under regulatory agreement	16	575.3	631.1
Derivative financial instruments	19	0.1	1.5
		1,749.3	1,849.8
Current assets			
Trade and other receivables	16	156.5	139.2
Amounts recoverable under regulatory agreement	16	223.7	100.2
Current tax assets		12.6	1.3
Cash and cash equivalents	20	91.1	57.7
Derivative financial instruments	19	2.0	1.5
		485.9	299.9
Total assets		2,235.2	2,149.7
Current liabilities			
Trade and other payables	21	(122.9)	(119.2)
Amounts payable under regulatory agreement	21	(9.3)	(91.4)
Borrowings	17	(104.0)	(45.0)
Lease liabilities	18	(6.0)	(6.7)
Provisions	22	(1.7)	(0.2)
Derivative financial instruments	19	(13.8)	(12.6)
		(257.7)	(275.1)
Net current assets		228.2	24.8
Non-current liabilities			
Trade and other payables	21	(77.2)	(78.7)
Amounts payable under regulatory agreement	21	(45.5)	(50.2)
Borrowings	17	(760.9)	(866.4)
Lease liabilities	18	(37.2)	(42.8)
Deferred tax liability	23	(205.4)	(195.6)
Provisions	22	(9.3)	(11.4)
Derivative financial instruments	19	(68.2)	(70.5)
		(1,203.7)	(1,315.6)
Total liabilities		(1,461.4)	(1,590.7)
Net assets		773.8	559.0
Equity			
Called up share capital	24	10.0	10.0
Hedge reserve		(0.4)	0.7
Special reserve		34.9	34.9
Other reserves		4.7	5.6
Retained earnings		724.6	507.8
Total equity		773.8	559.0

The financial statements (Company No. 04129273) were approved by the Board of directors and authorised for issue on 27 June 2024 and signed on its behalf by:

Martin Rolfe
Chief Executive

Alistair Borthwick
Chief Financial Officer

Statement of changes in equity
for the year ended 31 March

	Equity attributable to equity holders of the company					
	Share capital £m	Hedge reserve £m	Special reserve[1] £m	Other reserves[1] £m	Retained earnings £m	Total £m
At 1 April 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
At 1 April 2023	10.0	0.7	34.9	5.6	507.8	559.0
Profit for the year	-	-	-	-	299.8	299.8
Other comprehensive loss for the year	-	(1.1)	-	(0.9)	(83.0)	(85.0)
Total comprehensive (loss)/income for the year	-	(1.1)	-	(0.9)	216.8	214.8
At 31 March 2024	10.0	(0.4)	34.9	4.7	724.6	773.8

[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	2024 £m	2023 £m
Cash flows from operating activities			
Cash generated from operations	25	268.8	179.0
Tax paid		(55.4)	(3.3)
Net cash generated from operating activities		213.4	175.7
Cash flows from investing activities			
Interest received on short term investments		4.5	1.2
Purchase of property, plant and equipment and other intangible assets		(105.6)	(112.1)
Net cash outflow from investing activities		(101.1)	(110.9)
Cash flows from financing activities			
Interest paid		(2.9)	(19.0)
Interest received on derivative financial instruments		8.5	7.3
New bonds issued		-	105.5
Bond arrangement fees		-	(1.3)
Drawdown of bank loan under the £400m revolving facility		-	40.0
Repayment of bank loan under the £400m revolving facility		(65.0)	(175.0)
Principal paid on lease liabilities		(7.3)	(5.8)
Interest paid on lease liabilities		(1.0)	(1.3)
Index-linked swaps payments		(10.8)	(8.0)
Bank facility fees		(0.4)	(0.4)
Net cash outflow from financing activities		(78.9)	(58.0)
Increase in cash and cash equivalents during the year		33.4	6.8
Cash and cash equivalents at 1 April		57.7	50.9
Cash and cash equivalents at 31 March		91.1	57.7
Net debt (representing borrowings and lease liabilities, net of cash and cash equivalents (see notes 20 and 25))		(817.0)	(903.2)

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 31. 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 the Strategic report above. 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.

At 31 March 2024, the company had access to liquidity of £491m comprising cash of £91.1m and undrawn committed bank facilities of £400.0m. At 27 June 2024, the company had access to cash and undrawn bank facilities of around £470m.

When considering the appropriateness of the going concern basis of preparation of the financial statements, the directors have reviewed the cash flow forecasts prepared by management covering a period to 28 June 2025, being at least 12 months from the date of approval of these financial statements. The directors have had regard to reasonably plausible changes in trading performance as well as severe traffic volume scenarios individually and in combination and the principal risks discussed on pages 19 to 22.

The severe traffic volume scenarios modelled were: an immediate 15% reduction in air traffic volumes for a 12-month period, as a proxy for a traffic shock such as a major geopolitical incident and subsequent recession, being the most severe traffic scenario; a low case internal traffic forecast of 5.9% fewer flights than the NR23 decision assumed; an unplanned increase in operating costs; and unremunerated increases in defined benefit pension contributions. Finally, a combination scenario was also performed of lower air traffic volumes, higher operating costs and higher pension contributions. Under the most severe scenario the company maintains adequate liquidity (of £291m) and headroom (gearing at 51%) to meet its debt covenant (85%), prior to mitigating actions (such as other cost saving measures and deferring capital investment).

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

Accounting standards

The financial statements have been prepared in accordance with 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:

- IFRS 17: *Insurance Contracts*, effective 1 January 2023 sets out the principles for the recognition, measurement,

presentation and disclosure of insurance contracts within the scope of the standard.

- IAS 1 (amendments): *Disclosure of Accounting Policies*, effective 1 January 2023 requires an entity to disclose their material rather than their significant accounting policies.
- IAS 8 (amendments): *Definition of Accounting Estimates*, effective 1 January 2023 clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates.
- IAS 12 (amendments): *Deferred tax related to Assets and Liabilities arising from a Single Transaction* effective 1 January 2023 requires companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences, and will require the recognition of additional deferred tax assets and liabilities.
- IAS 12 (amendments): *OECD Pillar Two Rules* effective immediately require large multinational enterprises within the scope of the rules to calculate their GloBE (Global Anti-Base Erosion Proposal) effective tax rate for each jurisdiction in which they operate. They will be liable to pay a top-up tax for the difference between their GloBE effective tax rate per jurisdiction and the 15% minimum rate.

Future accounting developments

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

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

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

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.

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

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, 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 7.5% was determined for 2024 (2023: 5%), reflecting market precedent transactions and an independent assessment undertaken in 2024 - see notes 3 and 12.

Property, plant and equipment

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

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

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

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

Borrowing costs

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

For 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.

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

Leases

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

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

Measurement at inception

At the lease commencement date the lessee will recognise:

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

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

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

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

Ongoing measurement

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

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

When the 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 and low-value 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.

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, at the earlier of the date the defined benefit scheme is amended or any associated restructuring cost is recognised to the extent that the benefits are already vested.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories, which are reported in aggregate (see note 28):

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

Cash and cash equivalents

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

Financial liabilities

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

Fair value through the profit or loss

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

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

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

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

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.

3. Critical judgements and key sources of estimation uncertainty

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

Recognition of regulatory assets and liabilities (notes 16 and 21)

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

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

Unlike other economically regulated sectors, such as water and power, air travel is a discretionary consumer expense and thus it is susceptible to a greater volatility of demand. The consumer demand for air travel has a direct bearing on the volume of flights in UK airspace and therefore the income that NERL earns from the flights that it handles. As the UK's

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

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

Retirement benefits (see note 28)

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 2024 the funding position of the scheme reported in the financial statements was a surplus of £10.1m (2023: £43.9m) on liabilities of £2,524.0m (2023: £2,616.8m).

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

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

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

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.

In carrying out impairment reviews of goodwill, intangible, tangible and right-of-use assets, (including assets in the course of construction), a number of significant assumptions have to be made when preparing cash flow projections from which to determine value in use and also in assessing fair values less costs of disposal (see judgement relating to goodwill below). These include air traffic growth, the extent and timing of future cash flows and realisation of contract pipeline revenue, the value of the regulated asset bases (RAB – see below), the scope for outperformance of the regulatory contract, market premia for transactions in similar economically regulated businesses, 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 7.5% (2023: 5.0%). This reflected market precedent transactions in the year and the result of an independent assessment which had regard to the CAA's NR23 regulatory settlement and the outlook for air traffic volumes.

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

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

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

4. Total revenue and regulatory allowances

The company has recognised the following revenue and regulatory allowances in the income statement:	2024 £m	2023 £m
Revenue from contracts with customers	881.3	715.2
Regulatory allowances under-recovered	136.5	41.0
Other revenue: EU funding passed to UK en route customers (see note 4a)	7.7	22.7
Other revenue: rental and sub-lease income	4.0	3.5
Total revenue and regulatory allowances (see operating segments)	1,029.5	782.4

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 contracts 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)

	2024			2023		
	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	725.1	-	725.1	576.5	-	576.5
London Approach services	15.7	-	15.7	13.5	-	13.5
Infrastructure services to the MOD	44.2	-	44.2	41.4	-	41.4
Services for North Sea helicopters	9.3	-	9.3	8.8	-	8.8
Other income	2.5	-	2.5	4.0	-	4.0
	796.8	-	796.8	644.2	-	644.2
North Atlantic air traffic services:						
Services to oceanic en route customers	54.2	-	54.2	43.7	-	43.7
Intercompany revenue	-	25.2	25.2	-	21.2	21.2
Total Airspace revenue from contracts with customers	851.0	25.2	876.2	687.9	21.2	709.1
Other Service lines	5.1	-	5.1	6.1	-	6.1
Total revenue from contracts with customers	856.1	25.2	881.3	694.0	21.2	715.2
Regulatory allowances under-recovered						
Airspace						
UK air traffic services:						
Services to UK en route customers	133.5	-	133.5	41.5	-	41.5
London Approach services	3.0	-	3.0	(0.5)	-	(0.5)
Total regulatory allowances under-recovered	136.5	-	136.5	41.0	-	41.0
Other revenue: EU funding passed to UK en route customers						
Airspace	7.7	-	7.7	22.7	-	22.7
Other revenue: rental and sub-lease income						
Airspace	1.0	1.0	2.0	1.5	0.8	2.3
Other Service lines	2.0	-	2.0	1.2	-	1.2
Total revenue from other sources	3.0	1.0	4.0	2.7	0.8	3.5
Total revenue and regulatory allowances	1,003.3	26.2	1,029.5	760.4	22.0	782.4

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

EC Regulations require that European funding for SESAR deployment received by ANSPs should ultimately be passed on to airspace users through a discount in the unit rate charge for UK en route services. In the financial year ended 31 March 2024, £7.7m (2023: £22.7m) of European funding was passed to airspace users. Accordingly, an equivalent amount was released from contract liabilities to offset the cost of the discount.

Regulatory allowances under-recovered includes £123.3m following confirmation by the CAA of the Covid income shortfall, recognised at 31 March 2023 as variable consideration (2023: £23.2m, based on CAA's initial proposals, published October 2022, for the Covid income shortfall).

Intercompany revenue includes revenue for services to NATS (Services) Limited of £26.1m (2023: £21.9m) and to NATSNav Limited of £0.1m (2023: £0.1m).

4. Total revenue and regulatory allowances (continued)

b) Revenue and regulatory allowances disaggregated based on economic regulation

	2024			2023		
	External £m	Intercompany £m	Total £m	External £m	Intercompany £m	Total £m
Regulated income						
Airspace						
Services to UK en route customers	725.1	-	725.1	576.5	-	576.5
London Approach services	15.7	-	15.7	13.5	-	13.5
Services to oceanic en route customers	54.2	-	54.2	43.7	-	43.7
Revenue from contracts with customers	795.0	-	795.0	633.7	-	633.7
Regulatory allowances under-recovered	136.5	-	136.5	41.0	-	41.0
Other revenue: EU funding passed to UK en route customers	7.7	-	7.7	22.7	-	22.7
Total regulated income	939.2	-	939.2	697.4	-	697.4
Non-regulated income						
Airspace						
Infrastructure services to the MOD	44.2	-	44.2	41.4	-	41.4
Services for North Sea helicopters	9.3	-	9.3	8.8	-	8.8
Other income	2.5	-	2.5	4.0	-	4.0
Intercompany revenue	-	25.2	25.2	-	21.2	21.2
Other Service lines	5.1	-	5.1	6.1	-	6.1
Revenue from contracts with customers	61.1	25.2	86.3	60.3	21.2	81.5
Other revenue: rental and sub-lease income	3.0	1.0	4.0	2.7	0.8	3.5
Total non-regulated income	64.1	26.2	90.3	63.0	22.0	85.0
	1,003.3	26.2	1,029.5	760.4	22.0	782.4

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.

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

	2024			2023		
	External £m	Intercompany £m	Total £m	External £m	Intercompany £m	Total £m
Over time						
Revenue from contracts with customers	856.1	25.2	881.3	694.0	21.2	715.2
Regulatory allowances under-recovered	158.7	-	158.7	53.2	-	53.2
Other revenue: EU funding passed to UK en route customers	7.7	-	7.7	22.7	-	22.7
Other revenue: rental and sub-lease income	3.0	1.0	4.0	2.7	0.8	3.5
	1,025.5	26.2	1,051.7	772.6	22.0	794.6
At a point in time						
Regulatory allowances over-recovered	(22.2)	-	(22.2)	(12.2)	-	(12.2)
	1,003.3	26.2	1,029.5	760.4	22.0	782.4

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:

	2024	2023
	£m	£m
Revenue and regulatory allowances, including Other revenue: EU funding passed to UK en route customers		
United Kingdom	369.1	279.0
Other European countries	195.0	148.5
United States of America	151.0	112.5
Republic of Ireland	122.2	94.4
Countries in Asia	83.5	60.9
Germany	63.6	50.4
Other North American countries	32.4	26.5
Countries in Africa	5.4	4.3
Countries in South America	1.7	1.2
Countries in Oceania	1.6	1.2
	1,025.5	778.9
Other revenue: rental and sub-lease income		
United Kingdom	4.0	3.5
	4.0	3.5
	1,029.5	782.4

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

Contract liabilities from contracts with customers are disclosed in note 21. There were no contract assets at 31 March 2023 or 31 March 2024. Significant changes in the contract liabilities balances during the year are as follows.

	Contract liabilities	
	2024	2023
	£m	£m
At 1 April	(66.5)	(82.6)
Opening contract liabilities which have now been recognised as revenue	12.0	29.6
Increases due to cash received, excluding amounts recognised as revenue during the year	(3.2)	(13.5)
At 31 March	(57.7)	(66.5)

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 2024, a reduction of £22.2m was recognised for regulatory allowances over-recovered for performance obligations satisfied in previous periods (2023: £12.2m). The year ended 31 March 2024 amount represents the difference between actual pension contributions and the regulator's assumption for NR23 whilst the prior year amount related to the return of savings made during the pandemic, primarily as a result of staff redundancies.

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 £nil (2023: £1.0m in relation to Other Service lines).

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 £0.1m loss (2023: £0.9m 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 before tax is provided below:

	2024 £m	2023 £m
Airspace	554.8	340.6
Other Service lines	6.5	6.2
Service line contribution	561.3	346.8
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	(115.7)	(98.4)
Loss on disposal of non-current assets	(0.2)	-
Employee share scheme costs	(4.2)	(5.4)
Redundancy costs	(1.1)	(0.1)
Other costs not directly attributed to service lines	(62.2)	(70.7)
R&D expenditure above the line tax credits	3.7	1.6
Investment income	49.8	26.0
Fair value movement on derivative contracts	(9.0)	(13.7)
Finance costs	(25.4)	(29.6)
Profit before tax	397.0	156.5

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

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

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:

	2024			2023		
	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	975.3	54.2	1,029.5	738.7	43.7	782.4
Operating costs	(607.2)	(40.7)	(647.9)	(570.8)	(37.8)	(608.6)
Operating profit	368.1	13.5	381.6	167.9	5.9	173.8

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 £109.0m (2023: £103.8m) and Other Service lines £0.9m (2023: £3.3m).

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	
	2024 £m	2023 £m
United Kingdom	1,162.7	1,171.9
Other European Countries	0.7	0.8
United States of America	0.2	0.3
	1,163.6	1,173.0

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):

	2024 £m	2023 £m
The CAA regulatory charges	4.9	5.4
Amortisation of intangible assets (note 13)	49.7	40.9
Impairment of intangible assets (note 13)	11.8	9.3
Depreciation of property, plant and equipment (note 14)	46.1	43.4
Impairment of property, plant and equipment (note 14)	4.3	0.4
Depreciation of right-of-use assets (note 15)	4.0	4.6
Deferred grants released	(0.2)	(0.2)
Research and development costs	6.8	4.7
Redundancy costs	1.1	0.1
R&D expenditure above the line tax credits	(3.7)	(1.6)
Foreign exchange (losses)/gains	(0.9)	2.7
Auditors remuneration for audit services (see below)	-	-

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

	2024 £m	2023 £m
Net charges for services provided by parent undertaking	14.2	13.8
Charges for services provided by other group companies	19.4	18.3
Charges for seconded staff under the terms of the ISA provided by NATS Limited (see below)	395.7	390.2

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

	2024 £m	2023 £m
Salaries and staff costs were as follows:		
Wages and salaries	296.5	273.0
Employee share scheme costs (note 27)	4.2	5.4
Social security costs	35.8	35.1
Pension costs (note 7b)	59.0	76.7
	395.5	390.2
Less: Amounts capitalised	(38.1)	(33.9)
	357.4	356.3

Wages and salaries include other allowances and holiday pay.

b) Pension costs (see note 28)

	2024 £m	2023 £m
Defined benefit scheme	30.1	53.8
Defined contribution scheme	28.9	22.9
	59.0	76.7

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

c) Staff numbers

	2024 No.	2023 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	1,181	1,160
Air traffic service assistants	515	496
Engineers	665	654
Others	921	820
	3,282	3,130
The number of employees (including executive directors) in post at 31 March was:	3,378	3,179

8. Investment income

	2024 £m	2023 £m
Interest on bank deposits	4.5	1.4
Other loans and receivables	45.3	24.6
	49.8	26.0

Interest on bank deposits has been earned on financial assets, including cash and cash equivalents and short term investments. Other loans and receivables includes £8.8m (2023: £8.5m) in relation to the effect of unwinding the discount on amounts receivable after more than one year.

9. Fair value movement on derivative contracts

	2024 £m	2023 £m
Charge arising from change in the fair value of derivatives not qualifying for hedge accounting	(9.0)	(13.7)

10. Finance costs

	2024 £m	2023 £m
Interest on bank loans and hedging instruments	1.3	7.3
Bond and related costs including financing expenses	19.7	14.1
Interest on lease liabilities (see note 18)	1.0	1.3
Other finance costs	3.4	6.1
One-off re-financing costs	-	0.8
	25.4	29.6

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

11. Tax

	2024 £m	2023 £m
Corporation tax		
Current tax	73.4	11.5
Group relief payable	9.2	-
Adjustments in respect of prior year	(4.1)	-
	78.5	11.5
Deferred tax (see note 23)		
Origination and reversal of temporary timing differences	15.7	21.8
Adjustments in respect of prior year	3.0	1.7
Effects of tax rate change on opening balance	-	(3.2)
	18.7	20.3
	97.2	31.8

Corporation tax is calculated at 25% (2023: 19%) of the estimated assessable profit for the year.

The total tax charge for the year can be reconciled to the profit per the income statement as follows:	2024 £m	2024 %	2023 £m	2023 %
Profit on ordinary activities before tax	397.0		156.5	
Tax on profit on ordinary activities at standard rate in the UK of 25% (2023: 19%)	99.3	25.0%	29.7	19.0%
Tax effect of change in corporation tax rate from 19% to 25%	-	-	0.6	0.4%
Tax effect of prior year adjustments - current tax	(4.1)	(1.0%)	-	-
Tax effect of prior year adjustments - deferred tax	3.0	0.8%	1.7	1.1%
Patent box (1)	(1.4)	(0.4%)	(1.2)	(0.8%)
Employee share scheme (2)	1.0	0.3%	1.0	0.6%
R&D expenditure credits	(0.2)	(0.1%)	-	-
Group relief received but not paid for	(0.2)	(0.1%)	-	-
Other permanent differences	(0.2)	-	-	-
Total tax charge for year at an effective tax rate of 24.5% (2023: 20.3%)	97.2	24.5%	31.8	20.3%
Deferred tax credit taken directly to equity (see note 23)	(8.9)		(50.6)	

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

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

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.

11. Tax (continued)

Detailed reconciliation of the current tax charge

	2024		2023	
The current tax charge for the year can be reconciled to the profit per the income statement as follows:	£m	%	£m	%
Profit on ordinary activities before tax	397.0		156.5	
Tax on profit on ordinary activities at standard rate in the UK of 25% (2023: 19%)	99.3	25.0%	29.7	19.0%
Expenses not deductible for tax purposes				
- employee share scheme costs	1.0	0.3%	1.0	0.6%
- patent box	(1.4)	(0.4%)	(1.2)	(0.8%)
- R&D expenditure tax credit	(0.2)	(0.1%)	0.2	0.1%
- pension contributions paid in excess of charge to income statement	(19.4)	(4.9%)	(2.9)	(1.8%)
- group relief received but not paid for	(0.2)	(0.1%)	-	-
Capital allowances in excess of depreciation				
- capital allowances	(31.7)	(7.9%)	(16.3)	(10.4%)
- depreciation and amortisation on eligible assets	28.0	7.1%	14.3	9.1%
Other temporary differences - fixed assets				
- capitalised revenue expenditure	(5.9)	(1.5%)	-	-
- amortisation of capital grants	(0.7)	(0.2%)	-	-
Other temporary timing differences				
- provisions	0.3	0.1%	0.6	0.4%
- index-linked swaps	(2.1)	(0.5%)	(1.7)	(1.1%)
- corporate interest restriction	-	-	(6.0)	(3.8%)
Losses brought forward	(3.6)	(0.9%)	(8.9)	(5.7%)
Other permanent differences	(0.2)	(0.1%)	(0.2)	(0.1%)
Adjustments to tax charge in respect of previous periods	(4.1)	(1.0%)	-	-
Current tax charge for year at an effective tax rate of 14.9% (2023: 5.5%)	59.1	14.9%	8.6	5.5%

The total current tax charge comprises a £78.5m charge to the Income statement (2023: £11.5m charge) and a £19.4m credit to the Statement of comprehensive income (2023: £2.9m credit) in relation to contributions to the Defined benefit pension scheme.

12. Goodwill

	£m
Cost	
At 31 March 2023 and 31 March 2024	351.0
Accumulated impairment losses	
At 31 March 2023 and 31 March 2024	312.7
Carrying amount	
At 31 March 2024	38.3
At 31 March 2023	38.3
At 1 April 2022	38.3

The amounts disclosed above relate to the Airspace service line. Its recoverable amount is determined by reference to the higher of its fair value less costs of disposal and its value in use. The valuation methodology is consistent with the IFRS 13 level 3 hierarchy.

The company tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. For goodwill held in the Airspace service line, which arose from the NATS public private partnership transaction in 2001, fair value less costs of disposal is determined by reference to the value of the regulatory asset bases (RABs) of the relevant cash generating units of UK Air Traffic Services and North Atlantic Air Traffic Services (in aggregate £2,299.6m; 2023: £1,959.1m), opportunities for out-performance of regulatory settlements and market premia for economically regulated businesses, as well as estimated costs of disposal of £1.0m. A market premium is applied to the value of the RABs. It is assessed annually by reference to market precedent transactions and an independent assessment was completed in 2024. The RAB premium at 31 March 2024 was determined to be 7.5% (2023: 5.0%). Overall, reflecting the value of the RAB and the premium assumption, goodwill was not impaired in the year (2023: £nil). This assessment reflected latest forecasts for air traffic, the CAA's NR23 regulatory settlement which reflects new projections of air traffic volumes and associated safety, service performance targets and capital investment requirements. Goodwill would be impaired if the RAB premium was assessed to be a discount of 15% (2023: 11%).

Fair value less costs of disposal was higher than value in use at 31 March 2024. The carrying value of goodwill at 31 March 2024 was not impaired (2023: not impaired) as the book value of the net assets of the Airspace service line of £1,827m (2023: £1,660m) was below the fair value less costs of disposal of £2,299m (2023: £1,958m).

13. Other intangible assets

	Operational software £m	Non-operational software £m	Airspace and resectorisation £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2022	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
Additions internally generated	4.7	0.1	1.0	24.1	29.9
Additions externally acquired	3.0	0.8	1.3	28.2	33.3
Disposals during the year	-	-	(2.3)	-	(2.3)
Transfers during the year	35.3	6.7	55.8	(83.7)	14.1
At 31 March 2024	550.0	125.7	196.9	407.2	1,279.8
Accumulated amortisation					
At 1 April 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
Charge for the year	25.6	8.5	15.6	-	49.7
Impairment provision recognised in income statement	-	-	-	11.8	11.8
Transfer of impairment provision	-	0.1	6.0	(6.1)	-
Disposals during the year	-	-	(2.3)	-	(2.3)
At 31 March 2024	363.3	114.2	78.8	26.3	582.6
Carrying amount					
At 31 March 2024	186.7	11.5	118.1	380.9	697.2
At 31 March 2023	169.3	12.5	81.6	418.0	681.4
At 1 April 2022	189.2	18.4	88.3	380.7	676.6

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 £11.8m (2023: £9.3m) were made in respect of a data integration system, within assets in the course of construction, which is no longer considered commercially viable.

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

14. Property, plant and equipment

	Freehold land and buildings £m	Improvements to leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Assets in course of construction and installation £m	Total £m
Cost						
At 1 April 2022	246.7	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
Additions during the year	0.7	-	8.6	2.2	33.2	44.7
Disposals during the year	-	-	(4.6)	-	-	(4.6)
Other transfers during the year	3.3	0.2	45.1	3.4	(66.1)	(14.1)
At 31 March 2024	251.2	41.5	1,479.3	29.7	146.5	1,948.2
Accumulated depreciation and impairment						
At 1 April 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
Provided during the year	7.7	0.8	36.5	1.1	-	46.1
Impairment provision recognised in income statement	-	-	4.3	-	-	4.3
Disposals during the year	-	-	(4.4)	-	-	(4.4)
At 31 March 2024	183.5	39.6	1,311.9	22.1	0.6	1,557.7
Carrying amount						
At 31 March 2024	67.7	1.9	167.4	7.6	145.9	390.5
At 31 March 2023	71.4	2.5	154.7	3.1	178.8	410.5
At 1 April 2022	78.6	3.0	156.5	2.5	161.9	402.5

The company conducts annual reviews of the carrying values of its property, plant and equipment, including operating assets and assets in the course of construction where there is an indicator of impairment. During the year, the company incurred impairment charges of £4.3m (2023: £0.4m) to write down the value of network infrastructure system test equipment, reflecting the limited alternative uses for this equipment.

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 £0.7m (2023: £0.9m) of general borrowing costs at a capitalisation rate of 1.51% (2023: 1.70%), in accordance with IAS 23: *Borrowing Costs*, relating to both property, plant and equipment and other intangible assets.

15. Right-of-use assets

	Leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Total £m
Cost				
At 1 April 2022	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
Additions during the year	1.1	0.3	0.6	2.0
Effect of modification to lease terms	(1.3)	-	-	(1.3)
Terminations during the year	-	-	(0.1)	(0.1)
At 31 March 2024	60.2	2.3	0.8	63.3
Accumulated depreciation and impairment				
At 1 April 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
Provided during the year	3.6	0.2	0.2	4.0
Terminations during the year	-	-	(0.1)	(0.1)
At 31 March 2024	30.1	1.6	0.2	31.9
Carrying amount				
At 31 March 2024	30.1	0.7	0.6	31.4
At 31 March 2023	33.9	0.6	0.2	34.7
At 1 April 2022	38.1	0.8	0.2	39.1

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 2024 or 31 March 2023.

16. Financial and other assets

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

Trade and other receivables

	2024	2023
	£m	£m
Non-current		
Receivable from customers gross	0.2	0.3
Prepayments	6.2	8.1
	6.4	8.4
Current		
Receivable from customers gross	149.6	136.8
Less: expected credit loss provision	(9.9)	(10.8)
	139.7	126.0
Other debtors	4.0	2.6
Amounts due from fellow subsidiary undertaking	-	0.1
Prepayments	12.8	10.5
	156.5	139.2

The average credit period on sales of services is 31 days (2023: 37 days). Interest is charged by Eurocontrol to UK en route customers at 13.26% (2023: 9.97%) on balances outstanding after more than 30 days.

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

Amounts recoverable under regulatory agreement

	2024	2023
	£m	£m
Non-current		
Amounts recoverable under regulatory agreement	575.3	631.1
Current		
Amounts recoverable under regulatory agreement	223.7	100.2

Movement in amounts recoverable under regulatory agreement

	2024	2023
	£m	£m
Balance at the beginning of the year	731.3	724.6
Adjustments in respect of variable consideration for services provided in prior years, net of associated discounting	123.3	23.2
Discounted amounts recognised during the year	109.1	53.1
Unwind of discounting	2.1	(2.6)
Amounts recovered under regulatory agreement through charges in the year	(166.8)	(67.0)
Balance at the end of the year	799.0	731.3

Amounts recoverable under regulatory agreement which are non-current include the net present value of regulatory allowances under-recovered. These will be recovered after 31 March 2025. The amount relating to the Covid income shortfall of £560.8m will be recovered across the 10 years of the NR23 and NR28 price controls. An amount of £28.7m relating to pension pass through (2023: £29.3m) includes £5.6m arising in Reference Period 1 to be recovered by 31 December 2030 and £23.1m arising in Reference Period 2 that will be recovered by 31 December 2035. An assessment of credit risk has been included within the discount rate used to determine the net present value.

Amounts recoverable under regulatory agreement which are current relate to: Reference Period 1, the recovery of the relevant portion of the Covid income shortfall and revenue allowances relating to 2023 and 2024 which have been deferred by the regulator's price profiling. The amounts will be included in the unit rates to be charged in the financial year ending 31 March 2025.

16. Financial and other assets (continued)

Movement in the expected credit loss provision

	2024 £m	2023 £m
Balance at the beginning of the year	10.8	11.7
Decrease in allowance recognised in the income statement	(0.4)	(0.8)
Foreign exchange movement in the year	(0.3)	0.4
Amounts written off as irrecoverable	(0.2)	(0.5)
Balance at the end of the year	9.9	10.8

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

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

2024		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 (%)	0.9%	0.9%	8.4%	17.5%	51.4%	43.9%	99.0%	100.0%	
Gross carrying amount (£m)	67.9	71.1	1.5	0.5	0.2	0.4	0.8	7.4	149.8
Lifetime expected credit loss (£m)	0.6	0.6	0.1	0.1	0.1	0.2	0.8	7.4	9.9

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

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

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 £231.6m (2023: £184.4m).

17. Borrowings

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

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

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

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

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

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

NERL has a £400m revolving bank facility agreement which expires in May 2026. At 31 March 2024, NERL had outstanding drawings of £nil (2023: £65.0m) 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:

	2024 £m	2023 £m
Due within one year or less	7.0	7.9
Due between one and two years	7.1	7.0
Due between two and five years	20.2	20.3
Due in more than five years	13.0	19.3
	47.3	54.5
Less: future finance charges	(4.1)	(5.0)
	43.2	49.5
Analysed as:		
Current	6.0	6.7
Non-current	37.2	42.8
	43.2	49.5

The income statement includes the following amounts relating to leases:

	2024 £m	2023 £m
Interest on lease liabilities (see note 10)	1.0	1.3
Short term lease expense	0.1	0.1

Nature of leasing activities

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

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

Year ended 31 March 2024	Lease contracts No.	Fixed payments %[i]	Variable payments %[i]	Sensitivity £m
Property leases with payments linked to inflation	52	n/a	21.4%	0.5
Property leases with periodic uplifts to market rentals	43	n/a	75.5%	1.6
Property leases with fixed payments	2	-	n/a	n/a
Leases of plant and equipment	2	1.6%	n/a	n/a
Vehicle leases	41	1.5%	n/a	n/a
	140	3.1%	96.9%	2.1

18. Leases (continued)

Nature of leasing activities (continued)

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

(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 2024, the carrying amounts of lease liabilities are not reduced by the amount of payments that would be avoided from exercising break clauses where it was considered reasonably certain that the 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 £13.6m (2023: £18.6m), of which £6.9m (2023: £11.1m) is potentially avoidable if the leases were not extended and a further £5.3m (2023: £7.1m) 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 2024 is £nil (2023: £0.1m).

19. Derivative financial instruments

Fair value of derivative financial instruments

	2024 £m	2023 £m
Non-current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	0.1	1.5
	0.1	1.5
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	2.0	1.5
	2.0	1.5
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(1.4)	(0.9)
Derivative financial instruments classified as held for trading		
Index-linked swaps	(12.4)	(11.7)
	(13.8)	(12.6)
Non-current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.8)	(0.6)
Derivative financial instruments classified as held for trading		
Index-linked swaps	(67.4)	(69.9)
	(68.2)	(70.5)

19. Derivative financial instruments (continued)

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

Gearing ratio

The 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 2024 was 41.9% (2023: 52.3%).

Categories of financial instrument

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

	2024 £m	2023 £m
Financial assets		
Financial assets at amortised cost		
Trade and other receivables	140.5	126.7
Cash and cash equivalents	91.1	57.7
	231.6	184.4
Derivative financial instruments		
In designated hedge accounting relationships	2.1	3.0
	233.7	187.4
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables	(116.0)	(106.9)
Borrowings	(864.9)	(911.4)
Lease liabilities	(43.2)	(49.5)
	(1,024.1)	(1,067.8)
Derivative financial instruments		
In designated hedge accounting relationships	(2.2)	(1.5)
At fair value through profit or loss	(79.8)	(81.6)
	(82.0)	(83.1)
	(1,106.1)	(1,150.9)

20. Financial instruments

Categories of financial instrument (continued)

Financial assets at amortised cost includes balances for trade and other receivables (excluding prepayments of £19.0m (2023: £18.6m) and VAT of £3.4m (2023: £2.3m)) and cash and cash equivalents.

Financial liabilities at amortised cost includes balances for trade and other payables (excluding contract liabilities of £57.7m (2023: £66.5m) and deferred income of £26.4m (2023: £24.5m)), bond and bank borrowings and lease liabilities.

The index-linked swaps are categorised as held for trading. During the year £10.8m of amortisation payments (2023: £8.0m) were made in relation to the index-linked swaps. Taking into account the index-linked swap amortisation payments, a charge arising from the change in fair value of £9.0m has been recorded in the income statement in the year (2023: £13.7m charge) for the market value movement in the RPI swap liability. This decrease in the charge for the year largely relates to the impact that actual inflation and future inflation expectations have had on the fair value changes for the £200m (notional) of 10 year index-linked swaps that were entered into in June 2021.

Financial risk management objectives

The group's Treasury function is mandated by the Board to manage financial risks that arise in relation to underlying business needs. The function provides services to the business, co-ordinates access to financial markets and monitors and manages financial risks relating to the operations of the group. The function has clear policies and operating parameters. The Treasury Committee provides oversight and meets at least three times a year to approve strategy and to monitor compliance with Board policy. The Treasury function does not operate as a profit centre and the undertaking of speculative transactions is not permitted. The principal financial risks arising from the group's activities include market risk (including currency risk, interest rate risk and inflation risk), credit risk and liquidity risk.

Market risk

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and inflation rates. These risks are explained below. From time to time, the company enters into a variety of derivative financial instruments to manage its exposure to these risks, including:

- forward foreign exchange contracts to hedge the exchange risk arising on services provided to UK en route customers that are billed in euro, US dollar satellite data charges for satellite based surveillance services across the North Atlantic and other purchases from foreign suppliers in foreign currencies;
- interest rate swaps to mitigate the risk of rising interest rates; and
- index-linked swaps to mitigate the risk of low inflation.

Foreign currency risk management

During the course of the year the 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	
	2024	2023	2024	2023
	£m	£m	£m	£m
Euro	64.1	60.4	(10.4)	(7.7)
US dollar	1.8	2.3	(1.9)	(2.0)
Canadian dollar	0.5	0.6	(1.1)	(1.4)
Norwegian krone	-	-	-	(0.1)
Swedish krona	-	-	-	(0.1)
	66.4	63.3	(13.4)	(11.3)

20. Financial instruments (continued)

Foreign currency sensitivity analysis

The company has assets and liabilities denominated in foreign currencies including cash balances of £4.1m at 31 March 2024 (2023: £0.6m) in euro, US dollars and Canadian dollars. Trade and other receivables and trade and other payables include balances of £60.2m (2023: £60.0m) and £8.5m (2023: £7.1m) 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	2024 Impact £m	2023 Impact £m
Euro	10.6	5.7
US dollar	(1.8)	(3.8)
Canadian dollar	(0.1)	(0.3)
	8.7	1.6

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

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:

	2024			2023		
			Average exchange rate			Average exchange rate
Euro sold	£m	€m		£m	€m	
0-90 days	203.8	237.5	0.8584	163.5	184.6	0.8858
91-365 days	0.2	0.2	0.8953	3.7	4.2	0.8684
> 365 days	7.5	8.4	0.8930	7.7	8.6	0.8930
	211.5	246.1	0.8596	174.9	197.4	0.8857
Euro bought	€m	£m		€m	£m	
0-90 days	11.7	10.1	0.8673	5.4	4.8	0.8838
91-365 days	16.8	15.1	0.8942	23.4	20.6	0.8815
> 365 days	29.4	26.8	0.9102	43.6	39.5	0.9057
	57.9	52.0	0.8969	72.4	64.9	0.8962
US dollar sold	£m	US$ m		£m	US$ m	
0-90 days	5.7	6.9	1.2116	5.5	6.6	1.2017
91-365 days	11.1	13.5	1.2133	-	-	-
> 365 days	-	-	-	16.8	20.4	1.2127
	16.8	20.4	1.2127	22.3	27.0	1.2100

20. Financial instruments (continued)

	2024			2023		
US dollar bought	US$ m	£m	Average exchange rate	US$ m	£m	Average exchange rate
0-90 days	14.5	11.4	1.2679	13.1	10.4	1.2603
91-365 days	28.9	22.9	1.2634	19.5	16.1	1.2092
> 365 days	0.4	0.4	1.2176	41.9	33.1	1.2652
	43.8	34.7	1.2644	74.5	59.6	1.2492
Canadian dollar bought	CAD m	£m		CAD m	£m	
0-90 days	2.6	1.5	1.7021	2.7	1.6	1.6289
91-365 days	0.7	0.4	1.6667	4.0	2.6	1.5847
> 365 days	-	-	-	0.3	0.2	1.7098
	3.3	1.9	1.6943	7.0	4.4	1.6058

At 31 March 2024, the aggregate amount of the unrealised losses under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £0.6m (2023: £0.9m unrealised gains). The majority of these contracts will mature within the next financial year at which stage the amount deferred in equity will be realised in the income statement.

In addition to the above, on 28 March 2024 NERL entered into an average rate forward agreement with a fixing date after 31 March 2024 to sell euro anticipated to be received in July 2024 in respect of UK en route revenues, for this reason it is not included in the table above. The value of these cash flows is £78.4m (2023: £64.7m).

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 2024 (2023: none).

Economic interest rate exposure

The company's cash balances were as follows:

	2024			2023		
Currency	Amount £m	Economic interest rate %	Average maturity days	Amount £m	Economic interest rate %	Average maturity days
Sterling	87.0	5.3	20	57.1	4.0	29
Euro	3.2	0.1	2	0.1	-	3
US dollar	0.5	-	2	0.2	-	3
Canadian dollar	0.4	-	2	0.3	-	3
	91.1			57.7		

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).

20. Financial instruments (continued)

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 2024					
Sterling:					
£450m 1.375% Bonds due 2031	453.1	-	453.1	1.38%	4.3
£445m 1.750% Bonds due 2033	412.9	-	412.9	1.91%	9.5
Lease liabilities	43.2	-	43.2	2.61%	7.1
Total	909.2	-	909.2		
At 31 March 2023					
Sterling:					
£450m 1.375% Bonds due 2031	446.2	-	446.2	1.38%	4.9
£300m 1.750% Bonds due 2033	297.1	-	297.1	1.76%	10.5
£145m 1.750% Bonds due 2033	104.4	-	104.4	2.40%	10.5
Bank loans	65.0	65.0	-	4.66%	0.0
Lease liabilities	49.5	-	49.5	2.47%	8.9
Total	962.2	65.0	897.2		

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, plus lease liabilities.

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

Interest rate sensitivity analysis

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

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

	2024 Impact £m	2023 Impact £m
Cash at bank and short term deposits (2024: £91.1m, 2023: £57.7m)	0.9	0.6
Borrowings (2023: £nil, 2023: £65.0m)	-	(0.7)
	0.9	(0.1)

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

20. Financial instruments (continued)

Inflation rate risk

The regulatory charge control conditions that apply to NERL's UK en route and North Atlantic services determines a regulatory allowance for financing charges that is linked to inflation. To achieve an economic hedge of part of this income, NERL enters into index-linked swaps. The table below sets out the 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 2024							
Inflation swaps							
Amortising swap fixed to RPI, maturing in 2026	10.2	10.2	-	20.4	23.5	4.05%	5.25%
Bullet repayment swap fixed to RPI, maturing in 2031	-	-	200.0	200.0	56.3	(2.14%)	1.53%
	10.2	10.2	200.0	220.4	79.8		
At 31 March 2023							
Inflation swaps							
Amortising swap fixed to RPI, maturing in 2026	10.2	20.4	-	30.6	34.2	4.05%	5.25%
Bullet repayment swap fixed to RPI, maturing in 2031	-	-	200.0	200.0	47.4	(2.14%)	1.53%
	10.2	20.4	200.0	230.6	81.6		

Inflation rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to inflation arising from the index-linked swaps. The analysis is prepared assuming that the index-linked swaps at the balance sheet date were in place for the whole year. A 1% increase or decrease in inflation each year for the life of the swaps is considered to represent a reasonably possible change in inflation. An increase in the rate of RPI inflation will increase the future index-linked payments that 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%.

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

The mark to market value of the index-linked swaps is also sensitive to the discount rates that are used to determine the net present value of the cash flows under the swap agreements. The discount rate is determined by reference to market yields on interest rate swaps. The effect of a 1% increase in the discount rate would be to increase profit and equity by £2.6m (2023: £3.4m). There would be a fairly equal and opposite impact on profit and equity if discount rates decreased by 1%.

20. Financial instruments (continued)

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 contract assets and from the risk of a failure of a financial institution in which funds are invested for return or held for trading purposes or with whom derivative contracts are entered into. The risk of loss from default by customers and the mitigations against this risk are explained in note 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 £2.0m (2023: £0.8m), bank term deposits of £37.0m (2023: £22.7m) and money market fund investments of £52.1m (2023: £34.2m). 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):

	2024			2023		
Rating (Standard & Poor's)	Number of institutions	£m	By credit rating %	Number of institutions	£m	By credit rating %
AAA	4	52.1	57.2	4	34.2	59.3
A+	2	20.0	22.0	2	20.8	36.0
A	1	19.0	20.8	1	2.7	4.7
		91.1	100.0		57.7	100.0

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 2024 NERL had access to undrawn bank facilities totalling £400m;

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.

20. Financial instruments (continued)

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

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

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

	2024 £m	2023 £m
Bank borrowings	-	65.0
Gross borrowings (including lease liabilities)	909.2	962.2
Bank borrowings as a percentage of gross borrowings	0.0%	6.8%

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.

	2024				2023			
	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	7.0	103.6	108.5	219.1	7.9	61.8	103.2	172.9
Between one and two years	7.1	57.7	1.5	66.3	7.0	61.2	-	68.2
Due between two and five years	20.2	214.5	-	234.7	20.3	236.3	-	256.6
Due in more than five years	13.0	617.5	6.0	636.5	19.3	718.4	3.7	741.4
	47.3	993.3	116.0	1,156.6	54.5	1,077.7	106.9	1,239.1
Effect of interest, discount and unamortised bond issue and bank facility fees	(4.1)	(128.4)	-	(132.5)	(5.0)	(166.3)	-	(171.3)
	43.2	864.9	116.0	1,024.1	49.5	911.4	106.9	1,067.8

Other liabilities above include trade and other payables (excluding deferred income of £26.4m (2023: £24.5m) and contract liabilities of £57.7m (2023: £66.5m)).

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
2024					
Index-linked swaps receivable	8.8	4.4	28.2	15.1	56.5
Index-linked swaps payable	(12.4)	(85.8)	-	(53.4)	(151.6)
	(3.6)	(81.4)	28.2	(38.3)	(95.1)
Foreign exchange forward contract receivables	281.5	16.9	16.1	-	314.5
Foreign exchange forward contract payables	(280.8)	(17.5)	(16.8)	-	(315.1)
	0.7	(0.6)	(0.7)	-	(0.6)
	(2.9)	(82.0)	27.5	(38.3)	(95.7)
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)

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).

	2024				2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Derivative financial instruments in designated hedge accounting relationships	-	2.1	-	2.1	-	3.0	-	3.0
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(2.2)	-	(2.2)	-	(1.5)	-	(1.5)
Derivative financial instruments classified as held for trading	-	(79.8)	-	(79.8)	-	(81.6)	-	(81.6)
	-	(82.0)	-	(82.0)	-	(83.1)	-	(83.1)

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

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

	2024	2023
	£m	£m
Current		
Trade payables	25.6	19.2
Other payables	0.1	0.3
Amounts due to parent company	43.2	49.5
Amounts due to fellow undertaking	6.4	1.0
Contract liabilities	12.6	14.2
Accruals and deferred income	35.0	35.0
	122.9	119.2
Non-current		
Trade payables	6.0	3.7
Contract liabilities	45.1	52.3
Accruals and deferred income	26.1	22.7
	77.2	78.7

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 23 days (2023: 26 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

21. Financial and other liabilities (continued)

Amounts payable under regulatory agreement

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

Movement in amounts payable under regulatory agreement

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

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

22. Provisions

	Total £m
At 1 April 2023	11.6
Additional provision in the year	3.0
Release of provision in the year	(3.4)
Utilisation of provision	(0.2)
At 31 March 2024	11.0

	2024 £m	2023 £m
Amounts due for settlement within 12 months	1.7	0.2
Amounts due for settlement after 12 months	9.3	11.4
	11.0	11.6

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	Retirement benefits	Financial instruments	Tax credits and unutilised tax losses	Other	Total
	£m	£m	£m	£m	£m	£m
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
At 1 April 2023	196.2	11.0	(0.4)	-	(11.2)	195.6
Charge/(credit) to income	18.0	-	(0.1)	-	0.8	18.7
Credit to equity	-	(8.5)	(0.4)	-	-	(8.9)
At 31 March 2024	214.2	2.5	(0.9)	-	(10.4)	205.4

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

The deferred tax liability in respect of retirement benefits is a result of the defined benefit surplus at 31 March 2024, under IAS 19: *Employee benefits.* The timing of reversal of timing differences relating to the defined benefit scheme is dependent on the scheme's funding position, which is sensitive to financial market conditions and which can be volatile, and the company's contributions to the scheme. The company is currently making payments under a schedule of contributions that includes ongoing costs at 66.2% of pensionable pay as well as deficit recovery payments to repair the funding deficit by 31 December 2029. See note 28 for more details. The schedule of contributions is expected to be reassessed following the conclusion of the trustees 2023 valuation.

Other deferred tax assets arise from property reinstatement provisions and above the line tax credits. Property reinstatement conditions provide for the cost of reinstating a leased property back to its original condition at the point of lease expiry. All property leases currently have a term of greater than five years.

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

	2024	2023
	£m	£m
Deferred tax liabilities	216.7	207.2
Deferred tax assets	(11.3)	(11.6)
	205.4	195.6

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 2023 and 31 March 2024	10,000,000	10.0	10,000,000	10.0

25. Notes to the cash flow statement

	2024 £m	2023 £m
Operating profit from continuing operations	381.6	173.8
Adjustments for:		
Depreciation of property, plant and equipment	46.1	43.4
Amortisation of intangible assets	49.7	40.9
Depreciation of right-of-use assets	4.0	4.6
Impairment losses	16.1	9.7
Deferred grants released	(0.2)	(0.2)
Loss on disposal of property, plant and equipment	0.2	-
R&D expenditure above the line tax credits	(3.7)	(1.6)
Adjustment for pension funding	(78.0)	(15.1)
Operating cash flows before movements in working capital	415.8	255.5
Increase in trade and other receivables, and amounts recoverable under regulatory agreement	(49.3)	(42.3)
Decrease in trade and other payables, amounts payable under regulatory agreement and provisions	(97.7)	(34.2)
Cash generated from operations	268.8	179.0

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

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

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

Reconciliation of net financial liabilities

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

	2024 £m	2023 £m
Cash and cash equivalents	91.1	57.7
Borrowings	(864.9)	(911.4)
Lease liabilities	(43.2)	(49.5)
Net debt	(817.0)	(903.2)
Index-linked swaps	(79.8)	(81.6)
Net financial liabilities	(896.8)	(984.8)
Cash and liquid investments	91.1	57.7
Gross debt - fixed interest rates (net of unamortised bond issue costs)	(909.2)	(897.2)
Gross debt - variable interest rates (net of unamortised bank facility fees)	1.1	(63.7)
Net debt	(817.0)	(903.2)
Index-linked swaps	(79.8)	(81.6)
Net financial liabilities	(896.8)	(984.8)

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

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	Lease liabilities	Bonds (i)	Bank loans (ii)	Sub-total	Index-linked swaps	Total
	£m	£m	£m	£m	£m	£m	£m
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 changes							
Interest expense	-	(1.3)	(11.6)	(8.2)	(21.1)	-	(21.1)
Interest payments (presented as financing cash flows)	-	1.3	11.5	7.5	20.3	-	20.3
Interest income	-	-	-	-	-	7.3	7.3
Interest receipts (presented as financing cash flows)	-	-	-	-	-	(7.3)	(7.3)
Other non-cash movements (iii)	-	-	(1.3)	(1.6)	(2.9)	-	(2.9)
Net financial liabilities as at 31 March 2023	57.7	(49.5)	(847.7)	(63.7)	(903.2)	(81.6)	(984.8)
Net financial liabilities as at 1 April 2023	57.7	(49.5)	(847.7)	(63.7)	(903.2)	(81.6)	(984.8)
Cash flows	33.4	7.3	-	65.4	106.1	10.8	116.9
New leases in the year	-	(2.0)	-	-	(2.0)	-	(2.0)
Effect of modification to lease terms	-	1.0	-	-	1.0	-	1.0
Fair value movements	-	-	-	-	-	(9.0)	(9.0)
Other changes							
Interest expense	-	(1.0)	(14.0)	(2.0)	(17.0)	(0.8)	(17.8)
Interest payments (presented as financing cash flows)	-	1.0	-	2.0	3.0	0.9	3.9
Interest income	-	-	-	-	-	8.4	8.4
Interest receipts (presented as financing cash flows)	-	-	-	-	-	(8.5)	(8.5)
Other non-cash movements (iii)	-	-	(4.3)	(0.6)	(4.9)	-	(4.9)
Net financial liabilities as at 31 March 2024	91.1	(43.2)	(866.0)	1.1	(817.0)	(79.8)	(896.8)

(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 £4.3m (2023: £1.3m) and amortisation of bank facility fees net of accrual movements of £0.6m (2023: £1.6m).

26. Financial commitments

	2024	2023
	£m	£m
Amounts contracted but not provided for in the accounts	57.5	47.4

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 2024	No. employee shares outstanding at 31 March 2023
Date of share awards		
Free share awards		
21 September 2001	99,817	123,614
20 October 2003	94,656	117,910
10 September 2004	136,285	176,685
11 January 2008	107,550	141,268
18 September 2009	118,906	156,906
Partnership shares		
1 March 2011	105,460	142,424
26 September 2012	127,853	174,729
30 May 2014	110,332	151,706
31 October 2016	149,700	221,875
31 October 2018	230,243	381,760
Matching shares		
1 March 2011	105,987	142,971
26 September 2012	129,811	175,796
30 May 2014	110,515	151,872
31 October 2016	149,928	222,036
31 October 2018	215,157	365,482
	1,992,200	2,847,034
Dividend shares issued on 28 June 2005	12,483	14,995
Total employee shares in issue at 31 March	2,004,683	2,862,029

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

	Movement in the no. of shares during the year ended 31 March 2024	Movement in the no. of shares during the year ended 31 March 2023
Balance at 1 April	2,862,029	3,240,567
Exercised during the year	(855,996)	(368,761)
Staff transfers between group companies	(1,350)	(9,777)
Balance at 31 March	2,004,683	2,862,029

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. As at 31 March 2024 the price of an employee share was valued at £5.45 (2023: £3.70). The liability for the employee shares at 31 March 2024 was £10.9m (2023: £10.7m) and is included in amounts due to parent company. The income statement includes a cost of £4.2m (2023: £5.4m cost). Payments made to leavers and current employees for the shares they exercised during the year was £3.8m (2023: £4.7m).

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 2024 employer contributions of £18.3m (2023: £14.7m), excluding salary sacrifice contributions of £10.6m (2023: £8.2m), represented 16.3% of pensionable salaries (2023: 16.4%).

The defined contribution scheme had 1,808 members at 31 March 2024 (2023: 1,532).

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

28. Retirement benefit schemes (continued)

Contributions to the pension scheme (continued)

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.

During the year the company paid cash contributions to the scheme of £108.1m (2023: £68.9m). This amount included £6.8m (2023: £5.5m) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice and past service costs, employer cash contributions were paid at a rate of 85.3% (2023: 67.2%) of pensionable salaries.

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2025 is £102.0m, including salary sacrifice contributions estimated at £6.4m.

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. See note 3.

An actuarial valuation for IAS 19 purposes was carried out at 31 March 2024 (based on 31 December 2023 membership data). The major assumptions used by the actuary for the purposes of the IAS 19 figures at the relevant year ends are set out in the table and narrative below:

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

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

The principal risks to the financial performance of the 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.

28. Retirement benefit schemes (continued)

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

Assumption:	Change in assumption:	Impact on scheme liabilities:
Discount rate	Increase/decrease by 0.5%	Decrease by 7.6%/increase by 8.6%
Rate of inflation	Increase/decrease by 0.5%	Increase by 8.5%/decrease by 7.6%
Rate of pensionable salary growth	Increase/decrease by 0.5%	Increase by 1.6%/decrease by 1.5%
Rate of mortality	1 year increase in life expectancy	Increase by 2.7%

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

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

	2024 £m	2023 £m
Current service cost	(33.2)	(60.5)
Net interest credit	4.7	8.1
Administrative expenses	(1.6)	(1.4)
Components of defined benefit costs recognised within operating profit	(30.1)	(53.8)

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

	2024 £m	2023 £m
Return on plan assets (excluding amounts included in net interest expense)	(245.5)	(1,388.5)
Actuarial gains and losses arising from changes in financial assumptions	66.6	1,340.8
Actuarial gains and losses arising from changes in demographic assumptions	45.2	-
Actuarial gains and losses arising from experience adjustments	21.9	(180.1)
	(111.8)	(227.8)

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

	2024 £m	2023 £m
Present value of defined benefit obligations	(2,524.0)	(2,616.8)
Fair value of scheme assets	2,534.1	2,660.7
Surplus in scheme	10.1	43.9

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

	2024 £m	2023 £m
At 1 April	(2,616.8)	(3,720.3)
Current service cost	(33.2)	(60.5)
Interest expense on defined benefit scheme obligations	(122.8)	(100.8)
Actuarial gains and losses arising from changes in financial assumptions	66.6	1,340.8
Actuarial gains and losses arising from changes in demographic assumptions	45.2	-
Actuarial gains and losses arising from experience adjustments	21.9	(180.1)
Benefits paid	115.1	104.1
At 31 March	(2,524.0)	(2,616.8)

28. Retirement benefit schemes (continued)

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

	2024 £m	2023 £m
Active members	(868.6)	(909.6)
Deferred members	(202.3)	(213.2)
Pensioners	(1,453.1)	(1,494.0)
	(2,524.0)	(2,616.8)

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

	2024 £m	2023 £m
At 1 April	2,660.7	3,976.9
Interest income on scheme assets	127.5	108.9
Return on plan assets (excluding amounts included in net interest expense)	(245.5)	(1,388.5)
Contributions from company	108.1	68.9
Benefits paid	(115.1)	(104.1)
Administrative expenses	(1.6)	(1.4)
At 31 March	2,534.1	2,660.7

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

	2024 £m	2023 £m
Cash and cash equivalents	63.8	244.1
Equity instruments		
- Emerging markets	129.3	64.8
- Global	478.9	322.7
	608.2	387.5
Bonds		
- Fixed income	497.8	537.6
- Index-linked gilts over 5 years	917.2	1,055.7
	1,415.0	1,593.3
Other investments		
- Property	92.3	84.4
- Hedge funds	179.2	165.5
- Private equity funds	97.8	106.6
- Other	76.4	78.7
	445.7	435.2
Derivatives		
- Futures contracts	1.4	0.6
	2,534.1	2,660.7

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

Scheme assets of £2,534.1m (2023: £2,660.7) include equity and debt instruments of £104.1m (2023: £197.2m) with quoted prices in active markets. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of the assets consist of equities, bonds and cash, although the scheme also invests in property and investment (private equity and hedge) funds which are generally illiquid, unquoted assets and trade on a less regular basis. Investments that do not have a quoted market price in an active market, totalling £2,430.0m (2023: £2,463.5m), are measured using their most recent net asset valuations adjusted for cash movements between the latest valuation date and 31 March 2024. Where appropriate, management also take into account movements in external quoted benchmarks in order to determine whether a risk adjustment is required in determining fair value as at 31 March 2024.

28. Retirement benefit schemes (continued)

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.

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

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

The actual return on scheme assets for the year ended 31 March 2024 was a loss of £118.0m (2023: £1,279.6m loss).

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 and AG. Transactions occur on an arm's length basis.

AG is a consortium of British Airways plc, Deutsche Lufthansa AG, easyJet Airline Company Limited, the Pension Protection Fund, TUI Airways Limited, Virgin Atlantic Airways Limited and USS Sherwood Limited. AG has a 42% stake in NATS Holdings Limited. The directors of NATS Holdings Limited are satisfied that the seven members of 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 2024	Year ended 31 March 2023	Year ended 31 March 2024	Year ended 31 March 2023
	£m	£m	£m	£m
LHR Airports Limited	0.1	-	0.3	0.3
Ministry of Defence (MOD)	46.6	44.0	2.0	2.1
Department for Transport (DfT)	0.9	0.6	-	-
Meteorological Office	0.3	0.3	0.5	0.6
Aquila Air Traffic Management Services Limited	1.2	1.0	-	-

	Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2024	Year ended 31 March 2023	Year ended 31 March 2024	Year ended 31 March 2023
	£m	£m	£m	£m
LHR Airports Limited	-	-	-	0.1
Ministry of Defence (MOD)	5.2	0.3	19.2	10.7
Department for Transport (DfT)	0.2	0.2	-	-
Meteorological Office	-	-	-	0.1
Aquila Air Traffic Management Services Limited	0.9	-	-	-

29. Related party transactions (continued)

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 (2023: £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 £2,093,000 (2023: £2,141,000). The number of directors paid by the company during the year was two (2023: two). Neither director participates in a company pension scheme.

Remuneration earned by the highest paid director of the company in the year was £1,165,000 (2023: £1,400,000) and includes £1,792 (2023: £1,321) for the appreciation in the year in the value of employee shares held.

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.

	2024	2023
	£m	£m
Short term employee benefits	7.5	8.0
Post-employment benefits	0.2	0.4
Termination benefits	0.1	-
	7.8	8.4

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

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

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 to the value of derivatives reported 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. The RAB is uplifted annually by RPI inflation and increases by capital expenditure and reduces by regulatory depreciation. The RAB excludes balances relating to tax, financing and the IAS 19 pension position. The CAA sets a net debt to RAB target and bank covenants are set on a net debt to RAB basis. At 31 December 2023 the value of NERL's RAB was £2,047.5m.

	2024 £m
Net debt (per note 25)	**(817.0)**
Inclusion of items as defined in financial covenants:	
Unamortised bond discount	(37.9)
Unamortised bond issue cost and bank facility fees	(6.2)
RPI swaps stated on a bank covenant valuation basis	(79.0)
Exclusion of items as defined in financial covenants:	
Lease liabilities recognised on adoption of IFRS 16	42.8
Net debt (as defined in NERL's finance documents)	(897.3)
Regulatory Asset Base at 31 March 2024	2,139.2
Gearing	41.9%

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.

	2024 £m	2023 £m	2022 £m
Net cash generated from/(used in) operating activities	213.4	175.7	(185.1)
Net cash outflow from investing activities	(101.1)	(110.9)	(108.8)
Net cash (outflow)/inflow from financing activities	(78.9)	(58.0)	172.6
Increase/(decrease) in cash and cash equivalents during the year	33.4	6.8	(121.3)
Advances of en route charges	-	-	67.4
Bonds issued	-	(105.5)	(747.0)
Bonds repaid	-	-	290.1
Bond and bank arrangement fees	0.4	1.7	9.4
Repayment of obligations under finance leases	7.3	5.8	5.5
Repayment of bank facilities	65.0	175.0	435.0
Drawdown on bank facilities	-	(40.0)	(240.0)
Index-linked swap repayment	10.8	8.0	61.3
Total debt adjustments	83.5	45.0	(118.3)
Debt-adjusted cash flow	**116.9**	**51.8**	**(239.6)**

Alternative Performance Measures (continued)

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

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Revenue and regulatory allowances - IFRS	1,029.5	782.4
Adjustment for the assessment of regulatory allowances recognised in the period (see note 16)	(123.3)	(23.2)
Adjusted revenue and regulatory allowances	**906.2**	**759.2**

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Profit before tax - IFRS	397.0	156.5
Adjustment for the assessment of regulatory allowances recognised in the period (see note 16)	(123.3)	(23.2)
Adjusted profit before tax	**273.7**	**133.3**

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

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

Adjusted regulatory return reflects NERL's reported regulatory return adjusted for an assessment of regulatory allowances recognised in the

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

Explanatory Notes

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

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

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

8 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.