# NATS (En Route) plc

Financial statements

Year ended 31 March 2021

Company Number: 04129273

# Highlights

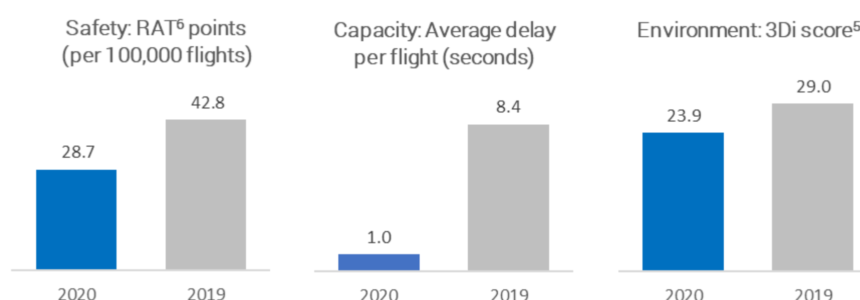
## Financial highlights (year ended 31 March)

| £m (unless specified) | 2021 | 2020 | Change (%) |
|---|---|---|---|
| Revenue and regulatory allowances | **687.2** | 736.7 | -6.7% |
| (Loss)/profit before tax | **(34.2)** | 28.9 | - |
| Cash (used in)/generated from operations | **(258.4)** | 211.6 | - |
| Capital expenditure | **74.3** | 151.0 | -50.8% |
| Net debt[a] | **599.0** | 263.2 | +127.6% |
| Gearing[b] (%) | **49.6%** | 29.0% | +71.0% |
| Dividends | **nil** | 57.0 | - |

Notes: [a] includes advances of en route charges and excludes derivative financial instruments; [b] ratio of NERL's net debt (as defined by its licence) to regulatory assets[1]

- The loss for the year reflects the impact of Covid 19 (Covid) on the company's revenue and regulatory allowances and the carrying value of its assets. We took action to reduce our cost base to preserve liquidity and to ensure that we are in a sustainable position to support the recovery in aviation.
- In June 2021, the company completed a full refinancing of its debt structure. It secured £1.6bn of funding by issuing £750m of unsecured bonds and agreeing £850m of new unsecured bank facilities. This enabled the repayment of more expensive secured bonds in place since 2003 and of existing bank borrowings, including a £380m facility agreed in August 2020 which provided additional liquidity in response to Covid. The refinancing ensures the company is well placed for a range of recovery outcomes.

## Operational highlights




Note: the operational metrics shown above are measured on a calendar year basis for regulatory purposes.

- Our priority has been the health and wellbeing of our workforce while maintaining a safe and resilient service for our customers. We have made significant economies but retained the skills and capacity necessary to safely support the recovery of aviation
- The volume of flights in the year fell by 73% to 661,000 (2020: 2.48m) reflecting Covid travel restrictions.
- There were no risk-bearing airprox[2] attributed to our operation during the financial year (2020: one).
- The CMA's final decision on the RP3 price control has been overtaken by the impacts of Covid on the sector. The CAA is to determine a new five-year price control starting in 2023, which will include an assessment of the recovery of NERL's revenue shortfall in years 2020 to 2022.
- We are committed to sustainable aviation and shared our flight efficiency tool with the global industry.

[1] A number of explanatory notes are provided on page 105 of this report.

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## Who we are

NATS (En Route) plc (NERL) provides Air Traffic Control (ATC) services to aircraft flying in airspace over the UK and the eastern part of the North Atlantic. NERL operates under a licence from the Secretary of State for Transport granted under the Transport Act 2000. It is economically regulated by the CAA and, until 1 January 2021, also by the European Commission's (EC) Single European Sky[3] (SES).

## Our purpose

Advancing aviation, keeping the skies safe.

## Our strategic objectives

(revised following Covid)

- Protecting the health, safety and wellbeing of our workforce while maintaining a safe and resilient air traffic control service for our airline customers.
- Preserving our liquidity in the face of a loss of income to ensure the viability of our business for all stakeholders.
- Securing a revised regulatory settlement which provides a balanced plan for dealing with a post Covid operating environment.

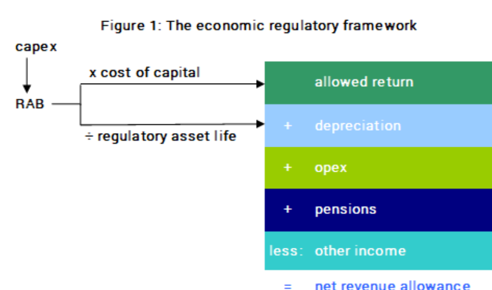
## Our values

- We are safe in everything we do.
- We rise to the challenge.
- We work together.

## Our business model

Under the regulatory framework, the CAA establishes revenue allowances for a price control period which remunerate efficient investment (capex), operating costs (opex), pensions and an allowed return on the capital invested in the Regulatory Asset Base (RAB) to recover the cost of capital. The CMA's referral decision set the cost of capital at 3.48% (pre-tax real) for Reference Period 3 (2020-2024).

The RAB represents the value ascribed to the capital employed in the regulated businesses. Income from other activities is deducted under a 'single till', leaving a net revenue allowance. A price per service unit is set to recover this based on forecast traffic for the price control period. This model is illustrated in Figure 1.




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

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

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

## Chief Executive's review

Managing the impact of Covid and the uncertainty it created was the defining theme of the last financial year and continues to be our focus.

We responded quickly and effectively to restrictions caused by the pandemic, particularly in operational areas and found new ways of working during this period. Restrictions on air travel to control the pandemic led to a 73% fall in the volume of flights we handled in the year. This significantly impacted our liquidity and our price control is now being redetermined by the CAA. However, the actions we have taken to maintain a resilient operation, support our customers, secure our long-term finances and reduce our cost base ensure that we are well placed to support the recovery in air travel.

There is some unavoidable overlap in this report with the 2020 annual report and accounts, with the latter only issued in October 2020. In this standalone report we review the whole of the last financial year, comment on events up to publication as well as the near-term outlook and our strategic objectives, which were updated following Covid.

When it became apparent that the UK would be significantly affected by the virus in the first quarter of 2020, we established three urgent priorities: 1) protecting the health, safety and wellbeing of our workforce while maintaining a safe and resilient air traffic control service for our customers; 2) preserving our liquidity in the face of a loss of income to ensure the viability of our business for all stakeholders; and 3) securing a revised regulatory settlement for RP3 which provides a balanced plan for dealing with a post Covid operating environment.

Our performance in respect of each of these is discussed below and in the relevant sections of the Business and Financial review.

### Our workforce

It goes without saying that our first priority following the outbreak of Covid was to protect our workforce. Unlike many businesses for whom staff home working is feasible, our ATC service and related engineering activities cannot be delivered anywhere other than at our air traffic control centres. We ensured operational staff working from our two air traffic control centres could do so under social distancing rules. We closed all non-critical training and simulations capability and stopped all but essential onsite maintenance and initiated working from home for all non-operational staff enabled by our digital workspace.

We established a Pandemic Working Group chaired by our Chief Medical Officer, Dr Rae Chang, which put in place the necessary arrangements to keep those on site safe and provide guidance and support to those working remotely on how to stay safe As a result we experienced very few cases of Covid across the workforce but where these did arise staff and managers responded quickly to contain any onward transmission. The Board and Executive also recognised early on for the need to support the emotional well-being of our staff, whether at work or at home. We conducted regular wellbeing surveys to enable us to gauge how best to support staff through this challenging period and put in place additional wellbeing

services and employee assistance programmes to provide that support. Communication from the Executive team was further enhanced by methods such as Teams Live events and Yammer chats to ensure staff felt well informed and supported.

Inevitably in the circumstances we also had to assess the size of the workforce and reduce that in line with demand where possible while preserving our ability to support the recovery in air travel.

Low flight volumes and the suspension of the capital investment programme resulted in large numbers of staff being furloughed under the job retention scheme, nearly 63% at the peak, helping us to reduce costs wherever possible. However we also had to overcome the complexity of ensuring that air traffic controllers maintained their validity when combining periods of furlough alongside attendances in a low traffic environment.

After a careful assessment of our future staffing we concluded there was no realistic scenario in which we would need further ab initio trainees until 2022 at the earliest. As a result, unfortunately we had to release a number of trainees. We did help some trainees find new roles within the organisation and we have maintained an outreach programme for those who left so that they can return when demand returns.

We also undertook a voluntary redundancy programme which saw nearly 350 staff leave the organisation. This only applied to non-operational staff to ensure that we preserved the operational staff skills to protect the recovery.

On present forecasts we do not anticipate any significant recruitment until summer 2022 at the earliest.

As restrictions ease, with some signs of what we hope will be a recovery in air travel from this summer, we are well advanced in our plans for more agile ways for staff to balance home and office-based working ahead of the return to office life for non-operational staff.

In the face of the many challenges over the last year, I am immensely grateful to all our colleagues for the part they have played in maintaining the UK's essential ATC service during the pandemic and ensuring that we are soundly based to support recovery.

### Impact of Covid

The clearest articulation of the impact of Covid on air traffic is the volume of flights in UK airspace since January 2020 as a percentage of 2019 levels (see figure 2).

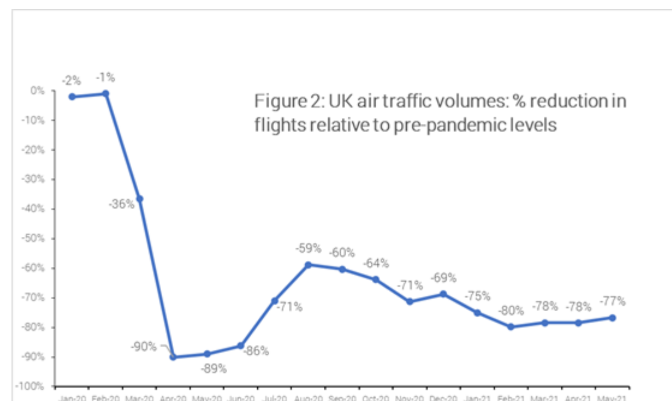


Figure 2: UK air traffic volumes: % reduction in flights relative to pre-pandemic levels

Following the restrictions in air travel in March 2020 and the first national lockdown, airlines grounded most of their fleets in April and May. As restrictions gradually eased in June and July there was some recovery to 40% levels by September before this reversed as tiered restrictions were introduced in October followed by a second

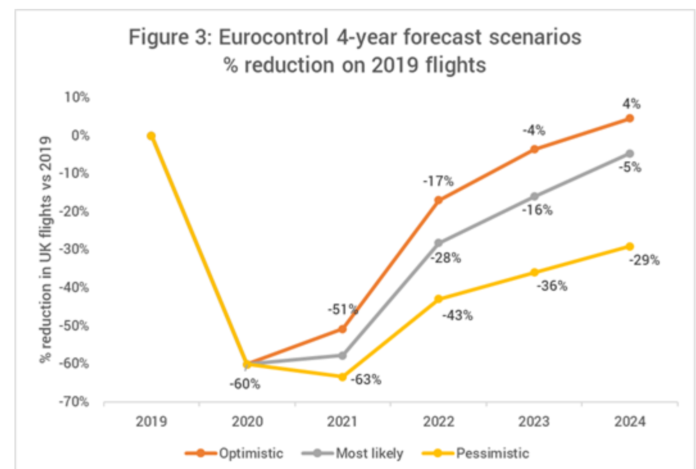
lockdown in November for England alongside circuit-breakers in other home nations. The emergence of a new variant of Covid in December led to more countries banning air travel from the UK and traffic volumes remained at around 20% following the third national lockdown later that month. We have seen only a slight pick-up since 17 May 2021, given the limited number of destinations on the green list so far but we are well prepared as further destinations are approved.

The reduction in flight volumes resulted in much lower receipts from en route charges prompting us to take rapid action to preserve liquidity by reducing costs and pausing capital investment, except for critical sustainment activity, for a six-month period.

Our economic regulatory framework provides a defined level of protection from traffic shortfalls enabling these to be recovered through subsequent charges, as appropriate for critical national infrastructure which is required to be available at all times. However, the scale of the reduction of air traffic has been unprecedented. Covid emerged during the period when the CMA was considering the referral of the CAA's price control decision for RP3 (2020-2024). The CMA decided that its impact would be too difficult to assess properly as part of its determination and that the CAA should review these matters when better information was available. The CAA will now be reassessing years 2020 to 2022 (see below) and will determine a new 5-year price control from 2023 when there should be more certainty on the shape of the recovery of air travel.

## Preparing for a recovery in air travel

Covid is not going away easily and with countries at different stages in their vaccine programmes or dealing with surges in infection rates and new variants we can expect travel restrictions to be eased at different rates. This means that airline flight schedules are likely to be subject to uncertain and intermittent demand and requiring frequent amendment. In addition a number of logistical issues still need to be addressed such as waiting times at UK airports for arriving passengers. All of this means that we cannot be certain of the volumes to expect this summer.




This continuing uncertainty is borne out by the scenarios underlying the latest outlook (May 2021, figure 3) from Eurocontrol, Europe's air traffic control network manager, which plots different paths to recovery based on vaccine progress and by States adopting consistent and coherent measures to support the aviation industry and ensure that passengers feel safe to fly again. The most likely forecast scenario indicates traffic at 95% of 2019 levels by 2024.

However, it is clear from discussions with our customers and other stakeholders that we must not be a brake on any potential recovery of the

sector and therefore for this summer we have planned our service to handle traffic volumes at up to 75% of 2019 levels. This will ensure we can handle peak demand and provide capacity if and when more destinations are approved, anticipating that airlines will be able to respond to pent up demand very quickly. While we do not know which additional routes may open, assuming that routes and schedules are not dissimilar to 2019, we will be able to handle this level of traffic with current social distancing measures in place in our operations rooms if required.

Our pause last summer in capital investment enabled us to engage with customers and other stakeholders on the options open to us to reshape our capital programme to support their priorities post Covid while delivering a resilient and safe service into the future. Customers endorsed the continued need to invest in new systems to support our operations including our En Route and Voice programmes which are central to our SESAR[3] commitment, initially providing new controller tools and capabilities to our operation and delivering a single, modern common technology platform. Our short-term focus for the 2021 calendar year is to operate our new systems for short periods during low traffic volumes before a full transition in 2023, along with the first trial of our main voice system and operational deployment of our second voice communications system.

Our role in a sustainable future

Airspace modernisation, particularly around London and the south east where carbon inefficient flight paths and aircraft holding are most prevalent, will play an important part in the industry's decarbonisation plan and will be a focus for us and our customers in the next few years. We welcome the government's pledge of £5.5m to support airport operators with their airspace modernisation projects, which were put on hold due to Covid. This will help to ensure this critical programme of work for the future of UK aviation can start up again.

Covid has fundamentally changed so much in our day to day lives, but the pandemic has not downgraded the imperative of addressing the climate emergency across all areas of our economy and society. We had already, pre-Covid, committed to play our part in aviation's roadmap towards decarbonising aviation by 2050 and that pledge remains. Discussions within the industry and with other stakeholders on the restart of aviation have emphasised using this opportunity to focus on environmental performance and there is no doubt that we have to take specific action to reduce the environmental impact of aviation in the coming decade to avoid our industry becoming socially unacceptable and misaligned with the UK's commitments on climate change.

One of our responses to this challenge has been to put in place programmes and targets that will reduce carbon emissions from operating our business to zero by 2035. Clearly, this will mean a significant shift in emphasis for all of us in the company towards ensuring our day to day activities align with this objective.

When it comes to the operational impact of aviation, zero carbon solutions for flight are still a long way off and until then there will inevitably

have to be a balance between the environment and air traffic capacity. We will continue to focus on enhancing the sustainability of our service while still meeting the capacity requirements of our customers.

To support the industry with its roadmap to decarbonising by 2050, we have made our 3Di environmental insight tool freely available to aviation stakeholders to use to track their carbon efficiency. We developed 3Di in 2012 when we became the first air traffic service provider to be financially incentivised on our environmental performance. It has enabled us to measure the efficiency of all flights in our airspace and identify improvements. We have prepared a technical guide to the use of 3Di and provided technical webinars for stakeholders interested in using the tool to support their work to deliver emissions reductions through more fuel efficient flight profiles. We hope sharing this technology and experience might help others to identify improvements in their own operations. Climate change is an existential threat, and such near-term action is needed ahead of more fundamental downstream changes in technologies which might offer sustainable aviation solutions.

### Palamon report

In February 2021, the CAA reported on air traffic delays at Stansted and Luton airports between 2018 and 2020. The CAA found no evidence to support allegations by Ryanair and Stansted Airport that NERL had discriminated against them or inaccurately recorded delay. However, it did conclude that in 2019 and early 2020 NERL was in breach of its licence as a result of staffing delay for the airspace used by aircraft arriving at Stansted and Luton airports. While we disagree with the CAA's conclusions we will implement its recommendations.

As we now recalibrate our business plan ahead of the redetermination of the price control from 2023, we will consider the extent of additional resilience we require and we will be looking to the CAA for clear guidance on service performance targets at the network level and an updated approach at a sector level as well as more financial flexibility to meet operational resourcing needs. This is necessary to ensure that we are able to support a recovery in air traffic which will inevitably have more peaks and troughs in demand across our network than pre-pandemic as travel restrictions are lifted and airlines and airport operators respond accordingly.

### Concluding remarks

My hope is that this time next year I will be able to report that the worst of the pandemic is behind us and that alongside our stakeholders we have been able to return our focus to meeting a growing demand for international travel, modernising airspace and delivering on our environmental commitments..

The immediate priority is for the recovery in air travel and we are well placed to support this. We have retained the essential skills required and reduced our cost base and strengthened our liquidity, which will support in delivering a safe and resilient service as the industry recovers.

This is also an opportunity to build back better and we recognise we play an important role in delivering a more sustainable future alongside the

industry. This must be accompanied by a new price control that provides the right level of resources to deliver the operational service, technology change and airspace modernisation to meet stakeholder priorities.

As I have said before, we provide an essential public service and we are resolutely committed to delivery of our strategy to advance aviation and keep the skies safe in the interests of all stakeholders.

Martin Rolfe, FRAeS

Chief Executive

# Business review

## Delivering a safe, efficient and reliable service every day from our centres

- Air traffic volumes

| | 2021 ('000s) | 2020 ('000s) | Change % |
|---|---|---|---|
| Chargeable Service Units* | **3,389** | 12,166 | (72.1%) |
| UK flights | **661** | 2,483 | (73.4%) |
| Oceanic flights | **164** | 493 | (66.7%) |

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

International air travel restrictions and national lockdowns to control the spread of Covid resulted in a 73% reduction in the volume of flights that we handled during the year to 661,000 (2020: 2.48 million).

- Service performance

| Service performance: calendar year | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Target** | **Actual** | Target | Actual |
| C1: avg. en route delay all causes (seconds) | **15.6** | **1.2** | 15.6 | 13.2 |
| C2: NATS avg. delay per flight (seconds) | **12.0** | **1.0** | 10.8 | 8.4 |
| C3: delay impact (score)[4] | **24.0** | **2.5** | 24.0 | 15.8 |
| C4: delay variability (score)[4] | **1,800.0** | **35.0** | 2,000.0 | 63.0 |
| C3Di: 3Di metric (score) | **26.4-29.2** | **23.9** | 26.3-29.1 | 29.0 |

The C1 metric is a Functional Airspace Block (FAB) level target introduced for RP2.
C3 target is the C3 Upper target adjusted for traffic based CY 2019 actual traffic.

Our service performance reflected the reduction in air traffic volumes, with minimal delay attributed to our operation in the period and more fuel efficient flight profiles being achieved. While somewhat academic in the circumstances, we achieved an average delay per flight of 1.0 second (2019 calendar year: 8.4 seconds) and a flight efficiency 3Di score of 23.9 (2019 calendar year: 29.0). Both of these measures were well within the regulator's target which did not foresee the pandemic. Our licence entitles us to a service incentive bonus but we have told customers and the regulator that we will not seek to recover this as performance has been driven largely by low traffic volumes associated with the impact of Covid.

- Safety management

We provided a safe ATC service throughout the pandemic by managing the operational safety impact of significantly lower traffic volumes as well as addressing the occupational health and safety risks to our workforce, including their wellbeing. We applied our existing safety management system and its measures and procedures and adapted these in a proportionate way to reflect different ways of working. For example, the requirement for social distancing in the operations room was balanced against the need for team-working and safe procedures that rely on social interaction.

Since the pandemic started, we have worked closely with the CAA and the European safety regulator (EASA), as well as other stakeholders and public health bodies to develop approaches to meeting regulations designed for more normal times. Low traffic volumes disrupted normal patterns of work, requiring heightened operational vigilance and situational awareness and an assessment of the safety risk of a low traffic movement environment. We undertook comprehensive assessments of the risks of a low traffic operation and assessed the operational effectiveness of our mitigating actions. One key adaptation was to place greater emphasis on local expertise in managing the unique circumstances being experienced at all NATS operational units.

We have also sought to mitigate the safety risks associated with traffic regeneration this summer and developed guidance for the operation from simulating different recovery scenarios, focussed on maintaining controller competency levels. We also completed an organisation-wide survey which will form the basis for

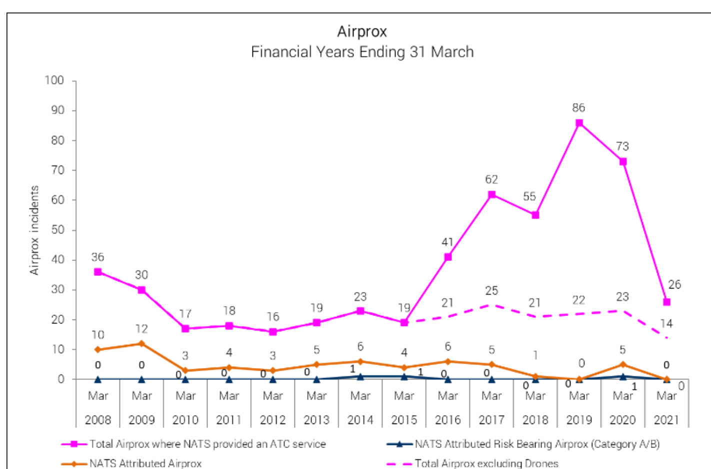
actions to ensure our safety culture remains robust ahead of the recovery. We are also working closely with government, regulators and the industry to ensure that we are as coordinated as possible as restrictions on air travel are lifted.

- Safety performance

We set ourselves internal safety targets to measure performance against our objective of ensuring the number of serious or risk-bearing incidents does not increase and where possible decreases. These targets cover the safety performance of our en route ATC services to which all operational, engineering and corporate functions contribute. We met each of our internal targets for the year.

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

We measure the RAT point score on a calendar year basis, and for 2020 we recorded 28.7 points per 100,000 flights (2020: 42.8). This included three severity B events against our target of less than 10. For each of the events a thorough investigation was performed and corrective actions have been taken.




There were no risk-bearing Category A or B airprox attributable to NERL during the financial year (2020: one Category B). Also, there was a reduction in the total number of airprox in NERL airspace during the year. There was a significant reduction in the number and in the highest severity Remotely Piloted Aircraft Systems (RPAS or drone) related events, continuing the downward trend since a peak in 2018/19. This reflected changes in drone regulation and legislation and improved awareness and training of drone users, on which we have cooperated with the CAA, alongside the reduction in air traffic volumes generally.

Finally, while we also saw an overall decrease in the number of infringements of controlled airspace resulting in a loss of separation during the year this remains an area of concern and focus as the number of incidents rose whenever national lockdown restrictions were lifted, reflecting an increase in general aviation flights at these times.

## Economic regulation

One of our priorities is to secure a revised regulatory settlement which provides a balanced plan for dealing with a post-Covid operating environment, including mitigating traffic risk.

In September 2019, the Board rejected the CAA's decision for NERL's price control for RP3, which led to a reference to the Competition and Markets Authority (CMA) by the CAA. In July 2020, the CMA published its decision. As many of its findings had been overtaken by the impact of Covid, the CAA will now redetermine the price control for a five-year period from 2023.

In the interim, the CMA's decision has established a three-year settlement for 2020 to 2022, whereby NERL's charges have been set initially as if Covid had

not occurred. However, the CMA also set out an expectation that a reconciliation exercise would be necessary for this interim period with reference to actual flight volumes and costs since the start of 2020. The CAA is now developing an approach to this reconciliation which aims to support NERL's financeability and efficient operation as well as deliver affordable charges. It intends to reconcile costs and revenues for 2020 to 2022, allow the recovery of the revenue shortfall over a five to seven year period rather than the current two-year period, to support the recovery in traffic levels, and to the extent practicable, seek to allow the full recovery of revenue consistent with supporting NERL's financeability.

The outcome of the CAA's reconciliation and the re-determination of the price control is not expected to be finalised until 2022. The re-determination will also enable us to develop and consult on a new business plan with our stakeholders which will reflect their views and priorities for a post-Covid world.

Our fundamental strategy remains to modernise our technology, in line with SESAR principles and to enable airspace transformation that will deliver significant benefits to customers. Post-Covid replanning will provide the opportunity to take account of customers views.

### Airspace modernisation

Progress with the wider and more complex airspace modernisation of the South East and London area has been slowed by Covid but remains a stakeholder priority which can only be delivered as a collaboration of ACOG, NATS, airlines, airports, the CAA and the UK government – many of which may have fundamentally different priorities as a result of the impact of Covid on their activities.

However, in spite of the challenges the pandemic has posed, jointly with London Luton Airport we were able to complete a public consultation on two options to simplify and modernise the arrival routes for flights into the UK's fifth busiest airport and to segregate them from Stansted's (the technical name of this airspace change proposal is the Swanwick Airspace Improvement Programme – Airspace Deployment 6). We achieved this by engaging with stakeholders online, through a virtual exhibition that attracted 11,000 visitors, which was supplemented with interactive webinars enabling the public to ask questions directly to subject matter experts, as well as through traditional media. Over a four-month period we received more than 2,400 responses from a wide range of stakeholders, community groups and individuals. We are now reviewing and analysing the responses which will inform the final proposal which will be submitted to the CAA by June 2021. The CAA will then make its decision, and if approved, the new design will be implemented in time for the summer 2022 traffic.

# Financial review

## Results overview

The company reported a loss before tax of £34.2m (2020: £28.9m profit). This reflected the impacts of Covid leading to:

- Reduced income following an assessment of the recoverability of Airspace regulatory allowances in anticipation of the CAA's reconciliation exercise and lower North Atlantic traffic volumes;
- Impairment of the carrying value of assets, including goodwill by £111m (2020: £49m) and other assets by £12.7m (2020: £7.2m); and
- actions to reduce the cost base to preserve liquidity as a result of income receipts (including advances) being c£360m lower than prior year, which included the costs of staff redundancies.

| | £m | £m |
|---|---|---|
| 2020 profit before tax | | 28.9 |
| Revenue and regulatory allowance changes | | |
| UK en route revenue | (25.3) | |
| North Atlantic en route | (16.8) | |
| Other (net) | (7.4) | |
| | | (49.5) |
| Operating cost changes | | |
| Salaries and pensions | 25.8 | |
| Job retention scheme grant | 30.4 | |
| Voluntary redundancies | (55.6) | |
| Capitalised internal labour | (21.2) | |
| Staff costs | | (20.6) |
| Expected credit losses | 18.3 | |
| Depreciation net of impairment | 27.5 | |
| Other non-staff costs net | 28.1 | |
| | | 73.9 |
| Goodwill impairment | | (62.0) |
| Finance cost changes | | |
| Fair value movements | (1.7) | |
| Other net finance costs | (3.2) | |
| | | (4.9) |
| 2021 loss before tax | | (34.2) |

After the tax charge, which is explained below, NERL reported a loss of £46.6m (2020: profit of £3.5m).

### Protecting our liquidity in response to Covid

The most significant impact of the pandemic has been the shortfall since April 2020 in the company's revenue receipts for en route charges due to the reduction in air traffic volumes, and the effect of this on liquidity. The company collected £162m from UK en route charges compared with the regulator's financial year equivalent ex ante price control assumption of £676m. We have accepted that the existing licence traffic risk sharing mechanism needs to be modified for Covid and for the CAA to undertake a reconciliation of actual costs and revenues for the years 2020 to 2022 to determine the shortfall in regulatory allowances to be recovered, and over what period, having regard to NERL's financeability and the affordability of charges to customers. The CAA have, however, confirmed that recovery will not commence until the beginning of the new price control (NR23) from 1 January 2023. As the actual outcome of the CAA's review will not be known until 2022, we have formed a judgement recognising regulatory allowances under-recovered to the extent that it is probable that a significant reversal will not subsequently occur in line with applicable accounting standards (see change in accounting policy discussed below and note 2b of the financial statements).

Also impacting liquidity, to support customers, along with other European ANSPs we agreed to the deferred settlement of en route customer charges for February to May 2020 flights. The charges for February and March 2020 have now been settled with April and May 2020 charges paid in May 2021 and due in August 2021, respectively. This deferral support was partly mitigated by advances provided by Eurocontrol to its member States, including the United Kingdom,

following its procurement of a loan facility from commercial banks.

The company's response to the shortfall in liquidity was to conserve cash of £200m through a number of measures including: freezing recruitment, staff pay restraint and releasing most external contractors; furloughing staff under the government's job retention scheme; curtailing non-staff costs, working closely with our suppliers to manage working capital; and deferring £80m of capital investment.

At the start of the financial year we had drawn down £395m from available bank facilities to secure liquidity and in August 2020 we agreed an additional bank facility of £380m through to July 2022. The new facility was sized by reference to a range of traffic scenarios, with headroom for a delay in recovery. These bank facilities and the balance of the £600m bond put in place in 2003 were refinanced in June 2021, as explained below.

Through a voluntary redundancy programme in August 2020, we also took early action to re-align our cost base while ensuring our ability to support the recovery in the aviation sector and proactively ahead of a redetermination of the price control.

### Refinancing

In June 2021 NERL completed a full refinancing of its bank facilities and its publicly traded bonds enabled by £750m of new fixed rate bonds and £850m of new bank facilities. The new bonds were issued in two tranches: £450m of 10-year amortising bonds to be repaid at 31 March 2031; and £300m of 12.5-year bonds with a bullet repayment at 30 September 2033. The new bank facilities consist of a £400m three-year revolving credit facility and a £450m two-year bridge facility. This new debt has been arranged on a senior unsecured basis, meaning that the project finance style senior Whole Business Securitisation (WBS) secured debt structure that has existed since 2003 has been replaced by a debt structure that is more typical of a strong investment grade company such as NERL. This wholesale change to NERL's debt structure was necessary to provide the company with long term, suitable, efficiently incurred funding to deal with the impact of Covid. The new structure also removed all but a net/debt to RAB ratio financial covenant and provides greater flexibility and optionality for accessing additional funding in future.

The strong demand from both bond investors and banks to support NERL enabled the company to reduce the rate of interest on new debt to below the level assumed by the CMA's decision and leaves a more efficient and financially resilient debt structure. Our customers will benefit from both the reduction in the cost of debt when cost of capital is redetermined for the new price control as well as the additional resilience that enables NERL to fund an extended recovery of the revenue shortfall, such as a 5 year recovery period starting from 2023, making charges more affordable and aligned with traffic regeneration.

Over the course of the next two years, we expect that the new bridge facility will be refinanced, most likely in the bond market, and as such the average maturity of NERL's funding will be further extended.

In conjunction with this refinancing, the company also amended its inflation hedging arrangements through new RPI swaps at a notional value of £200m and termination of an existing RPI swap.

The combination of the refinancing and the actions to preserve liquidity provide the company with funding to withstand a prolonged and uncertain recovery in air traffic volumes ahead of a new regulatory price control settlement, and the recovery of the revenue

shortfall explained above. With respect to the latter, we fully expect that the re-set of the price control will provide a balanced business plan which is aligned with our customers' priorities and flight schedules, taking account of the CMA's findings, the pre-existing commitment to traffic risk sharing and the financeability duties placed on the CAA under the Transport Act 2000.

### Regulatory return

NERL's regulatory return for calendar year 2020 was a pre-tax real loss of 2.53% (2019 calendar year: return of 4.59%) compared with the expected regulatory return of 3.48% in the CMA's price control decision. This regulatory under-performance reflected the reduction in revenue and regulatory allowances as well as staff redundancies to reduce the cost base and position the business for a sustainable future. These factors were only partly mitigated by the operating cost savings achieved in the year to preserve liquidity.

### New accounting policy

The company has changed its accounting policy following a restatement of the prior year income statement, as explained in note 2b to the financial statements. The new accounting policy provides users of the financial statements with additional information about the impact on the company's financial position, financial performance and cash flows of the reduction in demand for air traffic services and the significance of the shortfall in revenue from UK en route services due to Covid, with resulting changes in the regulatory framework and the traffic risk mitigations within the price control. In making this change, the company has also had regard to emerging views on rate regulation set out in the IASB's exposure draft on regulated assets and regulated liabilities. The practical effect is a change in presentation of the income statement to report revenue from amounts charged to customers for flights handled in the year as well as an amount recoverable under the economic regulator's price control framework. The latter has been measured according to the principles of accounting standards which limits the amount which can be recognised at a value for which it is highly probable that a significant reversal will not arise in future. The change in policy has no impact on the company's result, financial position or its cash flows.

### Revenue and regulatory allowances

| | 2021 | 2020 |
|---|---|---|
| | £m | £m |
| Airspace | 683.0 | 730.7 |
| Other Service lines | 4.2 | 6.0 |
| Total | 687.2 | 736.7 |

Overall, revenue and regulatory allowances at £687.2m (2020: £736.7m) was £49.5m lower than last year. By service line the significant developments were:

Airspace: is £47.7m (6.5%) lower than last year mainly reflecting the impact of lower traffic volumes and the price control framework. Revenue from contracts with customers and other revenue at £265.8m (2020: £723.4m) was lower by £457.6m. Regulatory allowances under-recovered at £417.2m (2020: £7.3m) increased by £409.9m

Under the extant regulatory framework traffic volume risk for UK en route services is capped at 4.4% of annual allowances. However, in light of Covid, we agreed with the CMA's proposal for a retrospective reconciliation by the CAA of actual costs and revenues. Revenue and regulatory allowances for this service reflect an assessment made to meet the requirements of accounting standards of the

anticipated outcome of the CAA's reconciliation exercise and the extended period for recovering the shortfall in revenues through regulatory allowances. Revenue from North Atlantic en route services reflected the reduction in air traffic volumes, with no volume risk sharing mechanism allowed for in the licence.

These factors were partly offset by the pass through of higher pension costs than the CAA assumed in the price control for Reference Period 2 (RP2).

Other Service lines: overall revenue was lower than the prior year, which included the deployment of a solution for windfarm developers to mitigate their impacts on ATC systems.

### Operating costs

| | 2021 | 2020 |
|---|---|---|
| | £m | £m |
| Staff costs | (308.7) | (343.7) |
| Staff redundancies | (56.9) | (1.3) |
| Non-staff costs | (123.3) | (170.1) |
| Depreciation and amortisation, net of grants | (98.0) | (125.5) |
| Profit on disposal of assets | 0.4 | 0.2 |
| Other operating income | 2.9 | 3.5 |
| Operating costs before goodwill impairment | (583.6) | (636.9) |
| Goodwill impairment charge | (111.0) | (49.0) |
| Total operating costs | (694.6) | (685.9) |

Operating costs before goodwill impairment decreased by £53.3m or 8.4%, reflecting actions taken to preserve liquidity in light of the significant reduction in income receipts from customers.

Staff costs were £35.0m lower at £308.7m (2020: £343.7m) and with a headcount of 3,162 (2020: 3,696) there were 534 fewer employees at 31 March 2021. Cost savings were achieved by pay restraint, the suspension of performance related pay schemes, lower overtime and following staff redundancies. The latter, together with a recruitment freeze which we anticipate will endure for at least the next financial year, will enable an annualised saving of c£35m, which will benefit customers.

The impact of low air traffic volumes and the six-month pause in the capital investment resulted in many staff being furloughed under the government's job retention scheme, which provided grant income of £30.4m. The pause in capital investment also resulted in less internal labour being capitalised.

Non staff costs reduced by £46.8m or 27.5% due to cost related actions with reductions in professional fees, travel costs and contractors in particular. The charge for expected credit losses was also lower than the last year, which reflected uncertainty regarding agreements made at that time to extend the settlement period for en route charges, following a significant reduction in the year in outstanding receivables.

Depreciation and amortisation (net of grants) were £27.5m lower at £98.0m (2020: £125.5m). This reflected a reassessment and extension of the useful lives of assets at the start of the financial year to align with the capital programme delivery schedule, partly offset by impairment charges of £12.7m (2020: £7.2m).

### Goodwill impairment

A goodwill impairment charge of £111.0m was recognised by NERL this year (2020: £49.0m) to write down its carrying value to the recoverable amount (see notes 3 and 13 to the financial statements).

In assessing the recoverable amount, consideration is given to opportunities to outperform regulatory settlements and any premium above the value of the regulatory asset base (RAB) a purchaser would be willing to pay for a controlling interest, by reference to the projected financial return indicated by the company's business plan and recent UK and European market transactions in utilities and airport operators. The RAB premium was maintained at 0%

(2020: 0%) in light of the continuing uncertainty in the recovery in air traffic volumes and the CAA's assessment of the shortfall in the company's revenue to be recovered as a regulatory allowance.

This charge does not impact NERL's cash flows or its regulatory return. The premium assumption will be assessed again for the review of carrying value in 2021/22 although under the accounting standards amounts impaired may not be reinstated.

### Net finance costs and fair value movements on financial instruments

Net finance costs of £27.2m (2020: £24.0m) were £3.2m higher than last year as the company drew down on bank facilities for liquidity purposes.

### Taxation

The tax charge of £12.4m (2020: £25.4m) is based on a loss before tax of £34.2m (2020: profit before tax of £28.9m) which included the goodwill impairment charge which is not tax deductible. The effective rate of tax, excluding goodwill, is 16.1% (2020: 32.6%) which is lower than the headline rate of 19% and includes an additional deduction for patent box income. The effective rate in 2020 reflected the deferred tax impact of the change from 17% to 19% in the rate of corporation tax.

Deferred tax has been provided at the prevailing rate of corporation tax of 19%, which is the legislated rate assumed to apply when the liability is settled or the asset realised. The Spring Budget 2021 proposed that from April 2023 the main rate of corporation tax will increase to 25% however the legislation was not substantively enacted at the balance sheet date. Finance Bill 2021 was substantively enacted in May 2021 and accordingly deferred tax balances will be provided for at a rate of 25% in financial year 2021/22 for amounts expected to unwind after April 2023.

This change in rate is estimated to result in a charge to the income statement in 2021/22 of £41 m.

NERL also pays other taxes such as employer's national insurance contributions, business rates and the apprenticeship levy, which are significant costs. The NATS group tax strategy can be viewed at www.nats.aero.

### Balance sheet

| | 2021<br>£m | 2020<br>£m |
|---|---|---|
| Goodwill | 38.3 | 149.3 |
| Tangible and intangible fixed assets | 1,060.3 | 1,072.4 |
| Right-of-use assets | 43.4 | 56.4 |
| Pension scheme (deficit)/surplus | (23.6) | 173.3 |
| Cash and short term deposits | 172.2 | 488.3 |
| Derivatives (net) | (102.5) | (104.7) |
| Borrowings | (711.0) | (686.2) |
| Lease liabilities | (60.2) | (65.3) |
| Deferred tax liability | (122.1) | (156.4) |
| Other net assets/(liabilities) | 144.8 | (255.9) |
| Net assets | 439.6 | 671.2 |

The carrying value of goodwill reflects the impairment discussed above. Non-current assets reflect the company's entitlement to the shortfall in revenue arising from Covid represented by regulatory allowances.

Overall, net assets decreased in the year mainly following the change from a surplus to a deficit in the IAS 19 funding position of the defined benefit pension scheme, which reported a deficit of £23.6m (2020: surplus £173.3m - see below) and the loss for the year.

### Capital investment

| | 2021 £m | 2020 £m |
|---|---|---|
| SESAR deployment | 51.5 | 113.7 |
| Airspace modernisation | 5.0 | 10.0 |
| Infrastructure | 4.2 | 10.8 |
| Operational systems | 6.9 | 6.6 |
| Other | 3.0 | 6.4 |
| Regulatory capex | 70.6 | 147.5 |
| Military systems | 0.1 | 2.5 |
| Other non-regulatory capex | 3.6 | 1.0 |
| Capital investment | 74.3 | 151.0 |

Capital expenditure decreased by £76.7m or 50.8% with all but essential and sustaining capital investment suspended for six months until January 2021 to protect liquidity and to enable the scope of plans to be reviewed against the revised priorities of our customers and the regulator.

### Defined benefit pensions

NERL bears an economic share of the parent company's final salary defined benefit pension scheme. The scheme was closed to new entrants in 2009 and a defined contribution scheme was put in place. More information on our pension arrangements is provided in note 29 to the financial statements.

#### a. IAS 19 charge and funding position

The cost of defined benefit pensions at £51.2m (2020: £56.5m) reflected a lower accrual rate of 38.2% (2020: 42.1%) of pensionable pay reflecting higher real interest rates at the start of the financial year, as well as a 6.5% reduction in pensionable pay.

| IAS 19 pension deficit | £m |
|---|---|
| At 1 April 2020 | 173.3 |
| Charge to income statement* | (51.2) |
| Actuarial gains/(losses): | |
| - on scheme assets | 318.7 |
| - on scheme liabilities | (538.9) |
| Employer contributions* | 74.5 |
| At 31 March 2021 | (23.6) |
| Represented by: | |
| Scheme assets | 3,832.6 |
| Scheme liabilities | (3,856.2) |
| Deficit | (23.6) |

* including salary sacrifice

At 31 March 2021, the scheme's liabilities exceeded its assets by £23.6m (2020: £173.3m surplus) as measured under International Accounting Standards (IAS 19) using best estimate assumptions. The real yield on AA corporate bonds used to value RPI-linked pension obligations fell by 75 basis points during the year, which increased liabilities by more than the rise in asset values. The size of the scheme relative to the group means changes in financial market conditions can have relatively large impacts on the results and financial position.

#### Trustee valuation and funding obligations

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

The Trustees completed a formal valuation at 31 December 2017 which reported a funding deficit of £270.4m (NERL's economic share of this deficit is c£204m). The scheme's actuary also determined that the cost of employee benefits accruing in future was 41.8% of pensionable earnings (excluding salary sacrifice). Contributions have reflected this from January 2020 as well as a recovery plan agreed with Trustees which aims to repair the deficit by December 2026. During the year the company's parent made deficit contributions of £25.6m (2020: £37.7m), NERL's share being c76%.

The Trustees are conducting a formal valuation at 31 December 2020, the outcome of which is not yet known.

### Net debt and cash flows

| | Cash and short-term investments | Borrowings (including lease liabilities) | Net debt |
|---|---|---|---|
| | £m | £m | £m |
| Balance at 31 March 2020 | 488.3 | (751.5) | (263.2) |
| Cash flow | (316.1) | (54.3) | (370.4) |
| Non-cash movements | - | 34.6 | 34.6 |
| Balance at 31 March 2021 | 172.2 | (771.2) | (599.0) |

In order to maintain liquidity in response to the reduction in en route revenue receipts following the outbreak of Covid, NERL drew down £395m of its £400m bank facilities in March 2020 and maintained this borrowing during the year. At 31 March 2021, the balance outstanding on NERL's amortising bond was £250.9m (2020: £292.1m). As a result, at 31 March 2021 the company had borrowings of £771.2m (2020: £751.5m), including lease liabilities and advances of en route income, and held cash and short-term investments of £172.2m (2020: £488.3m). Net debt increased to £599.0m (2020: £263.2m), mainly due to operating cash outflows.

The company used £258.4m of cash for its operating activities (2020: generated operating cash of £211.6m) which, despite extensive measures to control cost and conserve cash, reflected the significant reduction in revenue receipts following the fall in air traffic volumes in the period. Capital investment was curtailed at £74.9m (2020: £148.0m) which reduced cash outflows from investing activities. Financing inflows of £15.4m (2020: £257.1m inflows) reflected draws of £395m against bank facilities at the end of the previous year, receipt of advances of en route charges and the suspension of dividend payments. Dividends of £57.0m were paid in 2020. Overall cash and short-term investments were £316.1m lower at 31 March 2021 than at the start of the year.

Following the completion of the refinancing in June 2021, at 30 June 2021, the company had available liquidity of around £900m which can support the recovery of the industry and is sufficient to meet our forecast needs for a period of at least twelve months from the date of issue of this report including under plausible stress scenarios, where appropriate mitigating actions would also be undertaken.

## Going concern

The company's business activities, together with the factors likely to affect its performance and financial position, its cash flows, liquidity position and borrowings are set out in this Strategic report. In addition, note 3 to the financial statements describes critical judgements and key sources of estimation uncertainties and note 21 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 2021, the company had cash of £172.2m and, while reporting net current liabilities of £60.9m, also had access to undrawn committed bank facilities of £385m until July 2022. In June 2021 the company completed a refinancing of its debt structure following the issuance in May 2021 of £750m of unsecured bonds and agreement on £850m of new unsecured bank facilities which enabled existing secured bonds and secured bank facilities to be repaid (including the undrawn portion of the committed bank facilities at the balance sheet date of £385m). As a result of this refinancing the previous set of financial covenants was replaced by a single, point-in-time net debt/RAB ratio at 85%.

Of the new unsecured bank facilities, £450m expire in May 2023 and £400m in May 2024, with the latter having options for extension subject to agreement with banks up to May 2026. At 30 June 2021, the company had cash and undrawn bank facilities of around £900m.

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

The severe traffic volume scenarios considered were: Eurocontrol's May 2021 pessimistic case (see figure 3, page 5); a slower recovery scenario, whereby volumes remain at 20% of pre-pandemic levels for financial year 2021/22; a prolonged gradual 10-year recovery to pre-pandemic levels; and a scenario with no air traffic volumes for a 12-month period from July 2021 followed from July 2022 by the same rate of growth assumed in NERL's base case projections from July 2021, being the most severe traffic scenario. A separate scenario for the impact of more adverse financial market conditions on cash contributions to the defined benefit scheme was assessed. Finally, a combination scenario of lower air traffic volumes and higher pension contributions was also performed. Under the most severe scenario the company maintains adequate liquidity and headroom to meet its covenant, prior to mitigating actions.

The directors have also considered, through a reverse stress test, the point at which the financial covenant would be breached. Taking all this into account, the company's cash flow forecasts, reflecting reasonably plausible downside scenarios, show that the company should be able to operate within the level of its available bank facilities and within its financial covenant for the foreseeable future.

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

Alistair Borthwick

Chief Financial Officer

## Principal risks and uncertainties

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

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

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

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

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

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

These risks, including the impact of Covid and risks to our finances, are reflected in and have been considered in assessing going concern as explained on page 18. Further explanation of the impact of Covid on specific key risks is also

included under those risks in the commentary which follows. An explanation of the estimation uncertainties arising from Covid is included in note 3 of the financial statements.

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

A failure of the company's ATM controls that results in an accident in the air or on the ground would significantly impact the company and its reputation. The reputational damage could result in the loss of future contracts and a reduction in revenue. If notice were given by the Secretary of State requiring the company to take action as a result of the accident and the company was unable or failed to comply then ultimately this could result in revocation of its licence.

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

The impact of the Covid pandemic has been analysed to understand and manage the hazards. Key issues identified are i) managing the safety of the operation during periods of very low traffic volume by maintaining controller vigilance , ii) managing the skills competency of controllers and engineers to ensure a safe operation as traffic volumes recover and iii) adjusting the operation for traffic patterns and densities which may have changed significantly. Work has also been done to ensure that safety accountabilities continue to be fully covered following the redundancy programme.

Strategy: regulatory settlement

The company'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 is intended to impose challenging cost efficiency targets on NERL's operating costs and to regulate its capital expenditure.

The CAA's RP3 price control decision was referred to the CMA as NERL could not conceive a viable plan that would deliver the operational service, technology change and airspace modernisation that was needed by the aviation industry with the resources and the risks that the CAA was proposing. The CMA's findings improved NERL's position for RP3 from the CAA's decision. However, its review was overtaken by the financial impact of Covid on the aviation sector. For this reason, the CAA will reset the price control by the start of 2023. It will also reconcile costs and revenues for the period between January 2020 and December

2022 on the basis of estimates of efficient costs (which might be lower than actual costs if it finds evidence of inefficiency), allow the recovery of the revenue shortfall over a longer period than the current two-year time lag for recovery and to seek to allow the recovery of revenue consistent with supporting NERL's financeability. The CAA indicated that this recovery may be over an extended period and should be consistent with affordable charges that support the recovery in traffic levels. The impact of this assessment will not be known until 2022, alongside its impact on the associated revenues which will be allowed and the period over which any shortfalls in revenue not yet received may be recovered.

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

Operational: business continuity

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

Resilience is considered for people, operational technical systems and facilities using NATS incident management processes to assess timely and effective responses. The company's resilience policy programme assesses, documents and tests resilience capability in order to prevent and mitigate such disruptions.

The company reviewed the robustness of its service and continuity plans following the outbreak of Covid, which is being managed under NATS business continuity incident management procedures. The potential risk of operational staff absences due to the pandemic was mitigated initially by the lower traffic volumes, before strict social distancing measures, separate rosters and absence tracking measures could be implemented. The company is closely monitoring air travel demand and is proactive in managing the risks associated with the return to higher levels of traffic. The company is doing this while working closely with the Department for Transport and key stakeholders including the CAA and airline customers.

Operational: systems security

A malicious cyber-attack could affect the integrity, availability or resilience of NERL's operational ATC and business IT systems adversely impacting the provision of a safe and efficient ATC service and resulting in additional regulatory scrutiny.

The company seeks to mitigate the risk through robust security controls, including identity and access management and security patching, staff training, security monitoring and incident management.

The risk has elevated slightly since Covid due to home working and is being managed by increased and focussed vigilance including raising staff awareness of cyber threats. Close working relationships are maintained between NATS and the UK's security services, including

the National Cyber Security Centre to monitor threats and minimise the risk of a damaging cyber-attack.

### Operational: employee relations

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

The impact of Covid on the workforce and the company's financial position has required more dialogue with trades unions on a range of challenging issues, including staff redundancies and terms. At the point of publication we are in dispute with our main trade unions on these matters which could ultimately lead to a ballot for industrial action by the unions. The company has made a number of proposals all of which have been rejected by union officials. The company remains ready to have constructive discussions in order to resolve the points of dispute.

### Transformation: portfolio delivery

The complex deployment of new DSESAR technology and retirement of legacy systems could affect our ability to maintain service levels during transition and require additional costs to sustain legacy systems and support deployment during this period. The company targets to deliver the change portfolio within the constraints of the business plan agreed with the CAA. Demonstrably inefficient or wasteful expenditure on capital assets may also result in reduced recovery of such expenditure under the regulatory regime.

We maintain good programme governance and risk management processes overseen by the executive, the Transformation Review Committee and the Board. We have adopted industry best practice, by using a Portfolio, Programme and Project approach.

As noted in the Chief Executive's review, we responded to the impact of Covid on the company's liquidity and the likely future capacity requirements of airline customers by suspending all but critical sustainment capital investment for a six-month period. The scope of the capital programme and associated risks is subject to ongoing review and is likely to lead to a lower rate of investment than planned pre-Covid.

### 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 are undertaking a formal valuation as at 31 December 2020, reflecting market conditions at that date.

The scheme was closed to new entrants in 2009, pensionable pay rises are capped through an agreement with our trades unions and future service benefits are linked to the Consumer Prices Index. NATS regularly reviews the scheme's funding position and is consulted by Trustees on the design of risk reduction

strategies. Also, subject to regulatory review, NERL is able to recover increases in contributions from changes in unforeseen financial market conditions. The directors monitor the funding position of the scheme. NERL's financing arrangements and cash reserves, its projected operating cash flows and mechanisms within the established economic regulatory framework for recovery of such costs enable the company to meet the contributions required.

Financial: other risks

In addition to the top risks set out above, the main financial risks of the company relate to the availability of funds to meet business needs (including meeting obligations to the pension scheme), the risk of default by counterparties to financial transactions, and fluctuations in interest and foreign exchange rates. A detailed description of each of these risks and specific mitigations are set out in note 21.

Other matters: Brexit

The EU-UK Trade and Cooperation Agreement establishes a framework for the future relationship, including air transport, aviation safety and the participation of UK stakeholders (including NERL) in EU R&D programmes. The air transport agreement ensures that the UK's withdrawal from the EU should not have a significant impact on air services and the demand for air travel. It establishes a cooperation framework for air traffic management between the UK and EU. Separately, NERL has secured an EASA certificate to operate air navigation services in EU airspace that are provided under delegation agreements from neighbouring EU States. The UK will have its own safety regulator, standards, and certifications, with our expectation being that global standards and interoperability benefits will limit divergence. With respect to economic regulation, the UK no longer participates in the EU's Single European Sky performance scheme with NERL subject to economic regulation by the CAA under the Transport Act 2000. On this basis the Political Environment risk is no longer considered to be a principal risk which is regularly reported to the Board but continues to be monitored as a generic business level risk, with risk events escalated to senior management as appropriate.

| Our stakeholders | Why are they important to us? | How do we engage and have regard to their views in our decisions? |
|---|---|---|
| CUSTOMERS | A safe ATC service is an essential given for customers in the aviation industry to which we provide our services and expertise, and for the travelling public. Their requirements are key drivers of our business plan, defining demand for the ATC network, our staffing and capital investment. We operate a joint and integrated civil military operation with the MOD. | We consult airspace users on their priorities and our plans for our regulated activities before each reference period, and will do so for the price control re-set, and bi-annually on our service performance, capital investment and our charges. Generally, we have good alignment on many of their priorities, but they do not always agree with our plans and we reflect on this and refine our plans accordingly. Since Covid we have discussed deferring settlement of charges, reducing cost, reassessing capital investment and preserving liquidity. We also engaged to ensure a coordinated industry re-start after the lifting of travel restrictions. |
| WORKFORCE | Our ATC service and infrastructure depends on the skill and professionalism of our workforce. 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. | Through our Working Together partnership the executive and senior leaders have an open dialogue with trades unions and receive feedback on pay and benefits, including redundancy terms, a safe and healthy working environment, flexible working, talent development and career opportunities, and a diverse and inclusive culture. ATC training has been a focus of discussions since Covid, as well as mental health and wellbeing, and workforce diversity. Through the pandemic the CEO and executive communicated regularly to the workforce via our intranet and to senior leaders in bi-monthly virtual meetings. The Board receives a monthly report from the CEO which includes workforce matters and employee relations. We operate a Just Safety culture, enabling staff to raise safety matters and the company maintains a whistleblowing facility. Every few years we conduct an employee opinion survey. |
| REGULATORS: | Our regulators ensure we provide our service and develop our infrastructure in accordance with our ATC licence and international safety standards. Ensuring we fulfil our licence obligations and develop the business for the long-term ensures the success of the company for all our stakeholders. | The CAA consults stakeholders as our economic regulator on our price control before each new control period before determining the prices, safety, service performance and capital investment targets and incentives. We are providing feedback to CAA's consultation on the new price control from 2023 and will engage with them and our customers during that price control review process.<br>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.<br>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 Chief Executive maintains a regular dialogue with the Department for Transport. The government engages on matters of aviation policy that affect NERL, including travel restrictions relating to Covid and airspace modernisation. |
| SHAREHOLDERS | We are a wholly owned subsidiary within the NATS group. Our decisions have regard to the group's ultimate shareholders as well as the parent company. These parties provide equity investment which finances our activities and enables us to invest in our ATC service and infrastructure, for which it expects a return. | The Board meets with shareholders twice a year. Engagement this year included refinancing proposals and alignment with shareholder interest as well as the response to Covid. The NATS Strategic Partnership Agreement enables shareholders to appoint representatives to the Board. Shareholders wish to see remuneration policies which drive executive management to deliver strong sustainable performance aligned with the interests of key stakeholders. |
| COMMUNITIES AND ENVIRONMENT | Local communities around airports expect the aviation sector to pay attention to aircraft noise and $CO_2$ emissions. Our ATC service can help mitigate some environmental impacts. We are a significant employer where our UK operations are based. Society expects improvements in sustainability, and we are committed to net zero greenhouse gas emissions from our estate by 2035. | Airspace changes must follow the CAA's guidance on public consultation on airspace use, aircraft movements and environmental impacts. Communities generally identify noise, tranquillity, fuel emissions, local air quality and other quality of life concerns. We work with communities affected by flights below 7,000ft at an early stage of any change, to ensure they have a voice in airspace design (see details of the Swanwick Airspace Improvement Programme – Airspace Deployment 6 above). 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 | Our lenders provide debt finance that we repay over time and compensate by way of a commercial return. Access to debt finance is necessary to fund our business activities efficiently. | We meet with lenders at least annually to discuss our performance, business plan and capital investment. Lenders wish to understand the robustness of the company's financial strength over the long-term and the principal risks it faces. The importance of these relationships has been demonstrated by the need and ability to raise significant additional finance as a result of Covid, and the June 2021 refinancing, |
| SUPPLIERS | Our suppliers provide goods and services to maintain and develop our operation. Working closely with them minimises risk and combines our expertise to develop innovative ATC solutions. | Our supply chain management approach involves regular and ongoing engagement with suppliers for procurement. In addition, we engage on joint projects, hold supplier conferences and supplier workshops. Our joint interests are an open and constructive relationship based on fair terms, good contractual performance and high standards of business conduct. |

## Having regard to our stakeholders in Board decision-making

### Section 172 (1) statement

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

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

How our Board and its committees operate, and the way decisions are reached, including the matters discussed during the year, are set out in the Governance section on pages 28 to 30. The tables below illustrate how the Board had regard to section 172(1) in the key decisions it made of strategic importance in its response to Covid.

### The Board's regard to the workforce in its decision-making

Since the outbreak of Covid the safety and wellbeing of staff has been the Board's priority. The company employs 3,200 staff and engages with 80 contractors. It is fundamentally a people-based organisation which relies on highly trained professionals to deliver a safe resilient service to customers and the public day to day. The Board expanded the terms of reference of the Safety committee to include oversight of occupational health and staff wellbeing, in addition to the safe provision of air traffic services and security, enabling the Board to engage with, and have regard to, workforce matters.

Protecting staff and the operation: site access restricted to essential staff with others home working; critical facilities identified for safety, hygiene and maintenance activities including control rooms, engineering systems and key sites including data centres, radars, masts and towers; social distancing measures implemented in line with government guidance, alignment of operational staffing levels with traffic volumes.

Engaging with the workforce: CEO, CFO and HR director consultation with trades unions on the impact of Covid on the company and the need for cost reductions, staff furloughing, the suspension of the 2020 pay award, voluntary redundancies and termination of contract staff and air traffic controller training. Trades unions sought clarity on the restoration of pay, assurances on no compulsory redundancies, raised concerns on the treatment and prospects for trainee air traffic controllers, redundancy terms and maintaining the certification of operational staff in light of low traffic levels. During the year the Chairman and Maria Antoniou (non-executive director for workforce engagement) met with globeAll, the employee network representing BAME and other cultural minorities, in the wake of the murder of George Floyd and the response of the Black Lives Matter movement to this.

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

Planning for recovery: consultation on new ways of working, including more agile use of estates; measures to prepare for the recovery in air traffic volumes.

## The Board's regard to other stakeholders in its response to Covid

Following the outbreak of Covid, the Board established a committee to oversee the company's response and have regard to the interests of key stakeholders as well as safeguard the company's interests through the pandemic period to secure the long term interests of the company's members and stakeholders. This committee receives updates and monitors measures taken to protect the company's workforce and ensure ATC service resilience. It also reviews scenarios of air traffic volumes, liquidity projections and options for financing, cost saving actions and risks. The committee is considering the future economic regulatory framework and the CAA's consultation process.

As air traffic control is a critical part of the UK's national infrastructure and given the scale of impact of Covid on the aviation sector, the company and the Board have engaged with a broad range of stakeholders though this crisis. The following is a brief summary of the Board's engagement with different stakeholders:

Customers: following the initial outbreak of the pandemic in the UK and government restrictions to control its spread the executive team engaged on the measures NATS was taking to ensure ATC service safety and resilience, actions to reduce the cost base and the suspension of capital investment in ATC systems and infrastructure to protect liquidity and consulted on customer priorities for its subsequent recommencement. Customers generally supported proposals but due to the uncertainty were equally unsure about the timing and rate of any recovery and therefore the outlook for traffic volumes. To support airline customers, the UK alongside other Eurocontrol member states deferred the settlement of en route ATC charges which the Board had approved. Recognising the challenge of ramping up our operation as travel restrictions lifted, we engaged with customers and government about the measures needed for a successful restart including clarity and advance notice about how restrictions and regulations would be lifted. We maintained our annual customer survey and received responses from 31 (of 61) airlines accounting for 44% of flight volumes and an overall score of 8.8 out of 10. Comments relating to engagement on our operational response to Covid ranged from NATS being seen to be proactively engaging through to a need for more clarity on certain operational procedures, which we are responding;

Shareholders: the Board met with shareholders three times in the year. The Chairman wrote to shareholders at the outset of Covid and the Board provided more granular reports and forward-looking information to the strategic partners (see governance framework). Strategic partners were engaged by the CFO on the Board's refinancing proposals, and endorsed these. The Board did not approve a dividend after considering the loss for the year, the uncertain recovery from Covid and the need to support customers by extending the period for recovering the company's revenue shortfall;

Lenders: engaged from the outset on the impact and actions being taken and agreed a new £380m bank facility in August 2020. The CFO engaged with existing and new banks on proposals for new unsecured bank facilities and bonds, including sustainably-linked debt, which they positively supported.

Pension trustees: agreed to a short period of deferral of contributions to support liquidity over summer 2020. Trustees were kept informed of the liquidity challenge, the CAA's re-opening of the price control and refinancing proposals. This engagement supported Trustee assessment of-NATS' financial strength for valuing the pension scheme at 31 December 2020. Trustees supported in principle CAA's consultation proposal for a regulatory policy statement on pension costs.

The CAA and the Department for Transport: sought assurances on the safety and resilience of the ATC service, the ability to support repatriation and cargo flights and feedback on the redetermination of the RP3 settlement alongside financeability duties. DfT sought feedback on Eurocontrol's proposal for deferring airline charges and advancing funds to air navigation service providers, which the Board endorsed. The Board engaged DfT on the scope and availability of government sponsored finance, including CLBILS, and concluded that capital market finance was more suitable for the company's circumstances. Both stakeholders supported the company's refinancing proposals. The CEO engaged with CAA and DfT on advance planning for the lifting of travel restrictions to ensure NATS' particular challenges in this respect were understood and considered as part of a coordinated aviation sector response.

Suppliers: the company has worked closely with suppliers to understand the resilience of the supply chain and support for the company's critical facilities and capital programme. Suppliers supported measures to improve the company's working capital and during the six month pause in our capital investment.

*The Strategic report was approved by the Board of directors on 9 July 2021 and signed by order of the Board by:*

Richard Churchill Coleman, Secretary

## Governance framework

### Introduction

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

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

### The Board and Directors

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

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

- the highest governance and ethical standards reflecting the aspirations of the PPP;
- a prominent safety culture through 'Just Culture' reflecting the company's purpose of advancing aviation and keeping the skies safe;
- consultation with customers on service performance, capital investment and plans for RP3;
- a cost efficient, service oriented and commercially smart organisation, requiring best in class performance of its workforce and partners; and
- diversity and inclusion and fair treatment of its workforce, valuing the contributions of Trades Unions.

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 2020 to the date of approval of the accounts, there were no changes to the directors.

### Access to legal and professional advice

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

### Board meetings

The NATS group has nested board meetings with NERL Board meetings taking place as part of the NATS Holdings meetings. The NERL Board routinely meets seven times per year in January, March, May, June, July, September and November, and supplements these scheduled meetings with additional meetings as business priorities require. This year, the Board met ten times. This includes additional meetings which have also taken place to review the impact of Covid on the business and management's response.

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

## Compliance with the UK Corporate Governance Code

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

### Provision 9: Independence of the Chair

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

### Provisions 11 and 12: Independence of Directors and appointment of Senior Independent Director

The arrangements for appointing non-executive directors, as set out in the SPA, are such that none of the directors meet the Code's criteria for independence. This affects NERL's ability to comply with a number of the Code's provisions, including the requirement to appoint a senior independent director.

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

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

### Provision 18: Re-election of directors

The non-executive directors are appointed by the shareholding groups and are therefore subject to the relevant shareholding groups' selection processes, rather than those included in the provisions of the Code. They are therefore not

subject to annual re-election as stipulated by Provision 18, although Partnership directors are appointed by the Government on three-year fixed-term contracts. The tenure of non-executive directors at 31 March 2021 was as follows:

| Name | Date of appointment | Years of service to 31 March 2021 |
|---|---|---|
| Paul Golby | 1/4/16 | 5 years |
| Maria Antoniou | 1/8/16 | 4 years 8 months |
| Harry Bush | 1/4/16 | 5 years |
| Mike Campbell | 26/5/17 | 3 years 10 months |
| Richard Keys | 1/4/16 | 5 years |
| Kathryn Leahy | 31/5/18 | 2 years 10 months |
| Hugh McConnellogue | 4/10/18 | 2 years 6 months |
| Iain McNicoll | 1/4/16 | 5 years |
| Gavin Merchant | 1/4/16 | 5 years |
| Louise Street | 29/11/18 | 2 years 4 months |

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

Provision 3: Engagement with major shareholders

Within the PPP structure NERL is a wholly owned subsidiary of NATS Limited which is in turn a wholly owned subsidiary of NHL. There are no institutional or public shareholders. However, the nature of the SPA is such that the shareholders have representatives amongst the directors with whom they enjoy a close working relationship. All non-executive directors are invited to relay the views of their respective shareholders into Board discussions. The Board is therefore able to take decisions in the best interests of the company and wider NATS group, having taken account of the views of the shareholders. The Chair also has regular discussions with shareholders in addition to the formal shareholder meetings.

# 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 2021.

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

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

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

## Dividends

The company has paid no dividends in the year. The Board recommends a final dividend for the year of £nil (2020: £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

Alistair Borthwick

Dr Harry Bush CB

Michael Campbell

Dr Paul Golby CBE

Richard Keys

Kathryn Leahy

Hugh McConnellogue

Iain McNicoll CB CBE

Gavin Merchant

Martin Rolfe

Louise Street

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

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

## Directors' indemnities

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

## Employees

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

## Employee engagement

The directors are committed to the involvement of employees in the decision-making process through effective leadership at all levels in the organisation, including engagement with the Board through a designated non-executive director. Employees are frequently involved through direct discussions with their managers, cross company working groups and local committees. Regular employee consultations cover a range of topics affecting the workforce, 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. Following the outbreak of Covid, the directors had regard to the health and well-being of employees and consulted on and implemented adjustments to the working environment, including social distancing measures and home working, to protect the workforce and the company's operation. The NATS CEO maintains high visibility with employees through visits to NATS sites, or through virtual engagements where more appropriate, where he talks to them about current business issues and takes questions in an open and straightforward manner. As a result of Covid travel restrictions, the NATS CEO and the Executive team provided regular updates to staff through the company's internal media. Such actions enable employees to achieve a common awareness of those factors affecting the performance of the company. Also, employees' views are represented through an open dialogue with Prospect and the Public and Commercial Services Union (PCS), the recognised unions on all matters affecting employees. Formal arrangements for consultation with employees exist through a local and company-wide framework agreed with the Trades Unions.

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

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

During the year the Chairman and Maria Antoniou met with globeAll, the employee network representing BAME and other cultural minorities, in the wake of the murder of George Floyd and the response of the Black Lives Matter movement to this.

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

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

### Business relationships

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

### Going concern and subsequent events

The directors' assessment of going concern is explained in the Financial review section of this report. Subsequent events are disclosed in note 32 to the financial statements.

### Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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;
- 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the NATS group's website. Legislation in the United Kingdom governing the preparation and dissemination of

financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

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

Auditor

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

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

Richard Churchill-Coleman

Secretary

9 July 2021

Registered office

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

Registered in England and Wales

Company Number: 04129273

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|---|---|
| Opinion on the financial statements | In our opinion:<br>• the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2021 and of its loss for the year then ended;<br>• have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and<br>• have been prepared in accordance with the requirements of the Companies Act 2006.<br>We have audited the financial statements of NATS (En Route) plc (the 'Company') for the year ended 31 March 2021 which comprise the Income statement, the Statement of Comprehensive income, the Balance sheet, the Statement of changes in equity, the Cash flow statement and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. |
| Separate opinion in relation to IFRSs as issued by the IASB | As explained in note 2a to the financial statements, the Company in addition to complying with its legal obligation to apply international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).<br>In our opinion the financial statements give a true and fair view of the financial position of the Company as at 31 March 2021 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.<br><br>*Independence*<br>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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. |
| 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 are detailed below.<br>We considered going concern to be a key audit matter at the planning stage of our audit because the COVID-19 pandemic has had a significant impact on air traffic and the Company's operations and the Company was in the process of refinancing its bank and bond facilities. There has been a significant impact on the UK economy and the demand for air travel, and therefore the demand for the Company's air traffic control services. This is detailed within the Directors' Going Concern statement on pages 18 and 19, with further going concern information within note 2a on pages 48 and 49 of the financial statements. In making their judgement the Directors' have taken into consideration that in June 2021 the Company completed a refinancing of its bank facilities and its publicly traded bonds which delivered £750m of new fixed rates bonds and £850m of new bank facilities. This is detailed within note 32 on page 104.<br>Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting and in response to the key audit matter included:<br>• 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.<br>• Detailed enquiries 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.<br>• Reviewing management's reverse stress testing on forecasts and consideration of the downside scenarios that would result in a breach of the net debt to Regulatory Asset Base ("RAB") covenant. We considered management's assessment of the likelihood of such circumstances arising in determining their conclusion related to going concern.<br>• Assessing the accuracy of management's 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 2021 through to at least June 2022.<br>• Reviewing the Company's facility agreements, including the refinancing that happened in June 2021, and other key documents for significant matters that could impact on the going concern assessment.<br>• Reviewing management's assessment of controllable mitigations available to the Company to reduce cash flow spend in the going concern period in order to determine whether such mitigations are realistic. |

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

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

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

## Overview

**Coverage**

100% (2020: 100%) of loss before tax (2020: profit before tax)

100% (2020: 100%) of revenue

100% (2020: 100%) of total assets

**Key audit matters**

| | 2021 | 2020 |
|---|---|---|
| Carrying value of goodwill | Yes | Yes |
| Going concern | Yes | Yes |
| Valuation of pension scheme assets and liabilities | Yes | Yes |
| Recognition of licence fee revenue and amounts recoverable under regulatory agreement | Yes | Yes |
| Capital investment programme | Yes | Yes |

**Materiality**

*Company financial statements as a whole*

£4.1m (2020: £3.6m) based on 0.7% of net operating costs excluding goodwill impairment (2020: 5% based on profit before tax and goodwill impairment).

## An overview of the scope of our audit

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

There has been no significant change in the Company's operations, other than the continuing significant impact as result of COVID-19, 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.

## 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. In addition to the matter described in the conclusions relating to going concern section of our report, we have determined the matters below to be the key audit matters to be communicated in our report.

| Key audit matter | | How the scope of our audit addressed the key audit matter |
|---|---|---|
| *Carrying value of goodwill*<br><br>As disclosed in note 13 the Company has goodwill with a carrying amount of £38.3m (2020: £149.3m). The carrying value of goodwill at 31 March 2021 was impaired by £111.0m (2020: £49.0m) during the year.<br><br>The Company's accounting policy for goodwill is set out in note 2a and note 3 includes details of the estimation uncertainty with respect to the impairment of goodwill.<br><br>Note 13 includes details of the Company's assessment of the recoverable amount, determined by reference to the higher of its fair value less costs of disposal and its value in use. | Management has undertaken an impairment review of the carrying value of goodwill by comparison with the recoverable amount.<br><br>The determination of the recoverable amount is subject to a significant level of estimation. This includes the premium applied to the RAB in determining the Fair Value Less Costs of Disposal, which was assessed by management to be 0% at 31 March 2021 (2020: 0%), and the inputs into the value in use calculations.<br><br>As a result of the above, the carrying value of goodwill and the related disclosures were considered an area of focus for our audit. | Our procedures included:<br>• Considering the impairment review methodology, ensuring that it is in accordance with IAS 36 and that the carrying value of goodwill is based on Fair Value Less Costs of Disposal (FVLCD), being higher than Value In Use (VIU).<br>• Testing the FVLCD by agreeing the underlying RAB value to the carrying value of the RAB at 31 March 2021.<br>• Challenging, with the assistance of our valuation specialists, management's assessment of the RAB premium to be applied in the calculation of FVLCD.<br>• Reviewing managements VIU scenarios, and comparing these to the FVLCD, given the lack of alternative observable market data.<br>• Ensuring that costs to dispose were appropriately deducted in the FVLCD calculation, by checking that they were included within the FVLCD calculation.<br>• Considering and challenging the reasonableness of management's VIU scenarios, which included:<br>o the periods over which regulatory allowances will be recovered<br>o alternative outcomes in respect of the CAA's price control review from 2020 to 2022; and<br>o varying the forecast returns of traffic volumes.<br>• Checking the integrity of the underlying calculations for the FVLCD and VIU scenarios and agreeing these to the underlying models.<br>• Recalculating the £111.0m goodwill impairment that was recognised in the year and ensuring that this was appropriately disclosed within the financial statements.<br><br>Key observations<br><br>As a result of performing the procedures above we found that the carrying value of goodwill, the impairment recognised during the year, and the related disclosures were acceptable. |

| Key audit matter | | How we addressed the key audit matter in the audit |
|---|---|---|
| *Valuation of pension scheme assets and liabilities*<br><br>As disclosed in note 29, the Company has £3,832.6m (2020: £3,491.6m) of plan assets that are included in the measurement of the net defined benefit liability/asset recorded on the Company balance sheet.<br><br>As disclosed in note 29, the Company has recorded a gross defined benefit obligation of £3,856.2m (2020: £3,318.3m) in the measurement of the net defined benefit pension liability/asset recorded on the Company balance sheet.<br><br>Note 29 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 assets recorded in the net defined benefit liability/asset on the Company's balance sheet is significant and for certain assets by their nature the asset valuations are subjective.<br><br>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.<br><br>As a result of the above the valuation of pension scheme assets and liabilities and the related disclosures were considered an area of focus for our audit. | Our procedures included:<br>• Performing audit procedures in order to substantiate the value of the scheme assets. This included comparing the values of investments held at the balance sheet date to external investment manager asset confirmations and statements.<br>• Assessing the competence and objectivity of the Investment Fund Managers who provided the value of plan assets by obtaining relevant controls reports and, where necessary, bridging letters to check that the period covered by the report was appropriate and that adequate effective controls existed within the fund managers.<br>• Testing a sample of the individual asset valuations either to quoted market prices or, in respect of a sample of derivatives, by using our valuation experts to assist us in determining that the valuations were appropriate.<br>• With the use of our internal 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 where each of these assumptions sit within an acceptable range of possible outcomes.<br>• Agreeing member information to source data to ensure it was accurate.<br>• Agreeing that the allocation to the Company of its share of the Group's plan assets and liabilities is reasonable.<br>• Assessing the adequacy of the disclosures within note 29 to the financial statements to ensure these are in line with IAS19.<br><br>Key observations<br><br>As a result of performing the procedures above, we found that the valuation of total plan assets, the measurement of the gross defined benefit pension scheme obligations and the related disclosures were acceptable. |

| Key audit matter | | How we addressed the key audit matter in the audit |
|---|---|---|
| *Recognition of licence fee revenue and amounts recoverable under regulatory agreement*<br><br>Total revenue and regulatory allowances in the year is £687.2m (2020: £736.7m), of which regulatory allowances under-recovered totals £417.2m (2020: 7.3m).<br><br>The accounting policy for 'revenue recognition' and for 'Amounts recoverable or payable under regulatory agreement' are included in note 2a.<br><br>Details of a Prior year restatement and resulting change in accounting policy in respect of the presentation of Regulatory allowances under recovered and Amounts recoverable/payable under regulatory agreement is set out within note 2b.<br><br>Note 4 includes details of total revenue and regulatory allowances. Notes 17 and 22 include details of the amounts recoverable and payable under regulatory agreement.<br><br>Note 3 sets out the significant estimation uncertainty in respect of the recognition of the shortfall in revenue and regulatory allowances. | As a result of the significant impact of COVID-19 on flight volumes and the CAA opening a price control review, the recognition of licence fee revenue and regulatory allowances under recovered is subject to significant estimation uncertainty.<br><br>This estimation includes management judgement in respect of the outcome of the CAA price control review and the basis for their assessment of efficient costs and the period over which any amounts recoverable under regulatory agreement will be recovered.<br><br>As a result of the above, the recognition of licence fee revenue and amounts recoverable under regulatory agreement and the related disclosures were considered an area of audit focus. | Our procedures included:<br>• Understanding the regulatory framework in respect of licence fee revenue and regulatory allowances under recovered to ensure that they accounted for in accordance with the appropriate accounting standards. This procedure assisted in checking that the prior year restatement was appropriate.<br>• Completing a test in total on the NATS En Route plc revenue, corroborating each of the underlying revenue streams to supporting contract documentation, to ensure that the revenue is appropriately recognised.<br>• Ensuring that airspace revenue is being accounted for in line with the provisions of the air traffic services licence, the regulatory charging mechanisms for the reference period, and the basis for the on-going price control review being conducted by the CAA. This procedure was appropriate for the change in accounting policy.<br>• Consideration of the recognition of the amounts recoverable under regulatory agreement by assessing the right to receive the assets, the period over which it will be recovered and the impact of discounting.<br>• Reviewing publicly available information, including CAP2119 and CAP2160, setting out the CAA's proposed approach to setting the licence fee. Comparing Management's approach to determining licence fee entitlement to that proposed by the CAA.<br>• Challenging management's judgement as to whether it is highly probable their assessment of the costs the CAA will determine to be recoverable, will not give rise to a significant risk of revenue reversal. This included reviewing management's assessment of:<br>  o the period over which any regulatory allowances under-recovered would be recovered; and<br>  o the determination of the cost base<br>• Challenging management's basis for spreading the recognition of the annual licence fee revenue and regulatory allowance entitlement through the year by assessing alternative input and output based recognition bases.<br>• Agreeing the basis of the prior year restatement and resulting change in accounting policy, recalculating the impact and agreeing to the underlying records.<br>• Reviewing the disclosures presented in respect of the above within the financial statement.<br><br>Key observations<br><br>As a result of performing the procedures above, we found that the recognition of licence fee revenue, amounts recoverable under regulatory agreement and the related disclosures were acceptable. |

| Key audit matter | | How we addressed the key audit matter in the audit |
|---|---|---|
| *Capital investment programme*<br>The carrying value of other intangibles assets is £614.2m (2020: £608.3m) and property, plant and equipment is £446.1m (2020: £464.1m). The accounting policy for these is included in note 2a.<br><br>Notes 14 and 15 set out details of amounts invested in the Company's capital investment programme. | The Company invests significant sums in the sustainment and development of air traffic control infrastructure. A substantial proportion of the costs incurred are the amounts charged by staff employed by the Company that are capitalised to specific projects.<br><br>A key judgement is that either time is not appropriately capitalised or the quantum of the labour rate used could be misstated.<br><br>In addition, management makes judgements around the useful economic lives of currently deployed systems, assesses indicators of impairment and considers feasibility of individual projects.<br><br>Therefore, the capital investment programme and the related disclosures were considered an area of focus for our audit. | Our procedures included:<br>• Holding discussions with project managers outside of the Company finance team in order to gain an understanding of the capital projects, and assessing them for impairment factors.<br>• 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.<br>• Agreeing a sample of externally generated assets to supporting documentation to test existence and that costs are materially accurate.<br>• Comparing useful economic lives to prior years and our own expectations and challenging project managers to assess performance to date and expected out turn we have assessed management's judgement of the useful economic lives of currently deployed systems to ensure that the position taken is reasonable.<br>• Ensuring that a detailed project-by-project review had been completed and that the review process was appropriately documented. We considered management's assessment of any indicators of impairment for a sample of current capital projects carried forward as either tangible or intangible fixed assets.<br>Key observations<br>We consider the judgements made by management in respect of the capital investment programme and the related disclosures to be acceptable. |

Our application of materiality

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

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

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

| | Company financial statements | |
|---|---|---|
| | 2020 | 2019 |
| Materiality | £4.1m | £3.6m |
| Basis for determining materiality | 0.7% of operating costs excluding goodwill impairment | 5% of profit before tax and goodwill impairment |
| Rationale for the benchmark applied | Due to the COVID-19 pandemic, the Company has experienced significantly lower flight traffic levels and as a result has incurred a loss for the year. As a result and given that costs incurred will form the basis on which the licence fee for the period will be set by the CAA, we considered that operating costs provide the most appropriate measure on which to base materiality. | We considered profit before tax and goodwill impairment to be the most significant determinant of the Company's financial performance used by shareholders. |
| Performance materiality | £3.1m | £2.8m |
| Basis for determining performance materiality | We set our performance materiality at 75% of overall materiality. In setting the level of performance materiality, we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments. Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. | |

*Reporting threshold*

We agreed with the parent company's Audit Committee that we would report to them all individual audit differences identified during the course of our audit above clearly trivial, which for significant components was in excess of £100,000 (2020: £74,000). We also agreed to report differences below that threshold that, in our view, warranted reporting on qualitative grounds.

**Other information**

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

We have nothing to report in this regard.

**Corporate Governance statement**

We are required to review the Directors' statement in relation to going concern and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Statement 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 | • The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified as set out on pages 18 and 19. |
| Other Code provisions | • Directors' statement on fair, balanced and understandable as set out on page 34;<br>• Board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out on 34; and<br>• The section of the annual report that describes the review of effectiveness of risk management and internal control systems as set out on page 20. |

**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:<br><br>• 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<br>• the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.<br><br>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:<br><br>• 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<br>• the Company financial statements are not in agreement with the accounting records and returns; or<br>• certain disclosures of Directors' remuneration specified by law are not made; or<br>• we have not received all the information and explanations we require for our audit. |

**Responsibilities of Directors**

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

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

## Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- in response to the risk of management override of controls, identifying and testing journal entries, in particular any material journal entries posted to revenue, unusual account combinations and journals posted by unexpected users;
- enquiries with management and the parent company's Audit Committee and internal legal counsel;
- review of minutes of Board meetings throughout the year;
- review of tax compliance and involvement of our tax specialists in the audit;
- review of internal audit reports; and
- challenging assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to the carrying value of goodwill, revenue and regulatory allowance accounting, the valuation of defined benefit pension assets, the measurement of the defined benefit pension obligation, the capital investment programme and going concern as set out in the Key Audit Matters above.

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's members as a body, for our audit work, for this report, or for the opinions we have formed.

Christopher Pooles (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Reading
United Kingdom
9 July 2021

DocuSigned by:
Chris Pooles
F75710324A07463...

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

## Income statement
for the year ended 31 March

| | Note | 2021 £m | Restated 2020 £m |
|---|---|---|---|
| Revenue from contracts with customers | 4 | 266.2 | 689.0 |
| Regulatory allowances under-recovered | 4 | 417.2 | 7.3 |
| Other revenue | 4 | 3.8 | 40.4 |
| Total revenue and regulatory allowances | | 687.2 | 736.7 |
| Staff costs | 7 | (308.7) | (343.7) |
| Staff redundancies | 7 | (56.9) | (1.3) |
| Services and materials | | (45.4) | (46.2) |
| Repairs and maintenance | | (37.0) | (38.7) |
| Depreciation, amortisation and impairment of property, plant, equipment, intangible and right-of-use assets | 6 | (98.2) | (125.7) |
| Goodwill impairment | 3, 6, 13 | (111.0) | (49.0) |
| Change in expected credit losses | 17 | 1.5 | (16.8) |
| Other operating charges | | (42.4) | (68.4) |
| Other operating income | | 2.9 | 3.5 |
| Profit on disposal of non-current assets | | 0.4 | 0.2 |
| Deferred grants released | 6 | 0.2 | 0.2 |
| Net operating costs | | (694.6) | (685.9) |
| Operating (loss)/profit | 6 | (7.4) | 50.8 |
| Investment income | 8 | 2.8 | 2.4 |
| Fair value movement on derivative contracts | 9 | 0.4 | 2.1 |
| Finance costs | 10 | (30.0) | (26.4) |
| (Loss)/profit before tax | | (34.2) | 28.9 |
| Tax | 11 | (12.4) | (25.4) |
| (Loss)/profit for the year attributable to equity shareholders | | (46.6) | 3.5 |

## Statement of comprehensive income
for the year ended 31 March

| | Notes | 2021 £m | 2020 £m |
|---|---|---|---|
| (Loss)/profit for the year after tax | | (46.6) | 3.5 |
| Items that will not be reclassified subsequently to profit and loss: | | | |
| Actuarial (loss)/gain on defined benefit pension scheme | 29 | (220.2) | 169.9 |
| Deferred tax relating to actuarial (loss)/gain on defined benefit pension scheme | 24 | 41.9 | (32.0) |
| Items that may be reclassified subsequently to profit and loss: | | | |
| Change in fair value of hedging derivatives | | (12.3) | 0.8 |
| Transfer to income statement on cash flow hedges | | 4.0 | 3.7 |
| Deferred tax relating to items that may be reclassified | 24 | 1.6 | (0.9) |
| Other comprehensive (loss)/income for the year, net of tax | | (185.0) | 141.5 |
| Total comprehensive (loss)/income for the year attributable to equity shareholders | | (231.6) | 145.0 |

## Balance sheet
at 31 March

| | Notes | 2021 £m | Restated 2020 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 13 | 38.3 | 149.3 |
| Other intangible assets | 14 | 614.2 | 608.3 |
| Property, plant and equipment | 15 | 446.1 | 464.1 |
| Right-of-use assets | 16 | 43.4 | 56.4 |
| Retirement benefit asset | 29 | - | 173.3 |
| Trade and other receivables | 17 | 7.6 | 5.0 |
| Amounts recoverable under regulatory agreement | 17 | 442.5 | 9.1 |
| Derivative financial instruments | 20 | - | 3.9 |
| | | 1,592.1 | 1,469.4 |
| **Current assets** | | | |
| Trade and other receivables | 17 | 54.8 | 91.5 |
| Amounts recoverable under regulatory agreement | 17 | 2.4 | 0.5 |
| Current tax assets | | 15.1 | 3.1 |
| Short term investments | 21 | - | 37.3 |
| Cash and cash equivalents | 21 | 172.2 | 451.0 |
| Derivative financial instruments | 20 | 0.1 | 4.1 |
| | | 244.6 | 587.5 |
| **Total assets** | | 1,836.7 | 2,056.9 |
| **Current liabilities** | | | |
| Trade and other payables | 22 | (133.5) | (141.1) |
| Amounts payable under regulatory agreement | 22 | (34.9) | (30.6) |
| Borrowings | 18 | (108.1) | (40.9) |
| Lease liabilities | 19 | (6.3) | (5.8) |
| Provisions | 23 | (1.2) | (2.0) |
| Derivative financial instruments | 20 | (21.5) | (19.1) |
| | | (305.5) | (239.5) |
| **Net current (liabilties)/assets** | | (60.9) | 348.0 |
| **Non-current liabilities** | | | |
| Trade and other payables | 22 | (94.9) | (77.8) |
| Amounts payable under regulatory agreement | 22 | (104.5) | (106.8) |
| Borrowings | 18 | (602.9) | (645.3) |
| Lease liabilities | 19 | (53.9) | (59.5) |
| Retirement benefit obligations | 29 | (23.6) | - |
| Deferred tax liability | 24 | (122.1) | (156.4) |
| Provisions | 23 | (8.6) | (6.8) |
| Derivative financial instruments | 20 | (81.1) | (93.6) |
| | | (1,091.6) | (1,146.2) |
| **Total liabilities** | | (1,397.1) | (1,385.7) |
| **Net assets** | | 439.6 | 671.2 |
| **Equity** | | | |
| Called up share capital | 25 | 10.0 | 10.0 |
| Hedge reserve | | (2.6) | 4.1 |
| Special reserve | | 34.9 | 34.9 |
| Other reserves | | 7.4 | 8.4 |
| Retained earnings | | 389.9 | 613.8 |
| **Total equity** | | 439.6 | 671.2 |

The financial statements (Company No. 04129273) were approved by the Board of directors and authorised for issue on 9 July 2021 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 2019** | 10.0 | 0.5 | 34.9 | 9.4 | 528.4 | 583.2 |
| Profit for the year | - | - | - | - | 3.5 | 3.5 |
| Other comprehensive income/(loss) for the year | - | 3.6 | - | (1.0) | 138.9 | 141.5 |
| Total comprehensive income/(loss) for the year | - | 3.6 | - | (1.0) | 142.4 | 145.0 |
| Dividends paid | - | - | - | - | (57.0) | (57.0) |
| **At 31 March 2020** | 10.0 | 4.1 | 34.9 | 8.4 | 613.8 | 671.2 |
| **At 1 April 2020** | 10.0 | 4.1 | 34.9 | 8.4 | 613.8 | 671.2 |
| Loss for the year | - | - | - | - | (46.6) | (46.6) |
| Other comprehensive loss for the year | - | (6.7) | - | (1.0) | (177.3) | (185.0) |
| Total comprehensive loss for the year | - | (6.7) | - | (1.0) | (223.9) | (231.6) |
| **At 31 March 2021** | 10.0 | (2.6) | 34.9 | 7.4 | 389.9 | 439.6 |

[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 | 2021 £m | 2020 £m |
|---|---|---|---|
| Net cash (used in)/generated from operating activities | 26 | (258.4) | 211.6 |
| **Cash flows from investing activities** | | | |
| Interest received on short term investments | | 0.9 | 1.2 |
| Purchase of property, plant and equipment and other intangible assets | | (74.9) | (148.0) |
| Proceeds of disposal of property, plant and equipment | | 0.9 | 0.3 |
| Transfers from/(to) short term investments | | 37.3 | (0.9) |
| Net cash outflow from investing activities | | (35.8) | (147.4) |
| **Cash flows from financing activities** | | | |
| Interest paid | | (21.5) | (18.6) |
| Interest received on derivative financial instruments | | (0.5) | (0.5) |
| Repayment of bond principal | | (41.6) | (43.2) |
| Receipt of en route advances | | 101.5 | - |
| Bank loan drawdown | | - | 395.0 |
| Principal paid on lease liabilities | | (5.6) | (4.8) |
| Interest paid on lease liabilities | | (1.6) | (1.7) |
| Index linked swap repayments | | (14.1) | (12.1) |
| Bank facility arrangement fees | | (1.2) | - |
| Dividends paid | | - | (57.0) |
| Net cash inflow from financing activities | | 15.4 | 257.1 |
| (Decrease)/increase in cash and cash equivalents during the year | | (278.8) | 321.3 |
| Cash and cash equivalents at 1 April | | 451.0 | 129.7 |
| Cash and cash equivalents at 31 March | | 172.2 | 451.0 |
| Net debt (representing borrowings and lease liabilities, net of cash and short term investments (see notes 21 and 26)) | | (599.0) | (263.2) |

## 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 34. The nature of the company's operations and its principal activities are set out in the Report of the directors and in the Strategic report.

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

## 2a. Basis of preparation and accounting policies

*Going concern*

The company's business activities, together with the factors likely to affect its performance and financial position, its cash flows, liquidity position and borrowings are set out in this Strategic report. In addition, note 3 to the financial statements describes critical judgements and key sources of estimation uncertainties and note 21 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 2021, the company had cash of £172.2m and, while reporting net current liabilities of £60.9m, also had access to undrawn committed bank facilities of £385m until July 2022. In June 2021 the company completed a refinancing of its debt structure following the issuance in May 2021 of £750m of unsecured bonds and agreement on £850m of new unsecured bank facilities which enabled existing secured bonds and secured bank facilities to be repaid (including the undrawn portion of the committed bank facilities at the balance sheet date of £385m). As a result of this refinancing the previous set of financial covenants was replaced by a single, point in time net debt/RAB ratio at 85%. Of the new unsecured bank facilities, £450m expire in May 2023 and £400m in May 2024, with the latter having options for extension subject to agreement with banks up to May 2026. At 30 June 2021, the company had cash and undrawn bank facilities of around £900m.

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

The severe traffic volume scenarios considered were: Eurocontrol's May 2021 pessimistic case (see figure 3, page 5); a slower recovery scenario, whereby volumes remain at 20% of pre-pandemic levels for financial year 2021/22; a prolonged gradual 10-year recovery to pre-pandemic levels; and a scenario with no air traffic volumes for a 12-month period from July 2021, being the most severe traffic scenario. A separate scenario for the impact of more adverse financial market conditions on cash contributions to the defined benefit scheme was reviewed. Finally, a combination scenario of lower air traffic volumes and higher pension contributions was also performed. Under the most severe scenario the company maintains adequate liquidity and headroom to meet its covenant, prior to mitigating actions.

The directors have also considered, through a reverse stress test, the point at which the financial covenant would be breached. The company's cash flow forecasts, taking account of 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 possible 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 under the Transport Act 2000 to exercise their functions in the manner they think best calculated to secure that NERL will not find it unduly difficult to finance its licenced activities. The directors consider the company has adequate resources to continue to operate for a period of at least twelve months from the date of approval of the financial statements and have therefore adopted the going concern basis in the preparation of the financial statements.

*Accounting standards*

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial information has also been prepared in accordance with IFRSs issued by the International Accounting Standards Board (IASB).

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

*Accounting standards adopted in the year*

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

- IFRS 16 (amendments): *COVID-19-Related Rent Concessions*; effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the Covid pandemic.
- IFRS 3 (amendments): *Definition of a Business*; the definition of a business in IFRS 3: *Business Combinations* has been amended in order to help companies determine whether a transaction should be accounted for as a business combination or as an asset acquisition. This is likely to result in more acquisitions being accounted for as asset acquisitions.
- IAS 1 and IAS 8 (amendments): *Definition of Material*; the definition of material has been amended in IAS 1: *Presentation of Financial Statements* and IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and should be considered when deciding what information should be included in financial statements. The amendments were issued to align the definition of material across the IFRS standards and to clarify certain aspects of the definition.

*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 (and in some cases had not yet been adopted by the EU):

- IFRS 7, IFRS 9, IAS 39 (amendments): *Interest Rate Benchmark Reform*; Phases 1 and 2 of the interest rate benchmark (IBOR) reform amendments is now effective and relates to changes to IAS 39: *Financial Instruments: Recognition and Measurement*, IFRS 9: *Financial Instruments* and IFRS 7: *Financial Instruments: Disclosures* (effective on or after 1 January 2021)
- IAS 16 (amendments): *Property, Plant and Equipment – Proceeds Before Intended Use* (effective on or after 1 January 2022)
- IAS 37 (amendments): *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts - Cost of Fulfilling a Contract* (effective on or after 1 January 2022)
- IFRS 3 (amendments): *Business Combinations* (effective on or after 1 January 2022)
- Annual Improvements to IFRS Standards 2018 – 2020 (effective on or after 1 January 2022)

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

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

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 operating 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 receipts through the expected life of the financial asset to that asset's net carrying amount.

*Amounts recoverable or payable under regulatory agreement*

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

As explained in note 3 of the financial statements, the period over which the revenue shortfall arising in 2020 to 2022 will be recovered will be determined by the CAA following a reconciliation of actual costs and revenue in this period and consultation on a new five-year price

control from 2023. The CAA has said it intends to allow the recovery of the revenue shortfall over a longer period than the current two-year time lag for recovery, with the arrangements that have been proposed by the European Commission for European regulated air navigation service providers being an important benchmark (i.e. over a five to seven year period from 2023).

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

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

Distributable reserves comprise accumulated realised profits less accumulated realised and unrealised losses. In the opinion of the directors, the key judgements necessarily made in estimating the amount of revenue and regulatory allowances to which the company expects to be entitled to in the year ended 31 March 2021, as explained in note 3, are such that related regulatory allowances under recovered are currently considered to be unrealised for this purpose. The directors will continue to keep this judgement under review in the light of the outcome of the CAA's determination process.

*Operating segments*

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

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

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

*Operating profit*

Operating profit is stated after charging restructuring costs but before investment income, the fair value movement on financial instruments, finance costs and taxation.

*Goodwill (see note 3)*

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is

recognised immediately in the income statement and is not subsequently reversed. For the purpose of impairment testing the company assesses the carrying value of goodwill against the recoverable amount of the cash generating unit to which goodwill has been allocated. Where the recoverable amount is less than the carrying value, the impairment loss is allocated to goodwill.

Recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value less costs of disposal is assessed by reference to the RAB of the economically regulated activities and costs of disposal. In assessing value in use, the estimated future cash flows (with a RAB terminal value, as a proxy for future cash flows) are discounted to their present value using the pre-tax nominal regulated rate of return. A premium is applied to the RAB as market precedent transactions indicate economically regulated businesses attract valuations in excess of RAB. However, in light of the uncertainties arising from Covid, for 2021 the premium was assumed to be 0% (2020: 0%) - see notes 3 and 13.

*Property, plant and equipment*

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

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

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

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

*Borrowing costs*

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

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

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

*Government grants and other grants*

Government grants relating to property, plant and equipment are treated as deferred income and released

to the income statement by equal annual instalments over the expected useful economic lives of the related assets. Grants of a revenue nature are credited to the income statement in the period to which they relate. Government grants received in the year for the reimbursement of employee costs for staff furloughed due to Covid under the Coronavirus Job Retention Scheme have been included within staff costs. There are no unfulfilled conditions or contingencies attached to these grants.

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

*Leases*

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

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

*Measurement at inception*

At the lease commencement date the lessee will recognise:

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

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

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

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

*Ongoing measurement*

Subsequent to initial measurement, the lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding, reduced for lease payments made and are adjusted for any reassessment of the lease as the result of a contract modification. Right-of-use

assets are depreciated on a straight-line basis over the remaining term of the lease or asset life if it is shorter.

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

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

- If the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- In all other cases where the renegotiated terms increase the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- If the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

*Short term, low-value leases and expired leases*

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

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

*Internally-generated intangible assets – research and development expenditure*

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

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

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

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives, typically over 3 to 12 years. Assets in the course of construction are

not amortised until ready for use. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

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

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

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

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

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

*Share-based payments*

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

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

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

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

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

*Taxation*

The tax expense represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying values of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance

sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

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

*Foreign currency translation*

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

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

*Retirement benefit costs*

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

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

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

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

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

Since 2009, the NATS group and Trustees have introduced a number of pension reforms, as explained in note 29. 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 17 to 22.

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

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

*Cash and cash equivalents*

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

*Financial liabilities*

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

*Fair value through the profit or loss*

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

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

Interest-bearing bank loans, other borrowings, loan notes, trade and other payables and debt securities 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.

*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 receipts 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.

*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 20 and 21 to the accounts.

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

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

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

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

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

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

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

### 2b. Prior year restatement and resulting change in accounting policy

As a result of an error in the presentation of revenue under IFRS 15 in the prior year income statement relating to the inclusion rather than separate disclosure of amounts recoverable/payable under regulatory agreement (see note 2a) and their associated disclosure within trade and other receivables/trade and other payables, the presentation of the prior year income statement, balance sheet and balances disclosed in the notes relating to trade and other receivables and trade and other payables and financial assets and financial liabilities have been restated.

The restatement results in the reclassification from 'Revenue from contracts with customers' to 'Regulatory allowances under-recovered' in the income statement, representing the net amount of revenue which the company should receive in a subsequent period for services provided in the year and revenue which the company has rebated for services provided in a previous year. It also results in the presentation on the face of the comparative balance sheet Amounts recoverable under regulatory agreement of £9.6m, which the company is entitled to recover through an adjustment to the unit rate in a subsequent period, previously reported within Trade and other receivables (non-current) and Amounts payable under regulatory agreement amounts of £137.4m which the company is obliged to rebate in the unit rate in a subsequent period previously reported within Trade and other payables.

The reclassifications arising from the restatement do not impact on the Total revenue and regulatory allowances, profit before tax, net current assets, net assets, equity or cash flows of the company.

As a result of the above, the company has changed its accounting policy in respect of Amounts recoverable or payable under regulatory agreement and Regulatory allowances under- or over-recovered.

The change in accounting policy provides users of the financial statements with additional reliable and relevant information about the impact on the company's financial position and financial performance of the reduction in demand for air traffic services as a result of Covid, the resulting changes in the regulatory framework and the risk mitigations within the price control.

The following is a reconciliation of the income statement and balance sheet line items affected by the restatement for the year ended 31 March 2020.

Income statement (extract)

| £m | Reported as at 31 March 2020 | Reclass-ified | Restated as at 31 March 2020 |
|---|---|---|---|
| Revenue from contracts with customers | 696.3 | (7.3) | 689.0 |
| Regulatory allowances under-recovered | - | 7.3 | 7.3 |
| Other revenue | 40.4 | - | 40.4 |
| **Total revenue and regulatory allowances** | **736.7** | **-** | **736.7** |
| **Net operating costs** | **(685.9)** | **-** | **(685.9)** |
| **Operating profit** | **50.8** | **-** | **50.8** |
| Net finance costs | (21.9) | - | (21.9) |
| **Profit before tax** | **28.9** | **-** | **28.9** |
| Tax | (25.4) | - | (25.4) |
| **Profit for the year attributable to equity shareholders** | **3.5** | **-** | **3.5** |
| Other comprehensive income for the year, net of tax | 141.5 | - | 141.5 |
| **Total comprehensive income for the year attributable to equity shareholders** | **145.0** | **-** | **145.0** |

Balance sheet (extract)

| £m<br>Assets | Reported as at 31 March 2020 | Reclass-ified | Restated as at 31 March 2020 | Reported as at 31 March 2019 | Reclass-ified | Restated as at 31 March 2019 |
|---|---|---|---|---|---|---|
| Non-current assets | | | | | | |
| Goodwill | 149.3 | - | 149.3 | 198.3 | - | 198.3 |
| Other intangible assets | 608.3 | - | 608.3 | 564.8 | - | 564.8 |
| Property, plant and equipment | 464.1 | - | 464.1 | 479.6 | - | 479.6 |
| Right-of-use assets | 56.4 | - | 56.4 | - | - | - |
| Retirement benefit asset | 173.3 | - | 173.3 | - | - | - |
| Trade and other receivables | 14.1 | (9.1) | 5.0 | 21.6 | (9.6) | 12.0 |
| Amounts recoverable under regulatory agreement | - | 9.1 | 9.1 | - | 9.6 | 9.6 |
| Derivative financial instruments | 3.9 | - | 3.9 | 1.7 | - | 1.7 |
| | 1,469.4 | - | 1,469.4 | 1,266.0 | - | 1,266.0 |
| Current assets | | | | | | |
| Trade and other receivables | 96.0 | (4.5) | 91.5 | 116.7 | (6.5) | 110.2 |
| Amounts recoverable under regulatory agreement | - | 0.5 | 0.5 | - | 1.1 | 1.1 |
| Current tax assets | 3.1 | - | 3.1 | - | - | - |
| Short-term investments | 37.3 | - | 37.3 | 36.4 | - | 36.4 |
| Cash and cash equivalents | 451.0 | - | 451.0 | 129.7 | - | 129.7 |
| Derivative financial instruments | 4.1 | - | 4.1 | 2.5 | - | 2.5 |
| | 591.5 | (4.0) | 587.5 | 285.3 | (5.4) | 279.9 |
| Total assets | 2,060.9 | (4.0) | 2,056.9 | 1,551.3 | (5.4) | 1,545.9 |
| Current liabilities | | | | | | |
| Trade and other payables | (175.7) | 34.6 | (141.1) | (223.2) | 70.4 | (152.8) |
| Amounts payable under regulatory agreement | - | (30.6) | (30.6) | - | (65.0) | (65.0) |
| Borrowings | (40.9) | - | (40.9) | (42.7) | - | (42.7) |
| Lease liabilities | (5.8) | - | (5.8) | - | - | - |
| Provisions | (2.0) | - | (2.0) | (0.8) | - | (0.8) |
| Derivative financial instruments | (19.1) | - | (19.1) | (13.6) | - | (13.6) |
| | (243.5) | 4.0 | (239.5) | (280.3) | 5.4 | (274.9) |
| Net current assets | 348.0 | - | 348.0 | 5.0 | - | 5.0 |
| Non-current liabilities | | | | | | |
| Trade and other payables | (184.6) | 106.8 | (77.8) | (162.9) | 74.5 | (88.4) |
| Amounts payable under regulatory agreement | - | (106.8) | (106.8) | - | (74.5) | (74.5) |
| Borrowings | (645.3) | - | (645.3) | (292.2) | - | (292.2) |
| Lease liabilities | (59.5) | - | (59.5) | - | - | - |
| Retirement benefit obligation | | | | (16.5) | | (16.5) |
| Deferred tax liability | (156.4) | - | (156.4) | (99.9) | - | (99.9) |
| Provisions | (6.8) | - | (6.8) | (6.0) | - | (6.0) |
| Derivative financial instruments | (93.6) | - | (93.6) | (110.3) | - | (110.3) |
| | (1,146.2) | - | (1,146.2) | (687.8) | - | (687.8) |
| Total liabilities | (1,389.7) | 4.0 | (1,385.7) | (968.1) | 5.4 | (962.7) |
| Net assets | 671.2 | - | 671.2 | 583.2 | - | 583.2 |
| | | | | | - | - |
| Total equity | 671.2 | - | 671.2 | 583.2 | - | 583.2 |

The balance sheet as at 31 March 2019 has been restated and presented in this note, rather than on the face of the balance sheet, to provide users of the financial statements with all of the relevant information required for a full understanding of the impact of the restatement together.

3. Critical judgements and key sources of estimation uncertainty

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

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

The Covid pandemic and government measures to stop its spread have significantly impacted the volume of air travel since March 2020. This has resulted in a significant difference between the company's licence revenue allowances determined by the CMA for NERL for calendar years 2020 and 2021, which were based on pre-pandemic forecasts of air traffic volumes, and the amounts that NERL actually billed and collected in the year ended 31 March 2021 based on actual traffic volumes.

Anticipating the impact of Covid on the demand for the company's air traffic control service and the actions that the company was proposing to take to reduce its cost base and to preserve liquidity, the CMA set out an expectation that in addition to determining the price control for 2023 and beyond, a reconciliation exercise would be necessary for 2020 and 2021 with reference to actual flight volumes and the costs actually incurred since the start of 2020. The re-determination by the CAA and the associated reconciliations are now subject to a consultation process which is not expected to be finalised until 2022, with prices re-set from 2023 onwards. The precise basis for the reconciliation exercise was not clear at the balance sheet date. However, in its consultation document (CAP 2119) the CAA proposed that the reconciliation would be on the basis of estimates of efficient costs (which might be lower than actuals costs if it finds evidence of inefficiency), would provide for the recovery of the revenue shortfall over a longer period than the current two-year time lag for recovery under the existing regulatory framework and, to the extent practicable, would seek to allow the full recovery of revenue consistent with supporting NERL's financeability. The CAA indicated that this recovery may be over an extended period and should be consistent with affordable charges that support the recovery in traffic levels.

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

There is uncertainty with respect to the outcome of the CAA's reconciliation process and this has required the company to estimate the amount of revenue and regulatory allowances for the year ended 31 March 2021, limiting recognition to an amount for which it is highly probable that a

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

- An assessment of the licence revenue allowance for calendar years 2020 and 2021 having regard to actual regulatory costs recoverable from chargeable service units and incurred in calendar year 2020 (of £659m) and planned costs to be incurred in calendar year 2021 (of £551m). Of the 2020 licence revenue allowance, £132.5m had been recognised in the financial statements for year ended 31 March 2020. The outcome of the CAA's reconciliation of costs and revenue will not be completed until 2022, and therefore remains uncertain. As a result, the company has made a judgement as to the CAA's assessment of costs incurred, having regard to a similar assessment being undertaken by the European Commission for air navigation service providers it regulates, and has recognised an amount for which it is highly probable that a significant reversal will not subsequently occur following the CAA's assessment. As at 31 March 2021, the EC had proposed (but not approved) to Member States that costs for calendar years 2020 and 2021 be set at 94% of 2019 costs (subsequent to the balance sheet date the EC's proposal was moderated to 97% of 2019 costs and the company expects the CAA to have regard to this updated proposal during its review).
- The basis for determining the amount to be recognised in the three-month period to 31 March 2021. In making this assessment the company considered that, in the circumstances presented by the pandemic, an input-based approach based on the proportion of operating costs actually incurred in this period relative to those planned to be incurred over calendar year 2021 was the most appropriate method for measuring progress in delivery of the air traffic control service. This resulted in 22.5% of the calendar year licence revenue allowance being recognised in this three month period of £120m. Other methods considered included a straight-line approach, which would have recognised 25%, an output-based measure on actual traffic volumes relative to forecast volumes for 2021 which would have recognised 10%, and the original RP3 traffic forecast which would have recognised 21% of the 2021 revenue allowance in this period;
- The company's assessment of the period to be set by the CAA for the recovery of the shortfall in regulatory allowances starting from January 2023. The company has recognised the significant financing component by discounting future cash flows at a rate determined according to the requirements of the accounting standards which reflects i) an assessment of the market cost of NERL's borrowing at the balance sheet date based on a gilt yields and the market implied margins on bonds of similar tenor to the average period of recovery of the revenue shortfall; and ii) an allowance for credit risk based on historic recovery experience. As a sensitivity the company assessed the impact of changes in the recovery periods of between 5 and 10 years, at appropriately adjusted discount rates. There is a range of judgement of c£23m between a 5 and 10 year period of recovery. A 0.5% change in the discount rate would change revenue by c£11m. The company will be looking to the CAA to compensate at the cost of capital the

financing cost of any extended period of recovery.

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

In carrying out impairment reviews of goodwill, intangible, tangible and right-of-use assets, (including assets in the course of construction), a number of significant assumptions have to be made when preparing cash flow projections from which to determine value in use and also in assessing fair values less costs of disposal (see judgement relating to goodwill below). These include air traffic growth, the extent and timing of future cash flows, the value of the regulated asset bases, the scope for outperformance of the regulatory contract, market premia for transactions in similar economically regulated businesses, the company's licence period and the outcome of the regulatory price control determinations. The RAB reflects the capital employed in the economically regulated business and, broadly, is uplifted annually for inflation and increases with capital expenditure and reduces by regulatory depreciation. The market premium, which is applied to the RAB when determining the fair value of goodwill, was assessed at the balance sheet date to be 0% (2020: 0%). This judgement reflected the impact of Covid on the demand for air travel and the consequential uncertainties including the lack of reliable traffic forecasts, the timing and extent of traffic returning and therefore the future operating environment, as well as the outcome of the CAA's reconciliation of actual revenue and costs for calendar years 2020 to 2022 and the time period for the recovery of the revenue shortfall and its determination of the next five-year price control from 2023. There is accordingly material uncertainty in respect of the judgement on the RAB premium. As a sensitivity, a 1% change in the RAB premium would result in a £12.5m change in the goodwill impairment charge.

Should the outcome in respect of these matters differ or changes in expectations arise, further impairment charges may be required which would materially impact operating results in future periods. See notes 13, 14, 15 and 16.

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

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

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

be under the close control of these parties including appointing and bearing the costs of advisors for the sale process.

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

For these reasons, in a hypothetical transaction by a market participant to dispose of NERL or its licensed activity, the directors believe that the parties to the SPA would and should directly bear the costs of the disposal with the exception of due diligence costs that the company would bear in order to enable the directors to fulfil their statutory and fiduciary duties. It is expected that the costs parties to the SPA bear would include any commission or advisor fees relating to the sale itself, as well as advisor fees relating to the impact of the sale on each of the parties to the SPA.

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

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

*Expected credit loss provisions (see note 17)*

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

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

Overall, expected credit losses have been provided for at 16.1% of amounts due from active customers of £53.3m. A 1% change in customer default would give rise to a c£1m change in expected credit loss provision.

*Retirement benefits*

The company accounts for its defined benefit pension scheme such that the net pension scheme position is reported on the balance sheet with actuarial gains and losses being recognised directly in equity through the statement of comprehensive income. At 31 March 2021 the funding position of the scheme reported in the financial statements was a deficit of £23.6m.

A number of key assumptions have been made in calculating the fair value of the company's defined benefit pension scheme which affect the balance sheet position and the company's reserves and income statement. Refer to note 29 of the notes to the accounts for a summary of the main assumptions and sensitivities. Actual outcomes may differ materially from the assumptions used and may result in volatility in the net pension scheme position.

*Capital investment programme (see notes 14 and 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.

*Leases (see notes 16 and 19)*

*Determining the lease term*

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

## 4. Total revenue and regulatory allowances

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

| | 2021 £m | Restated 2020 £m |
|---|---|---|
| Revenue from contracts with customers | 266.2 | 689.0 |
| Regulatory allowances under-recovered | 417.2 | 7.3 |
| Other revenue: EU funding passed to UK en route customers (see note 4a) | 0.4 | 36.2 |
| Other revenue: rental and sub-lease income | 3.4 | 4.2 |
| Total revenue and regulatory allowances (see operating segments) | 687.2 | 736.7 |
| Other operating income | 2.9 | 3.5 |
| Investment income (see note 8) | 2.8 | 2.4 |
| | 692.9 | 742.6 |

### a) Total revenue and regulatory allowances disaggregated by operating segment

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

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

| | 2021 | | | 2020 Restated | | |
|---|---|---|---|---|---|---|
| | 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 | 159.8 | - | 159.8 | 551.2 | - | 551.2 |
| London Approach services | 3.2 | - | 3.2 | 12.8 | - | 12.8 |
| Infrastructure services to the MOD | 51.9 | - | 51.9 | 51.2 | - | 51.2 |
| Services for North Sea helicopters | 8.4 | - | 8.4 | 8.5 | - | 8.5 |
| Other income | 0.5 | - | 0.5 | 2.2 | - | 2.2 |
| | 223.8 | - | 223.8 | 625.9 | - | 625.9 |
| North Atlantic air traffic services: | | | | | | |
| Services to oceanic en route customers | 14.3 | - | 14.3 | 31.1 | - | 31.1 |
| Intercompany revenue | - | 23.9 | 23.9 | - | 26.0 | 26.0 |
| Total Airspace revenue from contracts with customers | 238.1 | 23.9 | 262.0 | 657.0 | 26.0 | 683.0 |
| Other Service lines | 4.0 | 0.2 | 4.2 | 5.2 | 0.8 | 6.0 |
| Total revenue from contracts with customers | 242.1 | 24.1 | 266.2 | 662.2 | 26.8 | 689.0 |
| **Regulatory allowances under-recovered** | | | | | | |
| Airspace | | | | | | |
| UK air traffic services: | | | | | | |
| Services to UK en route customers | 409.0 | - | 409.0 | 7.0 | - | 7.0 |
| London Approach services | 8.2 | - | 8.2 | 0.3 | - | 0.3 |
| **Total regulatory allowances under-recovered** | 417.2 | - | 417.2 | 7.3 | - | 7.3 |
| **Other revenue: EU funding passed to UK en route customers** | | | | | | |
| Airspace | 0.4 | - | 0.4 | 36.2 | - | 36.2 |
| **Other revenue: rental and sub-lease income** | | | | | | |
| Airspace | 2.4 | 1.0 | 3.4 | 3.2 | 1.0 | 4.2 |
| Total revenue and regulatory allowances | 662.1 | 25.1 | 687.2 | 708.9 | 27.8 | 736.7 |

## 4. Total revenue and regulatory allowances (continued)

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

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

EC Regulations require that European funding for SESAR deployment received by ANSPs should ultimately be passed on to airspace users through a discount in the unit rate charge for UK en route services. In the financial year ended 31 March 2021, £0.4m (2020: £36.2m) of European funding was passed to airspace users. Accordingly, an equivalent amount was released from contract liabilities to offset the cost of the discount. As a result, the company's revenues from UK en route services reflect the revenue and regulatory allowances for which it is entitled for the services provided in the year.

Intercompany revenue includes revenue for services to NATS (Services) Limited of £25.0m (2020: £27.7m) and to NATSNav Limited of £0.1m (2020: £0.1m).

### b) Revenue and regulatory allowances disaggregated based on economic regulation

| | 2021 | | | 2020 Restated | | |
|---|---|---|---|---|---|---|
| | External £m | Intercompany £m | Total £m | External £m | Intercompany £m | Total £m |
| **Regulated income** | | | | | | |
| Services to UK en route customers | 159.8 | - | 159.8 | 551.2 | - | 551.2 |
| London Approach services | 3.2 | - | 3.2 | 12.8 | - | 12.8 |
| Services to oceanic en route customers | 14.3 | - | 14.3 | 31.1 | - | 31.1 |
| Revenue from contracts with customers | 177.3 | - | 177.3 | 595.1 | - | 595.1 |
| Regulatory allowances under-recovered | 417.2 | - | 417.2 | 7.3 | - | 7.3 |
| Other revenue: EU funding passed to UK en route customers | 0.4 | - | 0.4 | 36.2 | - | 36.2 |
| Total regulated income | 594.9 | - | 594.9 | 638.6 | - | 638.6 |
| **Non-regulated income** | | | | | | |
| Revenue from contracts with customers | 64.8 | 24.1 | 88.9 | 67.1 | 26.8 | 93.9 |
| Other revenue: rental and sub-lease income | 2.4 | 1.0 | 3.4 | 3.2 | 1.0 | 4.2 |
| Total non-regulated income | 67.2 | 25.1 | 92.3 | 70.3 | 27.8 | 98.1 |
| | 662.1 | 25.1 | 687.2 | 708.9 | 27.8 | 736.7 |

Airspace services are economically regulated activities governed by the company's air traffic services licence. The revenue which the company is allowed to generate from these services is governed by the price control conditions of this licence. Regulatory allowances under-recovered for 2021 reflects a judgement as to the outcome of the CAA's reconciliation of actual costs and revenues and how much of the shortfall in regulatory allowances will be recovered, and over what period, having regard to the company's financeability and the period of recovery, as well as the affordability of charges to customers. Recognition has been limited to an amount for which it is highly probable that a significant subsequent reversal will not occur (see note 3).

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

| | 2021 | | | 2020 Restated | | |
|---|---|---|---|---|---|---|
| | External £m | Intercompany £m | Total £m | External £m | Intercompany £m | Total £m |
| **Over time** | | | | | | |
| Revenue from contracts with customers | 205.2 | 23.9 | 229.1 | 660.0 | 26.8 | 686.8 |
| Regulatory allowances under-recovered | 417.2 | - | 417.2 | 7.3 | - | 7.3 |
| Other revenue: EU funding passed to UK en route customers | 0.4 | - | 0.4 | 36.2 | - | 36.2 |
| Other revenue: rental and sub-lease income | 2.4 | 1.0 | 3.4 | 3.2 | 1.0 | 4.2 |
| | 625.2 | 24.9 | 650.1 | 706.7 | 27.8 | 734.5 |
| **At a point in time** | | | | | | |
| Revenue from contracts with customers | 36.9 | 0.2 | 37.1 | 2.2 | - | 2.2 |
| | 662.1 | 25.1 | 687.2 | 708.9 | 27.8 | 736.7 |

## 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:

| | 2021 | 2020 |
|---|---|---|
| | £m | £m |
| Revenue and regulatory allowances, including Other revenue: EU funding passed to UK en route customers | | |
| United Kingdom | 228.3 | 296.8 |
| United States of America | 105.7 | 90.7 |
| Other European countries | 90.0 | 131.4 |
| Republic of Ireland | 72.5 | 85.4 |
| Countries in Asia | 67.1 | 51.8 |
| Germany | 48.1 | 47.5 |
| Netherlands | 44.7 | - |
| Other North American countries | 19.7 | 23.1 |
| Countries in Africa | 4.9 | 3.5 |
| Countries in Oceania | 1.4 | 1.6 |
| Countries in South America | 1.4 | 0.7 |
| | 683.8 | 732.5 |
| Other revenue: rental and sub-lease income | | |
| United Kingdom | 3.0 | 3.7 |
| Other European countries | 0.4 | 0.5 |
| | 3.4 | 4.2 |
| | 687.2 | 736.7 |

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

### e) Contract balances

Receivables, contract assets and contract liabilities from contracts with customers are disclosed in notes 17 and 22. Significant changes in the contract assets and the contract liabilities balances during the year are as follows.

| | Contract assets | | Contract liabilities | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | £m | £m | £m | £m |
| At 1 April | 1.3 | 0.3 | (42.4) | (73.5) |
| Opening contract assets transferred to trade and other receivables | (1.2) | (0.2) | - | - |
| Cumulative catch-up adjustments | (0.1) | (0.1) | 0.1 | - |
| Additional contract asset balances recognised at the balance sheet date | - | 1.3 | - | - |
| Opening contract liabilities which have now been recognised as revenue | - | - | 1.6 | 42.6 |
| Increases due to cash received, excluding amounts recognised as revenue during the year | - | - | (35.6) | (11.5) |
| At 31 March | - | 1.3 | (76.3) | (42.4) |

Contract assets and contract liabilities are included within "trade and other receivables" and "trade and other payables" respectively 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 2021, £36.9m was recognised for performance obligations satisfied in previous periods (2020: £nil). This amount represents variable consideration relating to true-ups for the difference between actual pension contributions arising from unforeseen changes in financial market conditions and the regulator's assumption, after review and approval by the regulator.

## 4. Total revenue and regulatory allowances (continued)

### g) Remaining performance obligations

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

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

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

| | 2020 | | | | |
|---|---|---|---|---|---|
| | Due within one year or less £m | Between one and two years £m | Due between two and five years £m | Due in more than five years £m | Total £m |
| Airspace | 12.2 | 10.2 | 28.2 | - | 50.6 |

The amounts disclosed above do not include variable consideration which is constrained, which in 2020 principally related to pension pass through.

### 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 £0.6m loss (2020: £5.6m loss).

## 5. Operating segments

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

A reconciliation of service line contribution to (loss)/profit before tax is provided below:

| | 2021 £m | 2020 £m |
|---|---|---|
| Airspace | 281.2 | 298.8 |
| Other Service lines | 2.8 | 4.3 |
| Service line contribution | 284.0 | 303.1 |
| Costs not directly attributed to service lines: | | |
| Depreciation and amortisation (net of deferred grants released) | (98.0) | (125.5) |
| Impairment of goodwill | (111.0) | (49.0) |
| Profit on disposal of non-current assets | 0.4 | 0.2 |
| Employee share scheme (costs)/credits | (1.3) | 4.1 |
| Redundancy costs | (56.9) | (1.3) |
| Other costs not directly attributed to service lines | (25.5) | (82.0) |
| R&D expenditure above the line tax credits | 0.9 | 1.2 |
| Investment income | 2.8 | 2.4 |
| Fair value movement on derivative contracts | 0.4 | 2.1 |
| Finance costs | (30.0) | (26.4) |
| (Loss)/profit before tax | (34.2) | 28.9 |

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

## 5. Operating segments (continued)

### Supplementary information

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

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | 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 | 672.9 | 14.3 | 687.2 | 705.6 | 31.1 | 736.7 |
| Operating costs | (661.1) | (33.5) | (694.6) | (654.1) | (31.8) | (685.9) |
| Operating (loss)/profit | 11.8 | (19.2) | (7.4) | 51.5 | (0.7) | 50.8 |

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 £71.3m (2020: £150.2m) and Other Service lines £3.0m (2020: £0.8m).

### Geographical segments

The following table provides an analysis of the company's non-current assets (excluding financial assets and, for 2020, 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 | |
|---|---|---|
| | 2021 £m | 2020 £m |
| United Kingdom | 1,145.3 | 1,281.0 |
| Other European Countries | 1.0 | 1.2 |
| United States of America | 0.5 | 0.5 |
| | 1,146.8 | 1,282.7 |

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

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

| | 2021 £m | 2020 £m |
|---|---|---|
| The CAA regulatory charges | 5.4 | 5.5 |
| Impairment of goodwill (note 13) | 111.0 | 49.0 |
| Amortisation of intangible assets (note 14) | 35.8 | 52.2 |
| Impairment of intangible assets (note 14) | 3.8 | 7.2 |
| Depreciation of property, plant and equipment (note 15) | 45.2 | 61.7 |
| Impairment of property, plant and equipment (note 15) | 1.0 | - |
| Depreciation of right-of-use assets (note 16) | 4.5 | 4.6 |
| Impairment of right-of-use assets (note 16) | 7.9 | - |
| Deferred grants released | (0.2) | (0.2) |
| Research and development costs | 1.8 | 4.0 |
| Redundancy costs | 56.9 | 1.3 |
| R&D expenditure above the line tax credits | (0.9) | (1.2) |
| Auditors remuneration for audit services (see below) | - | - |

A portion of the company's costs are denominated in foreign currencies and are cash flow hedged. Included in operating costs is the recycling of the effective amount of foreign currency derivatives that are used to hedge foreign currency costs. The amount included in operating cost is £3.4m loss (2020: £1.9m gain).

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

Government grants relating to the purchase of property, plant and equipment are treated as deferred income which is credited to the income statement by equal annual instalments over the expected useful lives of the related assets.

Fees payable to BDO LLP and their associates for non-audit services to the company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis. These fees are borne by NATS Limited and recharged to other group companies.

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

Transactions with group companies

| | 2021 £m | 2020 £m |
|---|---|---|
| Net charges for services provided by parent undertaking | 11.0 | 9.8 |
| Charges for services provided by other group companies | 18.7 | 18.8 |
| Charges for seconded staff under the terms of the ISA provided by NATS Limited (see below) | 390.0 | 390.6 |

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

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Staff costs (excluding redundancies) £m | Staff redundancies £m | Total £m | Staff costs (excluding redundancies) £m | Staff redundancies £m | Total £m |
| Salaries and staff costs were as follows: | | | | | | |
| Wages and salaries | 264.8 | 47.5 | 312.3 | 280.8 | 1.3 | 282.1 |
| Social security costs | 30.6 | 6.3 | 36.9 | 34.9 | - | 34.9 |
| Pension costs (note 7b) | 68.1 | 3.1 | 71.2 | 73.6 | - | 73.6 |
| | 363.5 | 56.9 | 420.4 | 389.3 | 1.3 | 390.6 |
| Less: | | | | | | |
| Amounts capitalised | (24.4) | - | (24.4) | (45.6) | - | (45.6) |
| Government grants | (30.4) | - | (30.4) | - | - | - |
| | 308.7 | 56.9 | 365.6 | 343.7 | 1.3 | 345.0 |

Government grants of £30.4m (2020: £nil) relate to the reimbursement of employee costs for staff furloughed due to Covid under the Coronavirus Job Retention Scheme. There are no unfulfilled conditions or contingencies attached to these grants.

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

### b) Pension costs (see note 29)

| | 2021 £m | 2020 £m |
|---|---|---|
| Defined benefit scheme | 51.2 | 56.5 |
| Defined contribution scheme | 20.0 | 17.1 |
| | 71.2 | 73.6 |

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

### c) Staff numbers

| | 2021 No. | 2020 No. |
|---|---|---|
| The monthly average number of employees (including executive directors) was: | | |
| Air traffic controllers | 1,325 | 1,347 |
| Air traffic service assistants | 513 | 545 |
| Engineers | 735 | 787 |
| Others | 876 | 926 |
| | 3,449 | 3,605 |
| The number of employees (including executive directors) in post at 31 March was: | 3,162 | 3,696 |

The voluntary redundancy programme was completed in December 2020.

## 8. Investment income

| | 2021 £m | 2020 £m |
|---|---|---|
| Interest on bank deposits | 0.8 | 1.1 |
| Other loans and receivables | 2.0 | 1.3 |
| | 2.8 | 2.4 |

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

## 9. Fair value movement on derivative contract

| | 2021 £m | 2020 £m |
|---|---|---|
| Credit arising from change in the fair value of derivatives not qualifying for hedge | 0.4 | 2.1 |

## 10. Finance costs

| | 2021 £m | 2020 £m |
|---|---|---|
| Interest on bank loans and hedging instruments | 4.6 | 0.7 |
| Bond and related costs including financing expenses | 17.2 | 19.1 |
| Interest on lease liabilities (see note 19) | 1.6 | 1.7 |
| Other finance costs | 6.6 | 4.9 |
| | 30.0 | 26.4 |

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

## 11. Tax

| | 2021 £m | 2020 £m |
|---|---|---|
| **Corporation tax** | | |
| Current tax | 3.2 | 4.2 |
| Adjustments in respect of prior year | - | (2.4) |
| | 3.2 | 1.8 |
| **Deferred tax (see note 24)** | | |
| Origination and reversal of temporary timing differences | 9.9 | 9.1 |
| Adjustments in respect of prior year | (0.7) | 2.0 |
| Effects of tax rate change on opening balance | - | 12.5 |
| | 9.2 | 23.6 |
| | 12.4 | 25.4 |

Corporation tax is calculated at 19% (2020: 19%) of the estimated assessable (loss)/profit for the year.

| | 2021 | | 2020 | |
|---|---|---|---|---|
| The charge for the year can be reconciled to the (loss)/profit per the income statement as follows: | £m | % | £m | % |
| (Loss)/profit on ordinary activities before tax | (34.2) | | 28.9 | |
| Tax on (loss)/profit on ordinary activities at standard rate in the UK of 19% (2020: 19%) | (6.5) | 19.0% | 5.5 | 19.0% |
| Tax effect of change in corporation tax rate from 17% to 19% (see below) | - | - | 12.5 | 43.3% |
| Tax effect of prior year adjustments - current tax | - | - | (2.4) | (8.3%) |
| Tax effect of prior year adjustments - deferred tax | (0.7) | 2.0% | 2.0 | 6.9% |
| Patent box | (1.4) | 4.1% | (1.6) | (5.6%) |
| Adjustment to deferred grants on property, plant and equipment and intangible assets | (0.1) | 0.3% | - | - |
| Goodwill impairment | 21.1 | (61.7%) | 9.3 | 32.2% |
| Employee share scheme | 0.3 | (0.8%) | 0.2 | 0.7% |
| R&D expenditure credits | 0.4 | (1.2%) | (0.1) | (0.3%) |
| Other permanent differences | (0.7) | 2.0% | - | - |
| Tax charge for year at an effective tax rate of (36.3%) (2020: 87.9%) | 12.4 | (36.3%) | 25.4 | 87.9% |
| Deferred tax (credit)/charge taken directly to equity (see note 24) | (43.5) | | 32.9 | |

Deferred tax is provided at a rate of 19% (2020: 19%), being the prevailing rate of corporation tax expected to apply in the period when the liability is settled or the asset realised. The Spring Budget 2021 proposed that from April 2023 the main rate of corporation tax will increase to 25% however the legislation was not substantively enacted at the balance sheet date. The Finance Bill 2021 was substantively enacted in May 2021, and accordingly deferred tax balances will be provided for at a rate of 25% for amounts expected to unwind after 1 April 2023. The change in rate is estimated to result in a charge to the income statement in 2021/22 of £41m.

## 12. Dividends

| | 2021 £m | 2020 £m |
|---|---|---|
| Amounts recognised as dividends to equity shareholders in the year: | | |
| First interim dividend of £nil per share (2020: £2.90 per share) | - | 29.0 |
| Second interim dividend of £nil per share (2020: £2.80 per share) | - | 28.0 |
| | - | 57.0 |

## 13. Goodwill

| | £m |
|---|---|
| **Cost** | |
| At 31 March 2020 and 31 March 2021 | 351.0 |
| **Accumulated impairment losses** | |
| At 1 April 2019 | 152.7 |
| Impairment provision recognised in income statement | 49.0 |
| At 31 March 2020 | 201.7 |
| Impairment provision recognised in income statement | 111.0 |
| At 31 March 2021 | 312.7 |
| **Carrying amount** | |
| At 31 March 2021 | 38.3 |
| At 31 March 2020 | 149.3 |
| At 1 April 2019 | 198.3 |

The company tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Goodwill is allocated 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.

Fair value less costs of disposal is determined by reference to the value of the regulatory asset bases (RABs) of the relevant cash generating units of UK Air Traffic Services and North Atlantic Air Traffic Services (in aggregate £1,247.0m; 2020: £990.6m), opportunities for out-performance of regulatory settlements and market premia for economically regulated businesses, as well as estimated costs of disposal of £1.0m (see note 3: critical judgements and key sources of estimation uncertainty). A market premium is applied to the value of the RABs. It is assessed annually and for 2021 was 0% (2020: 0%). In addition, in determining fair value account was also given to the adjustment a willing buyer would make for advances of en route charges of £67.4m, which are to be settled against future income receipts. The impairment charge reflected the impact of Covid on the demand for air travel and uncertainty as to the rate of recovery to previous levels as well as the outcome of the CAA's reconciliation of actual revenue and costs and the time period for the recovery of the revenue shortfall and its determination of the price control from 2023 which reflects new projections of air traffic volumes and associated safety, service performance targets and capital investment requirements.

Fair value less costs of disposal was higher than value in use at 31 March 2021. The carrying value of goodwill at 31 March 2021 was impaired by £111.0m (2020: £49.0m) to write down the book value of the net assets of the Airspace service line of £1,290m to fair value less costs of disposal of £1,179m.

## 14. 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 2019 | 493.2 | 103.2 | 52.3 | 265.7 | 914.4 |
| Additions internally generated | 3.2 | - | 2.0 | 30.3 | 35.5 |
| Additions externally acquired | 2.8 | 0.3 | - | 65.5 | 68.6 |
| Disposals during the year | (13.4) | - | - | - | (13.4) |
| Transfers during the year | 7.4 | 1.1 | 1.9 | (11.6) | (1.2) |
| At 31 March 2020 | 493.2 | 104.6 | 56.2 | 349.9 | 1,003.9 |
| Additions internally generated | 0.9 | 0.3 | - | 13.1 | 14.3 |
| Additions externally acquired | 0.4 | 0.5 | - | 28.7 | 29.6 |
| Transfers during the year | 0.5 | 9.7 | - | (8.6) | 1.6 |
| At 31 March 2021 | 495.0 | 115.1 | 56.2 | 383.1 | 1,049.4 |
| **Accumulated amortisation** | | | | | |
| At 1 April 2019 | 237.5 | 78.2 | 31.8 | 2.1 | 349.6 |
| Charge for the year | 41.1 | 7.0 | 4.1 | - | 52.2 |
| Impairment provision recognised in income statement | - | - | - | 7.2 | 7.2 |
| Disposals during the year | (13.4) | - | - | - | (13.4) |
| At 31 March 2020 | 265.2 | 85.2 | 35.9 | 9.3 | 395.6 |
| Charge for the year | 25.9 | 5.9 | 4.0 | - | 35.8 |
| Impairment provision recognised in income statement | - | - | - | 3.8 | 3.8 |
| Transfer of impairment provision | - | 0.8 | - | (0.8) | - |
| At 31 March 2021 | 291.1 | 91.9 | 39.9 | 12.3 | 435.2 |
| **Carrying amount** | | | | | |
| At 31 March 2021 | 203.9 | 23.2 | 16.3 | 370.8 | 614.2 |
| At 31 March 2020 | 228.0 | 19.4 | 20.3 | 340.6 | 608.3 |
| At 1 April 2019 | 255.7 | 25.0 | 20.5 | 263.6 | 564.8 |

An annual review is performed to assess the carrying value of other intangible assets, including 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 £3.8m (2020: £7.2m) were made in respect of assets in the course of construction reflecting a curtailment of certain projects and assets, and the likelihood of benefits being realised in full, to write these assets down to their carrying amount.

## 15. 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 2019 | 246.9 | 40.8 | 1,397.8 | 22.7 | 163.9 | 1,872.1 |
| Additions during the year | 0.2 | - | 7.7 | 0.2 | 38.6 | 46.7 |
| Disposals during the year | - | - | (66.0) | (0.2) | - | (66.2) |
| Other transfers during the year | 0.1 | - | 9.3 | 0.1 | (8.3) | 1.2 |
| At 31 March 2020 | 247.2 | 40.8 | 1,348.8 | 22.8 | 194.2 | 1,853.8 |
| Additions during the year | - | - | 1.8 | 0.1 | 28.4 | 30.3 |
| Disposals during the year | (0.7) | - | (5.1) | (0.1) | - | (5.9) |
| Other transfers during the year | 0.1 | - | 1.3 | - | (3.0) | (1.6) |
| At 31 March 2021 | 246.6 | 40.8 | 1,346.8 | 22.8 | 219.6 | 1,876.6 |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 April 2019 | 144.9 | 34.5 | 1,195.4 | 17.4 | 2.0 | 1,394.2 |
| Provided during the year | 7.8 | 1.1 | 51.7 | 1.1 | - | 61.7 |
| Transfer of impairment provision | - | - | 0.3 | - | (0.3) | - |
| Disposals during the year | - | - | (66.0) | (0.2) | - | (66.2) |
| At 31 March 2020 | 152.7 | 35.6 | 1,181.4 | 18.3 | 1.7 | 1,389.7 |
| Provided during the year | 7.8 | 1.1 | 35.3 | 1.0 | - | 45.2 |
| Impairment provision recognised in income statement | - | - | 0.9 | - | 0.1 | 1.0 |
| Disposals during the year | (0.5) | - | (4.8) | (0.1) | - | (5.4) |
| At 31 March 2021 | 160.0 | 36.7 | 1,212.8 | 19.2 | 1.8 | 1,430.5 |
| **Carrying amount** | | | | | | |
| At 31 March 2021 | 86.6 | 4.1 | 134.0 | 3.6 | 217.8 | 446.1 |
| At 31 March 2020 | 94.5 | 5.2 | 167.4 | 4.5 | 192.5 | 464.1 |
| At 1 April 2019 | 102.0 | 6.3 | 202.4 | 5.3 | 161.9 | 477.9 |

The company conducts annual reviews of the carrying values of its property, plant and equipment where there is an indicator of impairment. During the year, the company incurred impairment charges of £1.0m (2020: £nil) relating to operational assets and assets in the course of construction and installation reflecting a reassessment of certain projects and assets, and the likelihood of benefits being realised in full, to write these assets down to their carrying amount.

During the year the company capitalised £0.5m (2020: £nil) of general borrowing costs at a capitalisation rate of 1.46% (2020: 0.0%), in accordance with IAS 23: *Borrowing Costs,* relating to both property, plant and equipment and other intangible assets.

## 16. 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 2019 | 59.9 | 2.0 | 0.8 | 62.7 |
| Additions during the year | - | - | 0.2 | 0.2 |
| Effect of modification to lease terms | 0.1 | - | - | 0.1 |
| At 31 March 2020 | 60.0 | 2.0 | 1.0 | 63.0 |
| Additions during the year | - | - | 0.1 | 0.1 |
| Effect of modification to lease terms | 0.4 | - | - | 0.4 |
| Terminations during the year | - | - | (0.1) | (0.1) |
| At 31 March 2021 | 60.4 | 2.0 | 1.0 | 63.4 |
| **Accumulated depreciation and impairment** | | | | |
| At 1 April 2019 | 0.3 | 0.6 | - | 0.9 |
| Provided during the year | 4.1 | 0.2 | 0.3 | 4.6 |
| Charge capitalised in the year | 1.1 | - | - | 1.1 |
| At 31 March 2020 | 5.5 | 0.8 | 0.3 | 6.6 |
| Provided during the year | 4.0 | 0.2 | 0.3 | 4.5 |
| Charge capitalised in the year | 1.1 | - | - | 1.1 |
| Impairment provision recognised in income statement | 7.9 | - | - | 7.9 |
| Terminations during the year | - | - | (0.1) | (0.1) |
| At 31 March 2021 | 18.5 | 1.0 | 0.5 | 20.0 |
| **Carrying amount** | | | | |
| At 31 March 2021 | 41.9 | 1.0 | 0.5 | 43.4 |
| At 31 March 2020 | 54.5 | 1.2 | 0.7 | 56.4 |
| At 1 April 2019 | 59.6 | 1.4 | 0.8 | 61.8 |

The company conducts annual reviews of the carrying values of its right-of-use assets where there is an indicator of impairment. During the year, impairment charges of £7.9m (2020: £nil) were made in respect of leasehold land and buildings reflecting a reassessment of the usage of the company's estate assets. The impairment charge was calculated by assessing the net present value of future property rental payments relating to expected lower occupancy levels, discounted at the incremental cost of borrowing. A 1% change in the discount rate would result in a £0.4m change in the impairment charge.

The company has taken advantage of the practical expedient available under IFRS16 for rent concessions that are a direct consequence of covid and not accounted for those concessions as a modification to the lease under IFRS16. Lease consideration of £0.3m payable in the year to June 2021 is deferred and will be payable in the year to June 2022.

## 17. Financial and other assets

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

### Trade and other receivables

| | 2021 £m | Restated 2020 £m |
|---|---|---|
| **Non-current** | | |
| Receivable from customers gross | 2.8 | 0.3 |
| Other debtors | - | 0.1 |
| Prepayments | 4.8 | 4.6 |
| | 7.6 | 5.0 |
| **Current** | | |
| Receivable from customers gross | 58.5 | 90.9 |
| Less: expected credit loss provision | (16.6) | (20.2) |
| | 41.9 | 70.7 |
| Other debtors | 4.0 | 4.2 |
| Contract assets | - | 1.3 |
| Amounts due from fellow subsidiary undertaking | 0.1 | 4.5 |
| Prepayments | 8.8 | 10.8 |
| | 54.8 | 91.5 |

### Amounts recoverable under regulatory agreement

| | 2021 £m | Restated 2020 £m |
|---|---|---|
| **Non-current** | | |
| Amounts recoverable under regulatory agreement | 442.5 | 9.1 |
| **Current** | | |
| Amounts recoverable under regulatory agreement | 2.4 | 0.5 |

The average credit period on sales of services is 109 days (2020: 29 days). Interest is charged by Eurocontrol to UK en route customers at 9.67% (2020: 9.72%) on balances outstanding after more than 30 days.

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

Amounts recoverable under regulatory agreement which are current relate to Reference Period 1 are due to be recovered by 31 March 2022. Amounts recoverable under regulatory agreement in the prior year relate to Reference Period 1 and were due to be recovered by 31 March 2021.

### Movement in the expected credit loss provision

| | 2021 £m | 2020 £m |
|---|---|---|
| Balance at the beginning of the year | 20.2 | 3.9 |
| (Decrease)/increase in allowance recognised in the income statement | (1.5) | 16.8 |
| Foreign exchange movement in the year | (1.9) | 0.1 |
| Amounts written off as irrecoverable | (0.2) | (0.6) |
| Balance at the end of the year | 16.6 | 20.2 |

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 (including amounts owed by related parties, as disclosed in note 30) 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 and does not reflect forward looking macro-economic factors. Consideration needs to be made as to whether these historical loss rates were incurred in economic conditions that are representative of those expected to exist during the exposure period at the balance sheet date. Therefore we have reassessed lifetime expected credit losses at 31 March 2021 to reflect the increase in default risk by customers due to the significant impact of Covid on the aviation sector and agreement by States to defer settlement of national en route charges for April and May 2020 to May and August 2021 respectively, and the historic loss rates have been adjusted accordingly to reflect the appropriate expected credit losses.

Contract assets relate to unbilled work in progress and have substantially the same credit risk characteristics as trade receivables for the same types of contracts. The company has concluded that the expected credit loss rates for trade receivables are a reasonable approximation of the expected credit loss rates for contract assets.

## 17. Financial and other assets (continued)

At 31 March 2021 the lifetime expected credit loss provision for trade receivables and contract assets is as follows:

| | 2021 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 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 (%) | 5.9% | 3.8% | 9.8% | 55.1% | 77.7% | 51.0% | 92.8% | 100.0% | |
| Gross carrying amount (£m) | 19.8 | 20.8 | 1.1 | 0.3 | 0.1 | 9.9 | 1.3 | 8.0 | 61.3 |
| Lifetime expected credit loss (£m) | 1.2 | 0.8 | 0.1 | 0.2 | 0.1 | 5.0 | 1.2 | 8.0 | 16.6 |

| | 2020 Restated | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 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 (%) | 10.9% | 13.7% | 72.6% | 36.2% | 54.3% | 62.1% | 84.7% | 100.0% | |
| Gross carrying amount (£m) | 38.4 | 42.6 | 3.4 | 0.3 | 0.2 | 0.1 | 0.6 | 6.9 | 92.5 |
| Lifetime expected credit loss (£m) | 4.2 | 5.9 | 2.4 | 0.1 | 0.1 | 0.1 | 0.5 | 6.9 | 20.2 |

Non-current trade and other receivables represent SESAR receivables of £2.8m, of which the majority is expected to be recovered by 31 March 2023. None of these receivables have been subject to a significant increase in credit risk since initial recognition. Amounts relating to April 2020 and May 2020 charges fall due in May 2021 and August 2021 respectively, following agreement to defer settlement last summer.

As at 31 March 2021, trade receivables of £8.0m (2020: £6.9m) 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 for the items discussed above (excluding amounts recoverable under regulatory agreement, prepayments and recoverable VAT) would be £218.9m (2020 Restated: £567.0m).

## 18. Borrowings

| | 2021 £m | 2020 £m |
|---|---|---|
| **Unsecured at amortised cost** | | |
| Advances of en route charges | 67.4 | - |
| **Secured loans at amortised cost** | | |
| £600m 5.25% Guaranteed Secured Amortising Bond due 2026 | 251.7 | 293.2 |
| Bank loans (variable rate revolving term loan and revolving credit facility expiring 2022) | 395.0 | 395.0 |
| Gross borrowings | 714.1 | 688.2 |
| Unamortised bond issue costs and bank facility arrangement fees | (3.1) | (2.0) |
| | 711.0 | 686.2 |
| Amounts due for settlement within 12 months | 108.1 | 40.9 |
| Amounts due for settlement after 12 months | 602.9 | 645.3 |

In June 2021 the company completed a full refinancing of its bank facilities and its publicly traded bonds which delivered £750m of new fixed rate bonds and £850m of new bank facilities. The new bonds were issued in two tranches: £450m of 10-year amortising bonds to be repaid at 31 March 2031; and £300m of 12.5-year bonds with a bullet repayment at 30 September 2033. The new bank facilities consist of a £400m three-year revolving credit facility and a £450m two-year bridge facility. This new debt has been arranged on a senior unsecured basis.

## 18. Borrowings (continued)

The following statements reflect the borrowings in place as at 31 March 2021:

The £600m 5.25% Guaranteed Secured Amortising Bond was secured by way of a debenture. NERL granted its lenders a first legal mortgage over certain properties in England and Wales, a first fixed charge over all other real estate, plant and equipment and a floating charge over all other assets. Any drawings made by NERL under its £400m committed bank facilities were similarly secured. Total assets of NERL as at 31 March 2021 were £1,836.7m (2020: £2,056.9m), including goodwill of £38.3m (2020: £149.3m). Further security provisions were also provided by NATS Holdings Limited and by NATS Limited.

In August 2020, NERL agreed a further £380m bank facility expiring in July 2022. The requirement to test some specific covenants relating to this facility and NERL's existing borrowings had been waived until 31 March 2022.

Advances of en route charges represent the balance of funding of £67.4m from Eurocontrol, which administers en route charges for its member states, which were remitted to Department for Transport (DfT), and subsequently passed on by the DfT to NERL. The advanced funds are not repayable by NERL and will be settled by 31 March 2022 via deduction by Eurocontrol against future flight charges to be remitted to the DfT. The balance represents a form of financing, albeit not a loan.

The average effective interest rate on the bank loans in the year was 1.1% (2020: 0.7%) and was determined based on LIBOR rates plus a margin and utilisation fee.

Costs associated with the issue of the £600m 5.25% Guaranteed Secured Amortising Bond were being amortised over the life of the bond and those relating to bank facilities in place during the year, over the facility term. Costs not fully amortised on refinancing in June 2021 were written off at that date in the income statement for the year ending 31 March 2022.

| Undrawn committed facilities | 2021<br>£m | 2020<br>£m |
|---|---|---|
| Undrawn committed facilities expire as follows: | | |
| Between one and two years | 385.0 | - |
| Expiring in more than two years | - | 5.0 |
| | 385.0 | 5.0 |

At 31 March 2021, NERL had outstanding drawings of £395.0m (2020: £395.0m) against its committed bank facilities. These facilities were scheduled to expire in July 2022 and as part of the post balance sheet refinancing have been replaced (see above). At June 2021, the company had access to two new committed bank facilities totalling £850m, of which £40m was drawn on the day that the refinancing completed. These consisted of a £450m bridge facility that expires in May 2023 and a £400m revolving credit facility that expires in May 2024 with options to extend the latter, subject to bank agreement, for up to a further two years to May 2026.

## 19. Leases

Details of the carrying values of right-of-use assets under lease agreements are reported in note 16.

The following table sets out the contractual maturity of the company's lease liabilities:

| | 2021<br>£m | 2020<br>£m |
|---|---|---|
| Due within one year or less | 7.7 | 7.4 |
| Due between one and two years | 7.1 | 7.4 |
| Due between two and five years | 27.2 | 20.6 |
| Due in more than five years | 25.8 | 39.1 |
| | 67.8 | 74.5 |
| Less: future finance charges | (7.6) | (9.2) |
| | 60.2 | 65.3 |

Analysed as:

| | 2021<br>£m | 2020<br>£m |
|---|---|---|
| Current | 6.3 | 5.8 |
| Non-current | 53.9 | 59.5 |
| | 60.2 | 65.3 |

The income statement shows the following amounts relating to leases:

| | 2021<br>£m | 2020<br>£m |
|---|---|---|
| Interest on lease liabilities (see note 10) | 1.6 | 1.7 |
| Short term lease expense | 0.1 | 0.1 |
| Expense relating to leases for cars provided as an employee benefit under IAS19 | 0.1 | 0.1 |

The depreciation charge for right-of-use assets included in the income statement, is shown in note 16.

Minimum lease payments under operating leases recognised in the income statement are £0.1m (2020: £0.1m).

## 19. Leases (continued)

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

| Year ended 31 March 2020 | Lease contracts No. | Fixed payments %[i] | Variable payments %[i] | Sensitivity £m |
|---|---|---|---|---|
| Property leases with payments linked to inflation | 50 | n/a | 24.1% | 0.8 |
| Property leases with periodic uplifts to market rentals | 42 | n/a | 72.0% | 2.4 |
| Property leases with fixed payments | 3 | 0.9% | n/a | n/a |
| Leases of plant and equipment | 2 | 2.6% | n/a | n/a |
| Vehicle leases | 34 | 0.4% | n/a | n/a |
| | 131 | 3.9% | 96.1% | 3.2 |

(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 2021, the carrying amounts of lease liabilities are not reduced by the amount of payments that would be avoided from exercising break clauses where it was considered reasonably certain that the company would not exercise its right to break the lease. In addition, the carrying amounts of some leases include the period to which the company is reasonably certain that options to extend the leases will be exercised. The remaining lease payments on all these leases is £19.6m (2020: £23.0m), of which £12.5m (2020: £12.7m) is potentially avoidable if the leases were not extended and a further £6.3m (2020: £7.0m) 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 2021 is £0.6m (2020: £0.9m).

## 20. Derivative financial instruments

### Fair value of derivative financial instruments

| | 2021<br>£m | 2020<br>£m |
|---|---|---|
| **Non-current assets** | | |
| Derivative financial instruments in designated hedge accounting relationships | | |
| Forward foreign exchange contracts (cash flow hedges) | - | 3.1 |
| Derivative financial instruments at fair value through profit and loss | | |
| Forward foreign exchange contracts (cash flow hedges) | - | 0.8 |
| | - | 3.9 |
| **Current assets** | | |
| Derivative financial instruments in designated hedge accounting relationships | | |
| Forward foreign exchange contracts (cash flow hedges) | 0.1 | 2.8 |
| Derivative financial instruments at fair value through profit and loss | | |
| Forward foreign exchange contracts (cash flow hedges) | - | 1.3 |
| | 0.1 | 4.1 |
| **Current liabilities** | | |
| Derivative financial instruments in designated hedge accounting relationships | | |
| Forward foreign exchange contracts (cash flow hedges) | (5.4) | (4.5) |
| Derivative financial instruments at fair value through profit and loss | | |
| Forward foreign exchange contracts (cash flow hedges) | (1.0) | - |
| Derivative financial instruments classified as held for trading | | |
| Index-linked swap | (15.1) | (14.6) |
| | (21.5) | (19.1) |
| **Non-current liabilities** | | |
| Derivative financial instruments in designated hedge accounting relationships | | |
| Forward foreign exchange contracts (cash flow hedges) | (2.3) | (0.3) |
| Derivative financial instruments at fair value through profit and loss | | |
| Forward foreign exchange contracts (cash flow hedges) | (0.5) | - |
| Derivative financial instruments classified as held for trading | | |
| Index-linked swap | (78.3) | (93.3) |
| | (81.1) | (93.6) |

Further details on derivative financial instruments are provided in note 21. The index-linked swap is classified under international accounting standards as held for trading as it does not qualify for hedge accounting.

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

In conjunction with the refinancing described in note 18, in June 2021 the company also amended its inflation hedging arrangements through new RPI swaps at a notional value of £200m and termination of an existing RPI swap.

## 21. 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 debt, as disclosed in note 18, cash and cash equivalents and short term investments, 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 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 2021, NERL had a corporate rating of A+ (negative outlook) from Standard & Poor's (2020: A+ (negative outlook)) and its bonds had a rating of A2 (negative outlook) from Moody's (2020: A2 (negative outlook)).

### Gearing ratio

Consistent with seeking to maintain an investment grade credit rating, the company sets a monitoring threshold level measured as the ratio of net debt (as defined by its air traffic services licence) to the regulatory asset base (RAB). In addition, the CAA has set NERL a gearing target of 60% and a cap of 65% of net debt to RAB with a requirement to remedy the position if this cap is exceeded. NERL's gearing ratio at 31 March 2021 was 49.6% (2020: 29.0%).

### Categories of financial instrument

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

| | 2021<br>£m | Restated<br>2020<br>£m |
|---|---|---|
| **Financial assets** | | |
| **Financial assets at amortised cost** | | |
| Trade and other receivables | 46.7 | 78.7 |
| Cash and cash equivalents and short term investments | 172.2 | 488.3 |
| | 218.9 | 567.0 |
| **Derivative financial instruments** | | |
| In designated hedge accounting relationships | 0.1 | 5.9 |
| At fair value through profit and loss | - | 2.1 |
| | 219.0 | 575.0 |
| **Financial liabilities** | | |
| **Financial liabilities at amortised cost** | | |
| Trade and other payables | (120.3) | (155.0) |
| Borrowings | (714.1) | (688.2) |
| Lease liabilities | (60.2) | (65.3) |
| | (894.6) | (908.5) |
| **Derivative financial instruments** | | |
| In designated hedge accounting relationships | (7.7) | (4.8) |
| At fair value through profit and loss | (94.9) | (107.9) |
| | (102.6) | (112.7) |
| | (997.2) | (1,021.2) |

Financial assets at amortised cost includes balances for trade and other receivables (excluding: prepayments of £13.6m (2020: £15.4m) and VAT of £2.1m (2020: £2.4m), cash and cash equivalents and short term investments.

Financial liabilities at amortised cost includes balances for trade and other payables (excluding: contract liabilities of £76.3m (2020: £42.4m) and deferred income of £31.8m (2020: £21.5m), advances of en route charges, the bond and bank borrowings (excluding unamortised bond issue costs and bank facility arrangement fees) and lease liabilities.

The index-linked swap is categorised as held for trading. During the year, £14.1m (2020: £12.1m) was repaid in semi-annual amortisation payments. The credit arising from the change in fair value of £0.4m has been recorded in the income statement in the year (2020: £2.1m credit).

### Financial risk management objectives

The treasury function is mandated by the Board of NATS Holdings Limited 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 company. 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 company's activities include market risk (including currency risk, cash flow interest rate risk and inflation risk), credit risk and liquidity risk.

## 21. Financial instruments (continued)

### 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. 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

The Covid pandemic has amended the company's approach to the management of foreign exchange risk arising from UK en route services revenue. In previous years the company has entered into forward foreign exchange contracts on a monthly basis to hedge 95% of the forecast UK en route income, which due to the significant traffic volume uncertainty this hedging activity was suspended, pending greater traffic forecasting certainty. However, there has been an increase in forward contract purchases of euro. These purchases hedge the foreign exchange risks associated with Eurocontrol deducting a portion of the UK's future en route charge receipts to make repayments against the loan that Eurocontrol entered into with a small group of commercial banks to make advances of national en route charges to certain member states, from which deductions will be made against their future en route charge receipts.

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 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | £m | £m | £m | £m |
| Euro | 20.2 | 74.4 | (90.2) | (14.1) |
| US dollar | 0.7 | 2.3 | (7.0) | (3.2) |
| Canadian dollar | 0.3 | 2.1 | (0.3) | (2.2) |
| | 21.2 | 78.8 | (97.5) | (19.5) |

### Foreign currency sensitivity analysis

The company has assets and liabilities denominated in foreign currencies including cash balances of £1.4m at 31 March 2021 (2020: £7.3m) in euro, Canadian dollars, US dollars and Danish krone. 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 | 2021 Impact £m | 2020 Impact £m |
|---|---|---|
| Euro | (4.6) | 7.0 |
| US dollar | (6.4) | (10.2) |
| Canadian dollar | (0.1) | (0.2) |
| | (11.1) | (3.4) |

There was an overall increase in currency exposure reflecting an increase in forward contract purchases of euro. These purchases hedge the foreign exchange risks associated with Eurocontrol deducting a portion of the UK's future en route charge receipts to make repayments against the loan that Eurocontrol entered into with a small group of commercial banks to make advances of national en route charges to certain member states, from which deductions will be made against their future en route charge receipts. NERL believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk.

## 21. Financial instruments (continued)

### Forward foreign exchange contracts

The company entered into forward foreign exchange contracts to buy euro to hedge the foreign exchange risks linked to its receipt of funding from Eurocontrol, via Eurocontrol's loan. They are intended to hedge the unwinding of the advances made in euro against subsequent en route charge receipts. As disclosed above, the forward sale of euros in respect of UK en route revenues was suspended during the year, pending greater certainty around traffic forecasts. The company did, however, continue to enter into various forward foreign exchange contracts to fund capital purchases and services. The company has designated these forward contracts as cash flow hedges. During the year, certain forward foreign exchange contracts were determined to be ineffective, as forecast transactions were no longer certain to arise due to a reduction in demand for satellite data services as a result of Covid, and as such any gains or losses arising from these contracts have been recognised in the income statement. The following contracts were outstanding at year end:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | | | Average exchange rate | | | Average exchange rate |
| Euro sold | £m | €m | | £m | €m | |
| 0-90 days | 0.5 | 0.5 | 0.9002 | 162.1 | 186.7 | 0.8684 |
| 91-365 days | - | - | - | 4.2 | 4.6 | 0.9164 |
| | 0.5 | 0.5 | 0.9002 | 166.3 | 191.3 | 0.8695 |
| Euro bought | €m | £m | | €m | £m | |
| 0-90 days | 34.9 | 31.1 | 0.8914 | 17.0 | 15.0 | 0.8823 |
| 91-365 days | 79.1 | 71.5 | 0.9042 | 11.1 | 9.8 | 0.8829 |
| > 365 days | 15.4 | 13.6 | 0.8847 | 12.4 | 11.4 | 0.9178 |
| | 129.4 | 116.2 | 0.8984 | 40.5 | 36.2 | 0.8933 |
| US dollar sold | £m | US$ m | | £m | US$ m | |
| 0-90 days | 0.8 | 1.1 | 1.3721 | - | - | - |
| > 365 days | 0.6 | 0.8 | 1.3745 | - | - | - |
| | 1.4 | 1.9 | 1.3732 | - | - | - |
| US dollar bought | US$ m | £m | | US$ m | £m | |
| 0-90 days | 7.9 | 6.0 | 1.3077 | 9.9 | 7.7 | 1.2936 |
| 91-365 days | 16.5 | 12.6 | 1.3049 | 32.8 | 24.2 | 1.3554 |
| > 365 days | 69.7 | 52.8 | 1.3199 | 93.3 | 70.9 | 1.3157 |
| | 94.1 | 71.4 | 1.3162 | 136.0 | 102.8 | 1.3234 |
| Canadian dollar bought | CAD m | £m | | CAD m | £m | |
| 0-90 days | 0.8 | 0.5 | 1.7691 | 1.1 | 0.6 | 1.7571 |
| 91-365 days | - | - | - | 0.3 | 0.2 | 1.7460 |
| > 365 days | 1.4 | 0.8 | 1.7848 | 2.2 | 1.2 | 1.7790 |
| | 2.2 | 1.3 | 1.7790 | 3.6 | 2.0 | 1.7696 |
| Danish krone bought | DKK m | £m | | £m | DKK m | |
| 0-90 days | 1.5 | 0.2 | 8.2456 | 1.5 | 0.2 | 8.3502 |
| > 365 days | - | - | - | 1.5 | 0.2 | 8.2456 |
| | 1.5 | 0.2 | 8.2456 | 3.0 | 0.4 | 8.2972 |

At 31 March 2021, 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 £3.2m (2020: £5.1m unrealised gain). The majority of these contracts will mature within the next financial year at which stage the amount deferred in equity will be realised in the income statement.

Gains and losses on the ineffective portion of the cash flow hedges are recorded immediately in the income statement. For the year ended 31 March 2021, £0.4m gain was recorded in the income statement (2020: £2.1m gain).

Due to the suspension of our Eurocontrol hedging programme as a result of the Covid pandemic NERL did not enter into any average rate forward agreements with a fixing date after 31 March 2021 to sell euro anticipated to be received in June 2021. The value of equivalent trades in 2020 was £52.4m.

### 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 2021 (2020: none).

## 21. Financial instruments (continued)

### Economic interest rate exposure

The company's cash and short term deposits were as follows:

| | 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cash | | | Short term deposits | | | |
| Currency | Amount £m | Economic interest rate % | Average maturity days | Amount £m | Economic interest rate % | Average maturity days | Total £m |
| Sterling | 170.8 | 0.0 | 7 | - | - | - | 170.8 |
| Euro | 0.8 | - | 1 | - | - | - | 0.8 |
| Canadian dollar | 0.3 | - | 1 | - | - | - | 0.3 |
| US dollar | 0.2 | - | 1 | - | - | - | 0.2 |
| Danish Krone | 0.1 | - | 1 | - | - | - | 0.1 |
| | 172.2 | | | - | | | 172.2 |

| | 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cash | | | Short term deposits | | | |
| Currency | Amount £m | Economic interest rate % | Average maturity days | Amount £m | Economic interest rate % | Average maturity days | Total £m |
| Sterling | 443.7 | 0.5 | 19 | 37.3 | 0.6 | 183 | 481.0 |
| Euro | 3.2 | - | 1 | - | - | - | 3.2 |
| Canadian dollar | 2.1 | - | 1 | - | - | - | 2.1 |
| US dollar | 2.0 | - | 1 | - | - | - | 2.0 |
| | 451.0 | | | 37.3 | | | 488.3 |

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

The economic interest rate exposure of the company's loans is presented below with and without the effect of derivatives, as follows:

### Excluding derivatives

| | Total £m | Variable rate £m | Inflation rate £m | Fixed rate £m | Economic interest rate % | Weighted average time for which rate is fixed years |
|---|---|---|---|---|---|---|
| At 31 March 2021 | | | | | | |
| Sterling: | | | | | | |
| 5.25% guaranteed secured bonds | 251.7 | - | - | 251.7 | 5.26% | 3.2 |
| Bank loans | 395.0 | 395.0 | - | - | 0.48% | 0.5 |
| Advances of en route charges | 67.4 | 67.4 | - | - | 1.50% | 1.0 |
| Lease liabilities | 60.2 | - | - | 60.2 | 2.46% | 10.0 |
| Total | 774.3 | 462.4 | - | 311.9 | | |
| At 31 March 2020 | | | | | | |
| Sterling: | | | | | | |
| 5.25% guaranteed secured bonds | 293.2 | - | - | 293.2 | 5.26% | 3.7 |
| Bank loans | 395.0 | 395.0 | - | - | 1.10% | 0.5 |
| Lease liabilities | 65.3 | - | - | 65.3 | 2.51% | 10.8 |
| Total | 753.5 | 395.0 | - | 358.5 | | |

## 21. Financial instruments (continued)

### Including derivatives

| | Total £m | Variable rate £m | Inflation rate £m | Fixed rate £m | Economic interest rate % | Weighted average time for which rate is fixed years |
|---|---|---|---|---|---|---|
| At 31 March 2021 | | | | | | |
| Sterling: | | | | | | |
| 5.25% guaranteed secured bonds | 135.7 | - | - | 135.7 | 5.26% | 3.2 |
| 5.25% guaranteed secured bonds | 116.0 | - | 116.0 | - | 5.66% | 0.5 |
| Bank loans | 395.0 | 395.0 | - | - | 0.48% | 0.5 |
| Advances of en route charges | 67.4 | 67.4 | - | - | 1.50% | 1.0 |
| Lease liabilities | 60.2 | - | - | 60.2 | 2.46% | 10.0 |
| Total | 774.3 | 462.4 | 116.0 | 195.9 | | |
| At 31 March 2020 | | | | | | |
| Sterling: | | | | | | |
| 5.25% guaranteed secured bonds | 155.2 | - | - | 155.2 | 5.26% | 3.7 |
| 5.25% guaranteed secured bonds | 138.0 | - | 138.0 | - | 5.59% | 0.5 |
| Bank loans | 395.0 | 395.0 | - | - | 1.10% | 0.5 |
| Lease liabilities | 65.3 | - | - | 65.3 | 2.51% | 10.8 |
| Total | 753.5 | 395.0 | 138.0 | 220.5 | | |

The interest rate payable under the index-linked swap is adjusted semi-annually in line with the movement in the UK RPI.

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 short term investments, as distinct from the definition used for financial covenants purposes.

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | £m | % | £m | % |
| Fixed (net of bond discount and issue costs) | 192.8 | 32.2 | 218.5 | 83.0 |
| Index-linked | 116.0 | 19.4 | 138.0 | 52.4 |
| Floating (net of cash, short term investments and facility costs) | 290.2 | 48.4 | (93.3) | (35.4) |
| Net debt | 599.0 | 100.0 | 263.2 | 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.

| | 2021 Impact £m | 2020 Impact £m |
|---|---|---|
| Cash at bank and short term deposits (2021: £172.2m, 2020: £488.3m) | 1.7 | 4.9 |
| Borrowings (2021: £462.4m, 2020: £395.0) | (4.6) | (4.0) |
| | (2.9) | 0.9 |

Overall the company's sensitivity to interest rate changes has increased reflecting a reduction in cash reflecting lower customer receipts, relative to the level of floating rate borrowings, including the advances from Eurocontrol.

### Inflation rate risk

The regulatory charge control conditions that apply to the company's UK en route and North Atlantic services determines a revenue allowance for financing charges that is linked to inflation (now CPI but previously RPI). To achieve an economic hedge of part of this income, in August 2003 coincident with the issue of its £600m 5.25% fixed rate bond, the company entered into an amortising index-linked swap with a notional principal of £200m for the period up to March 2017 reducing semi-annually thereafter and expiring in March 2026. As at 31 March 2021 the notional principal had reduced to £116m. Under the terms of this swap, NERL receives fixed interest at 5.25% and pays interest at a rate of 3.43% adjusted for the movement in RPI.

The value of the notional principal of the index-linked swap is also linked to movements in RPI.

## 21. Financial instruments (continued)

### Inflation rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to inflation arising from the index-linked swap. The analysis is prepared assuming that the index-linked swap at the balance sheet date was in place for the whole year. A 1% increase or decrease in inflation is considered to represent a reasonably possible change in inflation. An increase in the rate of RPI will increase the future index-linked payments that the company is required to make under the swap contract and so impacts its 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 this swap and the impact on its 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 breakeven inflation falls by 1%.

| | 2021 Impact £m | 2020 Impact £m |
|---|---|---|
| Change in swap interest and mark to market value | (4.7) | (7.1) |

The mark to market value of the index-linked swap is also sensitive to the discount rates that are used to determine the net present value of the cash flows under the swap agreement. 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 £2.9m (2020: £3.9m). There would be a fairly equal and opposite impact on profit and equity if discount rates decreased by 1%.

### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company's exposure to credit risk arises from the risk of default by customers on settlement of trade receivables and from the risk of a failure of a financial institution in which funds are invested for return or held for trading purposes or with whom derivative contracts are entered into. The risk of loss from default by customers and the mitigations against this risk are explained in note 17. 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.

Currently, the company's investments take the form of bank time deposits and money market fund investments. Investments in bank time deposits with maturities up to three months and between three and six 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. However, dependent on market conditions, tighter restrictions on rating requirements and lower limits may be placed on the duration of deposits. Money market fund investments are restricted to AAAm-rated liquidity funds.

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):

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| Rating (Standard & Poor's) | Number of institutions | £m | By credit rating % | Number of institutions | £m | By credit rating % |
| AAA & AAAm | 5 | 131.9 | 76.6 | 6 | 244.6 | 50.1 |
| AA- | - | - | - | 1 | 20.0 | 4.1 |
| A+ | 1 | 30.0 | 17.4 | 1 | 46.0 | 9.4 |
| A | 2 | 10.3 | 6.0 | 4 | 177.7 | 36.4 |
| | | 172.2 | 100.0 | | 488.3 | 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.

## 21. Financial instruments (continued)

The policy is to:

a. maintain free cash equal to between one and two months of UK en route services revenues (see below). Free cash is defined as cash and cash equivalents and short term investments, excluding a debt service reserve account of £37.3m used to fund interest, fees and bond amortisation payments scheduled in the next six months and a required liquidity reserve account of £21.3m held to provide liquidity in the event of certain pre-defined circumstances, particularly to ensure compliance with financial covenants;

b. ensure access to bank facilities sufficient to meet 110% of forecast requirements that are not otherwise covered by operating cash flows or other sources of finance through the period of the business plan. At 31 March 2021 NERL had access to undrawn bank facilities totalling £385m available until 31 July 2022. These facilities were replaced in June 2021 with new bank facilities of £850m;

c. ensure access to long term funding to finance its long term assets. This is achieved in the form of the fixed rate amortising sterling bonds with a final maturity date of 2026 and continued to be the case after the balance sheet date as a result of the issuance of £750m of new bonds ahead of the prepayment of the existing amortising bonds;

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. This is achieved through the issuance of the fixed rate amortising bonds and by having available shorter dated committed bank facilities.

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

| | 2021<br>£m | 2020<br>£m |
|---|---|---|
| Average monthly UK en route services income | 47.5 | 49.6 |
| Free cash at 31 March | 113.6 | 429.7 |
| Ratio of free cash to UK en route services income | 2.4 | 8.7 |

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

| | 2021<br>£m | 2020<br>£m |
|---|---|---|
| Bank borrowings | 395.0 | 395.0 |
| Gross borrowings (including lease liabilities) | 774.3 | 753.5 |
| Bank borrowings as a percentage of gross borrowings | 51.0% | 52.4% |

### 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.

| | 2021 | | | | 2020 Restated | | | |
|---|---|---|---|---|---|---|---|---|
| | Unsecured leases<br>£m | Secured loans<br>£m | Other liabilities<br>£m | Total<br>£m | Unsecured leases<br>£m | Secured loans<br>£m | Other liabilities<br>£m | Total<br>£m |
| Due within one year or less | 7.7 | 57.8 | 186.1 | 251.6 | 7.4 | 61.8 | 128.5 | 197.7 |
| Between one and two years | 7.1 | 448.7 | 1.6 | 457.4 | 7.4 | 60.0 | 24.7 | 92.1 |
| Due between two and five | 27.2 | 187.2 | - | 214.4 | 20.6 | 544.0 | 1.8 | 566.4 |
| Due in more than five years | 25.8 | - | - | 25.8 | 39.1 | 92.2 | - | 131.3 |
| | 67.8 | 693.7 | 187.7 | 949.2 | 74.5 | 758.0 | 155.0 | 987.5 |
| Effect of interest, discount and unamortised bond issue and bank facility arrangement fees | (7.6) | (50.1) | - | (57.7) | (9.2) | (71.8) | - | (81.0) |
| | 60.2 | 643.6 | 187.7 | 891.5 | 65.3 | 686.2 | 155.0 | 906.5 |

Other liabilities above include trade and other payables (excluding deferred income of £31.8m (2020: £21.5m), contract liabilities of £76.3m (2020: £42.4m)) and advances of en route charges £67.4m (2020: £nil).

In order to manage the liquidity risk arising on the contractual maturity of its borrowings, it is the company's intent to replace bank facilities and bonds with facilities of a similar nature at least 12 months in advance of contractual maturity.

## 21. Financial instruments (continued)

The following table sets out the maturity profile of the derivative financial liabilities. Cash flows under the index-linked swap are not fixed and are subject to movements in inflation. Accordingly, the cash flows associated with the index-linked swap have been derived from the company's long term forecasts of inflation as used for business planning purposes. The table shows undiscounted net 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 |
|---|---|---|---|---|---|
| 2021 | | | | | |
| Net settled: | | | | | |
| Index-linked swap payable | (15.1) | (16.7) | (62.7) | - | (94.5) |
| Gross settled: | | | | | |
| Foreign exchange forward contract receivables | 116.6 | 28.4 | 36.6 | - | 181.6 |
| Foreign exchange forward contract payables | (123.1) | (29.6) | (38.2) | - | (190.9) |
| | (21.6) | (17.9) | (64.3) | - | (103.8) |
| 2020 | | | | | |
| Net settled: | | | | | |
| Index-linked swap payable | (14.6) | (15.1) | (56.9) | (21.8) | (108.4) |
| Gross settled: | | | | | |
| Foreign exchange forward contract receivables | 226.6 | 27.5 | 60.2 | - | 314.3 |
| Foreign exchange forward contract payables | (226.9) | (26.9) | (56.9) | - | (310.7) |
| | (14.9) | (14.5) | (53.6) | (21.8) | (104.8) |

Due to the suspension of our Eurocontrol hedging programme as a result of the Covid pandemic NERL did not enter into any average rate forward agreements with a fixing date after 31 March 2021 to sell euro anticipated to be received in June 2021. The value of equivalent trades in 2020 was £52.4m.

### 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).

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | | | | | |
| Derivative financial instruments in designated hedge accounting relationships | - | 0.1 | - | 0.1 | - | 5.9 | - | 5.9 |
| Derivative financial instruments at fair value through profit and loss | | - | - | - | | 2.1 | - | 2.1 |
| | - | 0.1 | - | 0.1 | - | 8.0 | - | 8.0 |
| **Financial liabilities** | | | | | | | | |
| Derivative financial instruments in designated hedge accounting relationships | - | (7.7) | - | (7.7) | - | (4.8) | - | (4.8) |
| Derivative financial instruments at fair value through profit and loss | - | (1.5) | - | (1.5) | - | - | - | - |
| Derivative financial instruments classified as held for trading | - | (93.4) | - | (93.4) | - | (107.9) | - | (107.9) |
| | - | (102.6) | - | (102.6) | - | (112.7) | - | (112.7) |

There were no transfers between individual levels in the year.

## 21. Financial instruments (continued)

### Valuation techniques and key inputs

The fair value of the financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date.

The fair values of the financial instruments held at fair value have been determined based on available market information at the balance sheet date, and the valuation methodologies listed below:

- the fair values of forward foreign exchange contracts are calculated with reference to well recognised proprietary financial models used by bank counterparties, and verified using discounted cash flow modelling;

- the fair value of the index-linked swap is provided by bank counterparties using proprietary financial models. This is validated using discounted cash flow modelling based on the latest published inflation index, observable forecasts of inflation and discount rates taken from the observable interest rate swap curve at the reporting date; and

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

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

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2021 £m | 2020 £m | 2021 £m | 2020 £m |
| Financial liabilities | | | | |
| £600m 5.25% Guaranteed Secured Amortising Bond | (251.7) | (293.2) | (285.1) | (335.5) |

## 22. 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

| | 2021 £m | Restated 2020 £m |
|---|---|---|
| **Current** | | |
| Trade payables | 40.2 | 30.5 |
| Other payables | 0.4 | 0.2 |
| Amounts due to parent company | 35.9 | 55.3 |
| Amounts due to fellow undertaking | 1.0 | - |
| Contract liabilities | 12.3 | 10.6 |
| Accruals and deferred income | 43.7 | 44.5 |
| | 133.5 | 141.1 |
| **Non-current** | | |
| Trade payables | - | 24.2 |
| Other payables | 0.1 | - |
| Contract liabilities | 64.0 | 31.8 |
| Accruals and deferred income | 30.8 | 21.8 |
| | 94.9 | 77.8 |

### Amounts payable under regulatory agreement

| | 2021 £m | Restated 2020 £m |
|---|---|---|
| **Current** | | |
| Amounts payable under regulatory agreement | 34.9 | 30.6 |
| **Non-current** | | |
| Amounts payable under regulatory agreement | 104.5 | 106.8 |
| | 139.4 | 137.4 |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 64 days (2020: 41 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

Amounts payable under regulatory agreement that are non-current include regulatory allowances over-recovered for previous regulatory control periods, which will be repaid after 31 March 2022 through 2022 and 2023 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 2022 through 2021 and 2022 charges.

## 23. Provisions

| | Total £m |
|---|---|
| At 1 April 2020 | 8.8 |
| Additional provision in the year | 1.5 |
| Release of provision in the year | (0.1) |
| Utilisation of provision | (0.4) |
| At 31 March 2021 | 9.8 |

| | 2021 £m | 2020 £m |
|---|---|---|
| Amounts due for settlement within 12 months | 1.2 | 2.0 |
| Amounts due for settlement after 12 months | 8.6 | 6.8 |
| | 9.8 | 8.8 |

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

## 24. 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 £m | Retirement benefits £m | Financial instruments £m | Other £m | Total £m |
|---|---|---|---|---|---|
| At 1 April 2019 | 112.5 | (2.8) | (5.8) | (4.0) | 99.9 |
| Charge/(credit) to income | 21.3 | 3.7 | 1.7 | (3.1) | 23.6 |
| Charge to equity | - | 32.0 | 0.9 | - | 32.9 |
| At 31 March 2020 | 133.8 | 32.9 | (3.2) | (7.1) | 156.4 |
| At 1 April 2020 | 133.8 | 32.9 | (3.2) | (7.1) | 156.4 |
| Charge to income | 4.0 | 4.5 | 0.7 | - | 9.2 |
| Credit to equity | - | (41.9) | (1.6) | - | (43.5) |
| At 31 March 2021 | 137.8 | (4.5) | (4.1) | (7.1) | 122.1 |

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:

| | 2021 £m | 2020 £m |
|---|---|---|
| Deferred tax liabilities | 137.8 | 166.7 |
| Deferred tax assets | (15.7) | (10.3) |
| | 122.1 | 156.4 |

## 25. Share capital

| | Authorised | | Called up, allotted and fully paid | |
|---|---|---|---|---|
| | Number of shares | £m | Number of shares | £m |
| Ordinary shares of £1 each | | | | |
| At 31 March 2020 and 31 March 2021 | 10,000,000 | 10.0 | 10,000,000 | 10.0 |

## 26. Notes to the cash flow statement

| | 2021 £m | 2020 £m |
|---|---|---|
| Operating (loss)/profit from continuing operations | (7.4) | 50.8 |
| Adjustments for: | | |
| Impairment of goodwill | 111.0 | 49.0 |
| Depreciation of property, plant and equipment | 45.2 | 61.7 |
| Amortisation of intangible assets | 35.8 | 52.2 |
| Depreciation of right-of-use assets | 4.5 | 4.6 |
| Impairment losses | 12.7 | 7.2 |
| Deferred grants released | (0.2) | (0.2) |
| Profit on disposal of property, plant and equipment | (0.4) | (0.2) |
| R&D expenditure above the line tax credits | (0.9) | (1.2) |
| Adjustment for pension funding | (23.3) | (19.9) |
| Operating cash flows before movements in working capital | 177.0 | 204.0 |
| (Increase)/decrease in trade and other receivables, and amounts recoverable under regulatory agreement | (400.8) | 24.5 |
| (Decrease) in trade and other payables, amounts payable under regulatory agreement and provisions | (22.6) | (16.9) |
| Cash (used by)/generated from operations | (246.4) | 211.6 |
| Tax paid | (12.0) | - |
| Net cash (used in)/generated from operating activities | (258.4) | 211.6 |

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

### Reconciliation of net financial liabilities

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

| | 2021 £m | 2020 £m |
|---|---|---|
| Cash and cash equivalents | 172.2 | 451.0 |
| Short term investments | - | 37.3 |
| Borrowings | (711.0) | (686.2) |
| Lease liabilities | (60.2) | (65.3) |
| Net debt | (599.0) | (263.2) |
| Index-linked swap | (93.4) | (107.9) |
| Net financial liabilities | (692.4) | (371.1) |
| Cash and liquid investments | 172.2 | 488.3 |
| Gross debt - fixed interest rates (net of unamortised bond issue costs) | (308.8) | (356.5) |
| Gross debt - variable interest rates (net of unamortised bank facility arrangement fees) | (462.4) | (395.0) |
| Net debt | (599.0) | (263.2) |
| Index-linked swap | (93.4) | (107.9) |
| Net financial liabilities | (692.4) | (371.1) |

## 26. Notes to the cash flow statement (continued)

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

| | Assets | | Liabilities from financing activities (excluding derivatives) | | | | Net debt | Derivatives | Net financial liabilities |
|---|---|---|---|---|---|---|---|---|---|
| | Cash and cash equivalents £m | Short term investments £m | Lease liabilities £m | £600m 5.25% Guaranteed Secured Amortising Bonds (i) £m | Advances of en route charges £m | Bank loans (ii) £m | Sub-total £m | Index-linked swaps £m | Total net financial liabilities £m |
| Net financial liabilities as at 1 April 2019 | 129.7 | 36.4 | (69.8) | (334.8) | - | 1.3 | (237.2) | (122.1) | (359.3) |
| Cash flows | 321.3 | 0.9 | 4.8 | 43.2 | - | (395.0) | (24.8) | 12.1 | (12.7) |
| New leases in the year | - | - | (0.2) | - | - | - | (0.2) | - | (0.2) |
| Effect of modification to lease terms | - | - | (0.1) | - | - | - | (0.1) | - | (0.1) |
| Fair value movements | - | - | - | - | - | - | - | 2.1 | 2.1 |
| Other non-cash movements (iii) | - | - | - | (0.5) | - | (0.4) | (0.9) | - | (0.9) |
| Net financial liabilities as at 31 March 2020 | 451.0 | 37.3 | (65.3) | (292.1) | - | (394.1) | (263.2) | (107.9) | (371.1) |
| Net financial liabilities as at 1 April 2020 | 451.0 | 37.3 | (65.3) | (292.1) | - | (394.1) | (263.2) | (107.9) | (371.1) |
| Cash flows | (278.8) | (37.3) | 5.6 | 41.6 | (101.5) | - | (370.4) | 14.1 | (356.3) |
| New leases in the year | - | - | (0.1) | - | - | - | (0.1) | - | (0.1) |
| Effect of modification to lease terms | - | - | (0.4) | - | - | - | (0.4) | - | (0.4) |
| Bank facility arrangement fees | - | - | - | - | - | 1.2 | 1.2 | - | 1.2 |
| Fair value movements | - | - | - | - | - | - | - | 0.4 | 0.4 |
| Other non-cash movements (iii) | - | - | - | (0.4) | 34.1 | 0.2 | 33.9 | - | 33.9 |
| Net financial liabilities as at 31 March 2021 | 172.2 | - | (60.2) | (250.9) | (67.4) | (392.7) | (599.0) | (93.4) | (692.4) |

(i) The amount shown under £600m 5.25% Guaranteed Secured Amortising Bonds is net of unamortised bond issue costs.
(ii) The amount shown under bank loans is net of unamortised bank facility arrangement fees and accrued bank facility arrangement fees.
(iii) Other non-cash flow movements include amortisation of bond issue costs and bank facility arrangement fees, and accrued bank facility arrangement fees. The £34.1m (2020: £nil) represents the settlement of advances of en route charges, which have been deducted from income receipts.

## 27. Financial commitments

| | 2021 £m | 2020 £m |
|---|---|---|
| Amounts contracted but not provided for in the accounts | 21.5 | 45.3 |

### 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.

## 28. Share based payments

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

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

| | No. employee shares outstanding at 31 March 2021 | No. employee shares outstanding at 31 March 2020 |
|---|---|---|
| Date of share awards | | |
| Free share awards | | |
| 21 September 2001 | 136,260 | 196,564 |
| 20 October 2003 | 131,675 | 184,680 |
| 10 September 2004 | 207,485 | 269,920 |
| 11 January 2008 | 165,668 | 212,228 |
| 18 September 2009 | 183,607 | 231,607 |
| Partnership shares | | |
| 1 March 2011 | 167,357 | 210,588 |
| 26 September 2012 | 207,455 | 256,746 |
| 30 May 2014 | 186,103 | 224,348 |
| 31 October 2016 | 304,470 | 362,512 |
| 31 October 2018 | 411,502 | 479,189 |
| Matching shares | | |
| 1 March 2011 | 167,104 | 210,935 |
| 26 September 2012 | 207,605 | 256,696 |
| 30 May 2014 | 186,419 | 224,664 |
| 31 October 2016 | 304,632 | 362,674 |
| 31 October 2018 | 413,702 | 479,189 |
| | 3,381,044 | 4,162,540 |
| Dividend shares issued on 28 June 2005 | 16,907 | 23,535 |
| Total employee shares in issue at 31 March | 3,397,951 | 4,186,075 |

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

| | Movement in the no. of shares during the year ended 31 March 2021 | Movement in the no. of shares during the year ended 31 March 2020 |
|---|---|---|
| Balance at 1 April | 4,186,075 | 4,640,994 |
| Forfeited during the year | (18,458) | (6,026) |
| Exercised during the year | (757,633) | (436,448) |
| Staff transfers between group companies | (12,033) | (12,445) |
| Balance at 31 March | 3,397,951 | 4,186,075 |

Typically these shares are valued every six months by independent valuers using discounted cash flow and income multiple methods of valuation. Valuations are approved by HMRC for a period of six months unless a significant event arises which has a material impact on the share value. The outbreak of Covid had a significant and material impact and the scheme has been closed for leavers and joiners since 1 April 2020. The fair value of an employee share was estimated by reference to a comparable listed company at 31 March 2021 to be £3.12 (2020: £2.85). The last independent valuation at 30 June 2019 was £3.85. The liability for the employee shares at 31 March 2021 was £12.6m (2020: £11.2m), which includes amounts owing to good leavers since 1 April 2020, is included in amounts due to parent company. The income statement includes a debit of £1.3m (2020: £4.1m credit). The payments made to employees for the shares they exercised during the year was £nil (2020: £1.6m).

## 29. 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 2021 employer contributions of £12.4m (2020: £11.1m), excluding salary sacrifice contributions of £6.7m (2020: £6.0m), represented 16.1% of pensionable salaries (2020: 15.7%). In addition, the company paid £0.9m (2020: £nil) in lieu of redundancy payments to defined contribution schemes.

The defined contribution scheme had 1,388 members at 31 March 2021 (2020: 1,537).

### 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 2017 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 2017 was £4,540.4m. 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 £270.4m, corresponding to a funding ratio of 94.4%.

The 2017 valuation showed that, based on long term financial assumptions, the contribution rate required to meet the future benefit accrual was 47.6% of pensionable pay (41.8% employers and 5.8% 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 2017 valuation, NATS and the Trustees agreed a recovery plan which would see the funding deficit repaid by 2026. Under the schedule of contributions, normal contributions are paid at 41.7% payable from 1 January 2020 onwards. The NATS group paid deficit recovery contributions of £40.8m in 2018 calendar year, £41.8m in 2019 and £25.4m in 2020. For 2021, £26.0m will be paid, increasing annually by 2.37% for 2022 and 2023. No contributions will be paid in 2024. Further deficit recovery contributions will be paid in 2025 and 2026 of £2.3m per year. 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. 76%.

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

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

During the year the company paid cash contributions to the scheme of £74.5m (2020: £76.4m). This amount included £6.3m (2020: £6.8m) of wages and salaries sacrificed by employees in return for pension contributions as well as contributions of £2.3m in lieu of redundancy payments (2020: £nil). Excluding the effect of salary sacrifice and past service costs, employer cash contributions were paid at a rate of 59.5% (2020: 58.6%) of pensionable salaries.

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2022 is £71.2m, including salary sacrifice contributions estimated at £6.1m.

## 29. Retirement benefit schemes (continued)

### 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 2017, whereas the company's accounting valuation is prepared annually at 31 March. As a result, at each valuation date, the market conditions on which the assumptions are based will be different. Also, the assumptions adopted for the Trustees' funding assessment are set by the Trustees and include appropriate margins for prudence, whereas those adopted for the company's accounting valuation are prescribed by international accounting standards and reflect best estimates.

If an accounting valuation reveals a surplus at the balance sheet date, this is recognised to the extent that it can be realised in full by the company.

An actuarial valuation for IAS 19 purposes was carried out at 31 March 2021 (based on 31 December 2020 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:

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| RPI Inflation | 3.05% | 2.45% | 3.10% |
| CPI Inflation | 2.55% | 1.85% | 2.00% |
| Increase in: | | | |
| - salaries | 2.55% | 1.85% | 2.00% |
| - deferred pensions | 3.05% | 2.45% | 3.10% |
| - pensions in payment | 3.05% | 2.45% | 3.10% |
| Discount rate for net interest expense | 2.15% | 2.30% | 2.45% |

The mortality assumptions have been drawn from actuarial tables 105% S3PMA light and 103% S3PFA light (2020: 97% S2PMA light and 102% S2PFA light) with future improvements in line with CMI 2019 (2020: CMI 2016) projections for male/female members, subject to a long term improvement of 1.5% p.a. (2020: 1.5% p.a.) These tables assume that the life expectancy, from age 60, for a male pensioner is 28.3 years and a female pensioner is 30.1 years. Allowance is made for future improvements in longevity, such that based on the average age of the current active membership (46), when these members reach retirement, life expectancy from age 60 will have increased for males to 29.4 years and for females to 31.2 years.

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

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

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

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

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

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

| Assumption: | Change in assumption: | Impact on scheme liabilities: |
|---|---|---|
| Discount rate | Increase/decrease by 0.5% | Decrease by 10.1%/increase by 11.8% |
| Rate of inflation | Increase/decrease by 0.5% | Increase by 11.4%/decrease by 9.9% |
| Rate of pensionable salary growth | Increase/decrease by 0.5% | Increase by 2.5%/decrease by 2.4% |
| Rate of mortality | 1 year increase in life expectancy | Increase by 3.6% |

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

## 29. Retirement benefit schemes (continued)

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

| | 2021 £m | 2020 £m |
|---|---|---|
| Current service cost | (51.6) | (55.6) |
| Past service cost | (2.7) | - |
| Net interest credit | 4.8 | 0.4 |
| Administrative expenses | (1.7) | (1.3) |
| Components of defined benefit costs recognised within operating profit | (51.2) | (56.5) |

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

| | 2021 £m | 2020 £m |
|---|---|---|
| Return on plan assets (excluding amounts included in net interest expense) | 318.7 | (129.4) |
| Actuarial gains and losses arising from changes in financial assumptions | (609.8) | 292.6 |
| Actuarial gains and losses arising from changes in demographic assumptions | 81.0 | - |
| Actuarial gains and losses arising from experience adjustments | (10.1) | 6.7 |
| | (220.2) | 169.9 |

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

| | 2021 £m | 2020 £m |
|---|---|---|
| Present value of defined benefit obligations | (3,856.2) | (3,318.3) |
| Fair value of scheme assets | 3,832.6 | 3,491.6 |
| (Deficit)/surplus in scheme | (23.6) | 173.3 |

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

| | 2021 £m | 2020 £m |
|---|---|---|
| At 1 April | (3,318.3) | (3,571.7) |
| Current service cost | (51.6) | (55.6) |
| Past service cost | (2.7) | - |
| Interest expense on defined benefit scheme obligations | (74.8) | (86.4) |
| Actuarial gains and losses arising from changes in financial assumptions | (609.8) | 292.6 |
| Actuarial gains and losses arising from changes in demographic assumptions | 81.0 | - |
| Actuarial gains and losses arising from experience adjustments | (10.1) | 6.7 |
| Benefits paid | 130.1 | 96.1 |
| At 31 March | (3,856.2) | (3,318.3) |

The average duration of the scheme's liabilities at the end of the year is 21.8 years (2020: 21.2 years). The present value of the defined benefit obligation can be analysed by member group as follows:

| | 2021 £m | 2020 £m |
|---|---|---|
| Active members | (1,553.7) | (1,349.6) |
| Deferred members | (457.3) | (290.4) |
| Pensioners | (1,845.2) | (1,678.3) |
| | (3,856.2) | (3,318.3) |

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

| | 2021 £m | 2020 £m |
|---|---|---|
| At 1 April | 3,491.6 | 3,555.2 |
| Interest income on scheme assets | 79.6 | 86.8 |
| Return on plan assets (excluding amounts included in net interest expense) | 318.7 | (129.4) |
| Contributions from company | 74.5 | 76.4 |
| Benefits paid | (130.1) | (96.1) |
| Administrative expenses | (1.7) | (1.3) |
| At 31 March | 3,832.6 | 3,491.6 |

## 29. Retirement benefit schemes (continued)

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

| | 2021 £m | 2020 £m |
|---|---|---|
| Cash and cash equivalents | 32.4 | 30.6 |
| Equity instruments | | |
| - Emerging markets | 35.8 | 82.0 |
| - Global | 470.9 | 580.0 |
| | 506.7 | 662.0 |
| Bonds | | |
| - Fixed income | 1,881.5 | 1,368.0 |
| - Index-linked gilts over 5 years | 840.0 | 992.6 |
| | 2,721.5 | 2,360.6 |
| Other investments | | |
| - Property | 173.7 | 181.0 |
| - Hedge funds | 96.8 | 163.9 |
| - Private equity funds | 109.5 | 97.9 |
| | 380.0 | 442.8 |
| Derivatives | | |
| - Futures contracts | 4.6 | (4.4) |
| Other receivables | 187.4 | - |
| | 3,832.6 | 3,491.6 |

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

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

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

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

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

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

The actual return on scheme assets for the year ended 31 March 2021 was £398.3m (2020: £42.6m loss).

## 30. Related party transactions

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

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

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

## 30. Related party transactions (continued)

### Trading transactions

| | Sales | | Purchases | |
|---|---|---|---|---|
| | Year ended 31 March 2021 | Year ended 31 March 2020 | Year ended 31 March 2021 | Year ended 31 March 2020 |
| | £m | £m | £m | £m |
| LHR Airports Limited | 0.5 | 0.1 | 0.1 | 0.1 |
| Ministry of Defence (MOD) | 46.7 | 52.0 | 0.3 | 2.8 |
| Department for Transport (DfT) | 0.5 | 0.4 | - | - |
| Meteorological Office | 0.3 | 0.4 | 0.6 | 0.9 |
| Aquila Air Traffic Management Services Limited | 1.1 | 1.1 | - | - |

| | Amounts owed by related parties | | Amounts owed to related parties | |
|---|---|---|---|---|
| | Year ended 31 March 2021 | Year ended 31 March 2020 | Year ended 31 March 2021 | Year ended 31 March 2020 |
| | £m | £m | £m | £m |
| Ministry of Defence (MOD) | 6.6 | - | 21.8 | 36.5 |
| Meteorological Office | - | - | - | 0.1 |
| Aquila Air Traffic Management Services Limited | 0.1 | - | - | - |

During the year the UK government alongside other state members of Eurocontrol agreed to the deferred settlement of the national en route charges relating to February to May 2020 flights. Following this agreement, Eurocontrol arranged a loan facility to enable it to advance funds to the member states to cover their national en route charges. Following this arrangement, the UK's DfT remitted to the company its share of the UK's en route charge. None of the amounts received by the company, which are to settle amounts to which it is entitled, are repayable to DfT or to any other party.

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 17 and 22.

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 (2020: £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 £979,000 (2020: £3,144,000). The number of directors paid by the company during the year was two (2020: three). The highest paid director (see below) is a member of the defined contribution pension scheme in order to make employee contributions only and sacrificed £4,000 (2020: £10,000) of salary under the company's salary sacrifice arrangements. The company did not make any employer contributions. Neither of the remaining two directors participated in a company pension scheme.

Remuneration earned by the highest paid director of the company in the year was £535,000 (2020: £2,047,000). Contributions paid to a defined contribution pension scheme via salary sacrifice have been deducted from this remuneration figure.

### Remuneration of key management personnel

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

| | 2021 | 2020 |
|---|---|---|
| | £m | £m |
| Short term employee benefits | 6.0 | 7.0 |
| Post-employment benefits | 0.4 | 0.2 |
| Other long term benefits | - | 1.2 |
| Termination benefits | 2.3 | - |
| | 8.7 | 8.4 |

## 31. 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.

## 32. Events after the reporting period

In June 2021 NERL completed a full refinancing of its bank facilities and its publicly traded bonds which delivered £750m of new fixed rate bonds and £850m of new bank facilities. The new bonds were issued in two tranches: £450m of 10-year amortising bonds to be repaid at 31 March 2031; and £300m of 12.5-year bonds with a bullet repayment at 30 September 2033. The new bank facilities consist of a £400m three-year revolving credit facility and a £450m two-year bridge facility. This new debt has been arranged on a senior unsecured basis. The settlement of existing borrowings resulted in an income statement charge in June 2021 of £41.7m, with such charge offset over time by lower ongoing finance charges associated with the new financing arrangements.

Deferred tax is provided at 31 March 2021 at a rate of 19%, being the prevailing rate of corporation tax expected to apply in the period when the liability is settled or the asset realised. The Spring Budget 2021 proposed that from April 2023 the main rate of corporation tax will increase to 25% however the legislation was not substantively enacted at the balance sheet date. The Finance Bill 2021 was substantively enacted in May 2021, and accordingly deferred tax balances will be provided for at a rate of 25% for amounts expected to unwind after 1 April 2023. The change in rate is estimated to result in a charge to the income statement in 2021/22 of £41m.

1. The regulatory asset base (RAB) represents the capital employed in the company's economically regulated businesses, and is reported annually in regulatory accounts prepared on a calendar year basis. The regulatory accounts are published at www.nats.aero. The CAA's economic regulatory framework determines the basis for measuring regulatory assets. NERL's RAB was established at the time of the Public Private Partnership in 2001. The RAB is uplifted annually by RPI inflation and increases by capital expenditure and reduces by regulatory depreciation. The RAB excludes balances relating to tax, financing and the IAS 19 pension position. The CAA sets a net debt to RAB target and bank covenants are set on a net debt to RAB basis. At 31 December 2020 the value of NERL's RAB was £1,167.6m.
2. An Airprox is a situation in which, in the opinion of a pilot or controller, the distance between aircraft as well as their relative positions and speeds have been such that the safety of the aircraft involved was or may have been compromised. The severity of these incidents is assessed periodically by the UK Airprox Board, an independent body, in the interests of enhancing flight safety.
   Airprox events are classified A to D on the basis only of actual risk, not potential risk. An event classified as category B - safety not assured, is an aircraft proximity in which the safety of the aircraft may have been compromised.
3. Single European Sky ATM Research: a programme to modernise Europe's airspace structure and air traffic management technologies.
   References in this document to Deploying SESAR relate to NERL's investment programme which implements a number of SESAR compliant technologies and methodologies, rather than the European Sky ATM Research programmes that are defining and driving the deployment of technologies and methodologies at the European-wide level.
4. Impact score is a measure of delay placing greater weight on long delays and departures in the morning and the evening peaks. Variability score is a daily excess delay score based on weighted delays exceeding pre-determined thresholds on a daily basis.
5. 3Di score measures airspace efficiency with reference to the deviation from the preferred profile to the actual radar track of each flight in UK airspace.
6. The severity of ground and airborne incidents is scored against six criteria: minimum separation achieved; rate of closure; detection of potential conflict; plan to achieve required separation; execution of the plan; and recovery when separation is lost.