Consolidated income statement

for the year ended 31 March

	Notes	2021 £m	2020 £m Restated
Revenue from contracts with customers	4	402.8	845.0
Regulatory allowances under-recovered	4	417.2	7.3
Other revenue	4	3.0	39.8
Total revenue and regulatory allowances		823.0	892.1
Staff costs	7	(419.0)	(465.9)
Staff redundancies	7	(65.2)	(2.1)
Services and materials		(64.1)	(67.0)
Repairs and maintenance		(40.6)	(44.1)
Depreciation, amortisation and impairment of property, plant, equipment, intangible and right-of-use assets	6	(106.3)	(135.2)
Goodwill impairment	3, 6, 13	(111.0)	(49.0)
Change in expected credit losses	18	1.8	(17.5)
Other operating charges		(31.7)	(63.7)
Other operating income		2.9	4.4
Profit on disposal of non-current assets		0.4	1.0
Deferred grants released	6	0.6	0.6
Net operating costs		(832.2)	(838.5)
Operating (loss) / profit	6	(9.2)	53.6
Share of results of associate and joint ventures	35	2.0	(2.6)
Investment income	8	3.5	4.1
Fair value movements on financial instruments	9	(4.0)	(3.2)
Finance costs	10	(30.1)	(26.6)
(Loss) / profit before tax		(37.8)	25.3
Tax	11	(12.8)	(26.6)
Loss for the year attributable to equity shareholders		(50.6)	(1.3)

Consolidated statement of comprehensive income

for the year ended 31 March

	Notes	2021 £m	2020 £m
Loss for the year after tax		(50.6)	(1.3)
Items that will not be reclassified subsequently to profit and loss:			
Actuarial (loss)/gain on defined benefit pension scheme	33	(294.0)	228.2
Deferred tax relating to actuarial (loss)/gain on defined benefit pension scheme	25	55.9	(42.9)
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of hedging derivatives		(12.3)	0.9
Transfer to income statement on cash flow hedges		4.0	3.4
Exchange differences arising on translation of foreign operations		(4.6)	2.5
Currency translation differences arising on consolidation of equity accounted foreign operations	35	(0.2)	0.3
Deferred tax relating to items that may be reclassified subsequently	25	1.6	(0.8)
Other comprehensive (loss)/income for the year, net of tax		(249.6)	191.6
Total comprehensive (loss)/income for the year attributable to equity shareholders		(300.2)	190.3

Consolidated balance sheet
at 31 March

	Notes	2021 £m	2020 £m Restated
Assets			
Non-current assets			
Goodwill	13	38.3	149.3
Other intangible assets	14	619.5	612.6
Property, plant and equipment	15	458.1	479.1
Right-of-use assets	16	47.0	61.3
Investment	17	39.1	48.1
Interests in associate and joint ventures	35	7.3	6.2
Loans to joint ventures	35	3.3	16.8
Retirement benefit asset	33	-	232.0
Trade and other receivables	18	6.8	6.8
Amounts recoverable under regulatory agreement	18	442.5	9.1
Derivative financial instruments	21	-	3.9
		1,661.9	1,625.2
Current assets			
Loans to joint ventures	35	1.6	1.6
Trade and other receivables	18	112.8	150.5
Amounts recoverable under regulatory agreement	18	2.4	0.5
Current tax assets		14.4	2.6
Short term investments	22	-	47.3
Cash and cash equivalents	22	272.1	538.2
Derivative financial instruments	21	0.1	4.2
		403.4	744.9
Total assets		2,065.3	2,370.1
Current liabilities			
Trade and other payables	23	(165.2)	(163.8)
Amounts payable under regulatory agreement	23	(34.9)	(30.6)
Borrowings	19	(108.1)	(40.9)
Lease liabilities	20	(7.8)	(7.5)
Provisions	24	(2.3)	(5.2)
Derivative financial instruments	21	(21.5)	(19.2)
		(339.8)	(267.2)
Net current assets		63.6	477.7
Non-current liabilities			
Trade and other payables	23	(109.4)	(110.1)
Amounts payable under regulatory agreement	23	(104.5)	(106.8)
Borrowings	19	(602.9)	(645.3)
Lease liabilities	20	(56.1)	(62.5)
Retirement benefit obligations	33	(31.5)	-
Deferred tax liability	25	(118.7)	(165.8)
Provisions	24	(12.2)	(9.5)
Derivative financial instruments	21	(81.1)	(93.6)
		(1,116.4)	(1,193.6)
Total liabilities		(1,456.2)	(1,460.8)
Net assets		609.1	909.3
Equity			
Called up share capital	26	140.6	140.6
Share premium account	27	0.4	0.4
Other reserves	28	(38.5)	(27.0)
Retained earnings		506.5	795.2
Equity attributable to the shareholders		609.0	909.2
Non-controlling interest	29	0.1	0.1
Total equity		609.1	909.3

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 9 July 2021 and signed on its behalf by:

Paul Golby

Paul Golby
Chairman

Alistair Borthwick
Chief Financial Officer

Consolidated statement of changes in equity

for the year ended 31 March

	Equity attributable to equity holders of the group						
	Share capital £m	Share premium account £m	Other reserves (note 28) £m	Retained earnings £m	Sub-total £m	Non-controlling interest £m	Total equity £m
At 1 April 2019	140.6	0.4	(33.3)	670.2	777.9	0.1	778.0
Profit for the year	-	-	-	(1.3)	(1.3)	-	(1.3)
Other comprehensive income/(loss) for the year	-	-	6.3	185.3	191.6	-	191.6
Total comprehensive income/(loss) for the year	-	-	6.3	184.0	190.3	-	190.3
Dividends paid	-	-	-	(59.0)	(59.0)	-	(59.0)
At 31 March 2020	140.6	0.4	(27.0)	795.2	909.2	0.1	909.3
At 1 April 2020	140.6	0.4	(27.0)	795.2	909.2	0.1	909.3
Loss for the year	-	-	-	(50.6)	(50.6)	-	(50.6)
Other comprehensive loss for the year	-	-	(11.5)	(238.1)	(249.6)	-	(249.6)
Total comprehensive loss for the year	-	-	(11.5)	(288.7)	(300.2)	-	(300.2)
Dividends paid	-	-	-	-	-	-	-
At 31 March 2021	140.6	0.4	(38.5)	506.5	609.0	0.1	609.1

Consolidated cash flow statement
for the year ended 31 March

	Note	2021 £m	2020 £m
Net cash (used in)/generated from operating activities	30	(264.5)	217.1
Cash flows from investing activities			
Interest received on short term investments		1.2	1.9
Purchase of property, plant and equipment and other intangible assets		(79.5)	(155.5)
Proceeds of disposal of property, plant and equipment		0.9	2.6
Transfers from/(to) short term investments		47.3	(0.9)
Dividends received from joint venture and associate		1.0	0.9
Loans to joint ventures		(6.2)	(16.7)
Repayments of loans to joint ventures		20.3	21.9
Net cash outflow from investing activities		(15.0)	(145.8)
Cash flows from financing activities			
Interest paid		(21.5)	(18.6)
Interest paid on derivative financial instruments		(0.5)	(0.5)
Advances of en route charges		101.5	-
Repayment of bond principal		(41.6)	(43.2)
Bank loan drawdown		-	395.0
Principal paid on lease liabilities		(7.1)	(7.5)
Interest paid on lease liabilities		(1.7)	(1.9)
Index-linked swap repayments		(14.1)	(12.1)
Bank facility arrangement fees		(1.2)	-
Dividends paid		-	(59.0)
Net cash inflow from financing activities		13.8	252.2
(Decrease)/increase in cash and cash equivalents during the year		(265.7)	323.5
Cash and cash equivalents at 1 April		538.2	214.6
Exchange (losses)/gain on cash and cash equivalents		(0.4)	0.1
Cash and cash equivalents at 31 March		272.1	538.2
Net debt (representing borrowings and lease liabilities, net of cash and short term investments (see notes 22 and 30))		(502.8)	(170.7)

1. General information

NATS Holdings Limited is a private limited company incorporated in England and Wales and domiciled in the United Kingdom and acting under the Companies Act 2006. The address of the registered office is on page 77. The nature of the group's operations and its principal activities are set out in the Report of the directors and in the Strategic report.

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

2a. Basis of preparation and accounting policies

Going concern

The group's business activities, together with the factors likely to affect its performance and financial position, its cash flows, liquidity position and borrowings are set out in this Strategic report. In addition, note 3 to the financial statements describes critical judgements and key sources of estimation uncertainties and note 22 the group's objectives, policies and processes for managing its capital and its financial risks and details its financial instruments and hedging activities.

At 31 March 2021, the group had cash of £272.1m and access to undrawn committed bank facilities of £385m until July 2022. In June 2021 the group 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 group had cash and undrawn bank facilities of around £1,005m.

Management has 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 group 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 8); 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. The impact of lower air traffic volumes was also assumed to result in a 20% loss of airport contract income, in the event of airport closures. 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 group 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 group's cash flow forecasts, taking account of reasonably plausible downside scenarios, show that the group and company should be able to operate within the level of its available bank facilities and within its financial covenant for the foreseeable future.

Accordingly, the directors have formed the judgement that, taking into account the financial resources available, the range of reasonably 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 referred to in the Viability statement, the group and company have adequate resources to continue to operate for a period of at least twelve months from the date of approval of the financial statements, and have therefore adopted the going concern basis in the preparation of the financial statements.

Accounting standards

The financial statements have been prepared in accordance with 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 group has adopted the requirements of the following amendments to standards in the year, the adoption of these amendments has not had a material impact on the disclosures in the financial statements:

- IFRS 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 group 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.

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

Basis of consolidation

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

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

Revenue recognition

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

Airspace

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

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

Also within Airspace, the group provides ATC services to the MOD, including training services. Revenue is recognised over time, as the service is provided. The MOD contract includes variable consideration relating to a gain share term which enables the MOD to share in cost efficiencies relative to the original contract assumption. Amounts due to the MOD for gain share are recognised over time as the service is provided and settled at future contractual payment dates. Amounts payable are discounted at NERL's regulatory cost of capital to reflect the financing component.

Revenue for assets funded by customers is recognised over the service life of the asset or the remaining contract term, if shorter.

UK airports

The group provides ATC, engineering support and airport optimisation services to UK airport customers. Each of these services represents a distinct performance obligation, but with a consistent pattern of delivery over the life of the contract. Revenue for these services is recognised on a time lapse basis using the work output approach.

Variable consideration for traffic volume risk sharing and service performance incentives is recognised in the financial year in which the service is provided.

Defence services

The group provides ATC, asset provision and engineering maintenance services under the MOD's Project Marshall contract to the Aquila joint venture. These are separate contracts priced on a standalone basis, using a cost plus a margin approach. The ATC and engineering maintenance services represent distinct performance obligations. The asset provision contract contains two performance obligations. In each case, revenue is recognised over time based upon costs incurred for work performed to date, as a proportion of the estimated total contract costs.

Other UK business

The group provides other services to UK customers including consultancy, training and information. These contracts can contain multiple deliverables that are considered distinct. The transaction price is allocated to each performance obligation based on stand-alone selling prices. Where the transaction price is not directly observable, the prices are estimated based on a cost plus margin. Revenue is recognised in line with costs incurred or labour hours expended for work performed to date, as a proportion of the estimated total contract costs.

International

The group provides ATC and related services (including consultancy, engineering, training and information services) to overseas customers. Revenue is recognised as for similar services described above.

Income from other sources

Rental income from leases is recognised on a straight-line basis over the relevant lease term.

Dividend income is recognised when a shareholder's rights to receive payment has been established.

Interest income is recognised on a time proportion basis using the effective interest method. This is the rate that exactly discounts estimated future cash flows over the expected life of the financial asset to that asset's net carrying amount.

Amounts recoverable or payable under regulatory agreement

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

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).

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

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

Distributable reserves of the individual companies within the group comprise their individual accumulated realised profits less accumulated realised and unrealised losses. In the opinion of the directors, the key judgements necessarily made in estimating the amount of revenue and regulatory allowances to which NERL plc 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 the group's share of results of joint ventures and associates, investment income, fair value movement on financial instruments, finance costs and taxation.

Goodwill (see note 3)

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 NATS, qualifying assets relate to any additions to new projects that began from 1 April 2009, included in assets under construction.

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

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

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

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

Short term, low-value leases and expired leases

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

The group 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.

Investments in associates and joint ventures

An associate is an entity over which the group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

A joint venture is an arrangement in which two or more parties have joint control. The investors in the joint venture have rights to the net assets of the jointly controlled entity. The results of joint ventures are incorporated in these financial statements using the equity method of accounting.

Investments in associates and joint ventures are carried in the balance sheet at cost as adjusted by post-acquisition changes in the group’s share of the net assets of the associate or joint venture, less any impairment in the value of individual investments.

Internally-generated intangible assets – research and development expenditure

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

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

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;

- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives, typically over 3 to 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 group reviews the carrying amounts of its tangible, intangible and right-of-use assets, including those in the course of construction, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

Share-based payments

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

In 2001, the company established an All Employee Share Ownership Plan (AESOP) for the benefit of its employees to hold 5% of the share capital of NATS Holdings Limited. The Plan was initially established through the transfer of shares by the Crown Shareholder at the PPP to NATS Employee Sharetrust Limited (NESL) for £nil consideration. Following financial restructuring in March 2003, further shares were transferred to NESL by AG for £nil consideration and NESL was gifted cash of £279,264 to acquire additional shares to maintain the Plan's interest at 5% of the share capital of NATS Holdings Limited. This amount is reflected in the AESOP reserve. The Plan is administered by NESL, a trustee company. The employee ordinary shares may only be owned by employee shareholders and can only be sold to the trust company.

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

In respect of the award schemes, the group provides finance to the NESL to enable the trust company to meet its obligations to repurchase vested or eligible shares from employees.

The costs of running the employee share trust 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 group intends to settle its current tax assets and liabilities on a net basis.

Foreign currency translation

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the holding company, and the presentation currency for the consolidated financial statements. For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rate at the date of transactions is used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity in the Translation reserve (and attributed to non-controlling interests as appropriate).

In preparing the financial statements of the individual companies, transactions in currencies other than 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 group enters into forward contracts (see below for details of the group's accounting policies in respect of such derivative financial instruments).

Retirement benefit costs

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

Past service cost is recognised immediately 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 group's defined benefit scheme. Any surplus resulting from this calculation is limited to the present value of available refunds or reductions in future contributions to the scheme.

Since 2009, the group and Trustees have introduced a number of pension reforms, as explained in note 33. 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 group has a present obligation as a result of a past event, and it is probable that the group will be required to settle that obligation. Provisions are measured at the directors' best estimate of expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Financial instruments

Financial assets and financial liabilities are recognised in the group balance sheet when the group becomes a party to the contractual provisions of the instrument. Financial assets are classified as either fair value through profit or loss, fair value through other comprehensive income, or amortised cost. Classification and subsequent re-measurement depends on the group's business model for managing the financial asset and its cash flow characteristics. The group has financial assets in the categories of fair value through the profit or loss and at amortised cost. The group does not have financial assets at fair value through other comprehensive income. Detailed disclosures are set out in notes 17 to 23.

Financial assets:

Fair value through profit or loss

The group does not have any assets held for trading. The group holds an equity investment in Aireon at fair value through profit or loss. This is carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated income statement in the fair value movement in financial instruments line item.

Amortised cost

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

Impairment of financial assets

Equity instruments, including subsidiaries, associated and joint ventures, are assessed at each reporting date to determine whether there was objective evidence of impairment. Impairment losses are recognised in the income statement.

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

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

Effective interest method

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

Equity

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

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

Reserves

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

- Other reserves, which arose on the completion of the PPP transaction in July 2001;
- Non-controlling interest, which represents the share of equity attributable to the minority investor in NATS Services LLC.

Derivative financial instruments and hedging activities

The group's activities expose it primarily to the financial risks of changes in interest rates, inflation and foreign currency exchange rates. The group uses interest rate and index-linked swap contracts and forward foreign exchange contracts to hedge these exposures. These are disclosed in notes 21 and 22 to the accounts.

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

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

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

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

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

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

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 consolidated income statement, representing the net amount of revenue which NERL should receive in a subsequent period for services provided in the year and revenue which NERL 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 NERL 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 NERL 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 group.

As a result of the above, the group 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 group'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 Financial year ended 31 March 2020	Reclassified	Restated Financial year ended 31 March 2020
Revenue from contracts with customers	852.3	(7.3)	845.0
Regulatory allowances under-recovered	-	7.3	7.3
Other revenue	39.8	-	39.8
Total revenue and regulatory allowances	**892.1**	-	**892.1**
Net operating costs	**(838.5)**	-	**(838.5)**
Operating profit	**53.6**	-	**53.6**
Share of results of associate and joint ventures	(2.6)	-	(2.6)
Net finance costs	(25.7)	-	(25.7)
Profit before tax	**25.3**	-	**25.3**
Tax	(26.6)	-	(26.6)
Loss for the year attributable to equity shareholders	**(1.3)**	-	**(1.3)**
Other comprehensive income for the year, net of tax	191.6	-	191.6
Total comprehensive income for the year attributable to equity shareholders	**190.3**	-	**190.3**

Balance sheet (extract)

£m	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
Assets						
Non-current assets						
Goodwill	149.3	-	149.3	198.3	-	198.3
Other intangible assets	612.6	-	612.6	567.2	-	567.2
Property, plant and equipment	479.1	-	479.1	497.0	-	497.0
Right-of-use assets	61.3	-	61.3	-	-	-
Investments	48.1	-	48.1	50.9	-	50.9
Interests in associates and joint ventures	6.2	-	6.2	9.4	-	9.4
Loans to joint ventures	16.8	-	16.8	21.1	-	21.1
Retirement benefit asset	232.0	-	232.0	-	-	-
Amounts recoverable under regulatory agreement	-	9.1	9.1	-	9.6	9.6
Trade and other receivables	15.9	(9.1)	6.8	24.3	(9.6)	14.7
Derivative financial instruments	3.9	-	3.9	1.7	-	1.7
	1,625.2	-	1,625.2	1,369.9	-	1,369.9
Current assets						
Loans to joint ventures	1.6	-	1.6	1.4	-	1.4
Amounts recoverable under regulatory agreement	-	0.5	0.5	-	1.1	1.1
Trade and other receivables	155.0	(4.5)	150.5	176.2	(6.5)	169.7
Current tax assets	2.6	-	2.6	-	-	-
Short-term investments	47.3	-	47.3	46.4	-	46.4
Cash and cash equivalents	538.2	-	538.2	214.6	-	214.6
Derivative financial instruments	4.2	-	4.2	2.7	-	2.7
	748.9	(4.0)	744.9	441.3	(5.4)	435.9
Total assets	2.374.1	(4.0)	2.370.1	1,811.2	(5.4)	1,805.8
Current liabilities						
Amounts payable under regulatory agreement	-	(30.6)	(30.6)	-	(65.0)	(65.0)
Trade and other payables	(198.4)	34.6	(163.8)	(260.5)	70.4	(190.1)
Current tax liabilities	-	-	-	(0.7)	-	(0.7)
Borrowings	(40.9)	-	(40.9)	(42.7)	-	(42.7)
Lease liabilities	(7.5)	-	(7.5)	-	-	-
Provisions	(5.2)	-	(5.2)	(3.8)	-	(3.8)
Derivative financial instruments	(19.2)	-	(19.2)	(13.9)	-	(13.9)
	(271.2)	4.0	(267.2)	(321.6)	5.4	(316.2)
Net current assets	477.7	-	477.7	119.7	-	119.7
Non-current liabilities						
Amounts payable under regulatory agreement	-	(106.8)	(106.8)	-	(74.5)	(74.5)
Trade and other payables	(216.9)	106.8	(110.1)	(181.8)	74.5	(107.3)
Borrowings	(645.3)	-	(645.3)	(292.2)	-	(292.2)
Retirement benefit obligation	-	-	-	(22.1)		(22.1)
Lease liabilities	(62.5)	-	(62.5)	-	-	-
Deferred tax liability	(165.8)	-	(165.8)	(97.8)	-	(97.8)
Provisions	(9.5)	-	(9.5)	(7.4)	-	(7.4)
Derivative financial instruments	(93.6)	-	(93.6)	(110.3)	-	(110.3)
	(1,193.6)	-	(1,193.6)	(711.6)	-	(711.6)
Total liabilities	(1,464.8)	4.0	(1,460.8)	(1,033.2)	5.4	(1,027.8)
Net assets	909.3	-	909.3	778.0	-	778.0
Total equity	909.3	-	909.3	778.0	-	778.0

The balance sheet as at 31 March 2019 has been restated and presented in this note, rather than on the face of the consolidated 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 NERL'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 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, NERL's licence period and the outcome of the regulatory price control determinations. The RAB reflects the capital employed in the economically regulated business and, broadly, is uplifted annually for inflation and increases with capital expenditure and reduces by regulatory depreciation. The market premium, which is applied to the RAB when determining the fair value of goodwill, was assessed at the balance sheet date to be 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 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, AG (the Strategic Partner) and 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 18)

The group'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 group'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 8.6% of amounts due from active customers of £106.4m. A 1% change in customer default would give rise to a c£1m change in expected credit loss provision.

Retirement benefits

The group accounts for its defined benefit pension scheme such that the net pension scheme position is reported on the balance sheet with actuarial gains and losses being recognised directly in equity through the statement of comprehensive income. At 31 March 2021 the funding position of the scheme reported in the financial statements was a deficit of £31.5m.

A number of key assumptions have been made in calculating the fair value of the group's defined benefit pension scheme which affect the balance sheet position and the group's reserves and income statement. Refer to note 33 of the notes to the consolidated 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 group is undertaking a significant capital investment programme to upgrade existing ATC infrastructure. This programme requires the group to enter into substantial contracts for the development of infrastructure assets and information systems. Whilst covered by contractual arrangements, it is in the nature of such complex projects that, from time to time, variations to the original specifications may necessitate the renegotiation of original contract scope or price and affect amounts reported in these accounts. The group also capitalises internal labour where this is directly attributable to the development of assets, at a labour rate judged to reflect the underlying cost of staff. Impairment charges may arise subsequently if changes in the cost or scope of capital investment is not recoverable from customer contracts or through the regulatory framework.

Long term contracts (see notes 18 and 23)

The group is fulfilling a number of long term contracts, including providing support to its Aquila joint venture which is undertaking Project Marshall. In assessing the amount of revenue to be recognised in respect of these contracts, judgements are made on the extent of contract completion and the proportion that costs incurred to date bear to the estimated total costs of the contract. Such judgements are reviewed regularly and may change over the course of a contract, impacting operating results in future periods should a reassessment of contract completion and costs to complete be made.

Leases (see notes 16 and 20)

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.
- Airport equipment leases have primary, secondary and tertiary periods. The lease term assumed is the period for which the group is reasonably certain to exercise the option to extend, being the period the lessee expects to use the asset in delivery of air navigation services.

4. Total revenue and regulatory allowances

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

	2021 £m	2020 £m Restated
Revenue from contracts with customers	402.8	845.0
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	2.6	3.6
Total revenue and regulatory allowances (see operating segments)	823.0	892.1
Other operating income	2.9	4.4
Investment income (see note 8)	3.5	4.1
	829.4	900.6

a) Total revenue and regulatory allowances disaggregated by operating segment

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

The performance of operating segments is assessed based on service line revenue and contribution. Service line contribution represents the total revenue and regulatory allowance under-recovered and costs which are directly attributed to a service line. Costs which are not directly attributed to a service line include: costs managed outside of service lines, depreciation and amortisation (net of government grants), goodwill impairment, profit/(loss) on disposal of non-current assets, employee share scheme (costs)/credits, redundancy and relocation 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 group's economically regulated activities and encompasses services to en route, oceanic and London Approach customers provided from our Prestwick and Swanwick centres, together with all the supporting communications, navigation and surveillance infrastructure and facilities. Airspace includes air traffic services for helicopters operating in the North Sea, approach services for London airports, infrastructure services to the Ministry of Defence (MOD) for their en route operations and European projects in conjunction with other air traffic organisations.
UK Airports	The provision of air traffic control, engineering support and airport optimisation services to UK airport customers.
Defence Services	The provision of air traffic control, engineering support and other services to the UK MOD and to our joint venture for the UK MOD's Marshall contract.
Other UK Business	Other services provided to UK customers including: consultancy, offering airspace development, capacity improvement and training; and information, providing data to enable future efficiency and flight optimisation.
International	The provision of air traffic control and related services (including consultancy, engineering, training and information services) to overseas customers.

4. Total revenue and regulatory allowances (continued)

Segment information about these activities is presented below.

	2021			2020		
	Total intra-group and external £m	Intra-group £m	External £m	Total intra-group and external £m Restated	Intra-group £m Restated	External £m Restated
Revenue from contracts with customers						
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	0.7	-	0.7	2.2	-	2.2
	224.0	-	224.0	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)	-
Airspace	262.2	(23.9)	238.3	683.0	(26.0)	657.0
UK Airports	118.4	(13.5)	104.9	141.8	(12.9)	128.9
Defence Services	29.0	(0.8)	28.2	27.4	(1.4)	26.0
Other UK Business	16.5	(4.8)	11.7	14.6	(4.9)	9.7
International	19.7	-	19.7	23.5	(0.1)	23.4
Total revenue from contracts with customers	445.8	(43.0)	402.8	890.3	(45.3)	845.0
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	3.4	(1.0)	2.4	4.2	(1.0)	3.2
UK Airports	-	-	-	0.1	-	0.1
Other UK Business	0.2	-	0.2	0.3	-	0.3
	3.6	(1.0)	2.6	4.6	(1.0)	3.6
Total revenue and regulatory allowances	867.0	(44.0)	823.0	938.4	(46.3)	892.1

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 group'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.

4. Total revenue and regulatory allowances (continued)

b) Total revenue and regulatory allowances disaggregated based on economic regulation

	2021			2020		
	Total intra-group and external £m	Intra-group £m	External £m	Total intra-group and external £m Restated	Intra-group £m Restated	External £m Restated
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	268.5	(43.0)	225.5	295.2	(45.3)	249.9
Other revenue: rental and sub-lease income	3.6	(1.0)	2.6	4.6	(1.0)	3.6
Total non-regulated income	272.1	(44.0)	228.1	299.8	(46.3)	253.5
	867.0	(44.0)	823.0	938.4	(46.3)	892.1

Airspace services are economically regulated activities governed by NATS (En Route) plc's air traffic services licence. The revenue which NERL is allowed to generate from these services is governed by the price control conditions of this licence. 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 NERL'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		
	Total intra-group and external £m	Intra-group £m	External £m	Total intra-group and external £m Restated	Intra-group £m Restated	External £m Restated
Over time						
Revenue from contracts with customers	407.9	(43.0)	364.9	886.7	(45.3)	841.4
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	3.6	(1.0)	2.6	4.6	(1.0)	3.6
	829.1	(44.0)	785.1	934.8	(46.3)	888.5
At a point in time						
Revenue from contracts with customers	37.9	-	37.9	3.6	-	3.6
	37.9	-	37.9	3.6	-	3.6
	867.0	(44.0)	823.0	938.4	(46.3)	892.1

4. Total revenue and regulatory allowances (continued)

d) Total revenue and regulatory allowances disaggregated by geographical area

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

	2021			2020		
	Total intra-group and external £m	Intra-group £m	External £m	Total intra-group and external £m	Intra-group £m	External £m
Revenue and regulatory allowances, including Other revenue: EU funding passed to UK en route customers						
United Kingdom	387.5	(43.0)	344.5	473.4	(45.3)	428.1
Other European countries	92.1	-	92.1	102.6	-	102.6
United States of America	105.7	-	105.7	90.7	-	90.7
Republic of Ireland	72.6	-	72.6	85.5	-	85.5
Countries in Asia	79.5	-	79.5	69.7	-	69.7
Germany	48.1	-	48.1	47.5	-	47.5
Netherlands	49.4	-	49.4	31.8	-	31.8
Other North American countries	20.8	-	20.8	26.5	-	26.5
Countries in Africa	4.9	-	4.9	3.5	-	3.5
Countries in Oceania	1.4	-	1.4	1.9	-	1.9
Countries in South America	1.4	-	1.4	0.7	-	0.7
	863.4	(43.0)	820.4	933.8	(45.3)	888.5
Other revenue: rental and sub-lease income						
United Kingdom	3.2	(1.0)	2.2	4.1	(1.0)	3.1
Other European countries	0.4	-	0.4	0.5	-	0.5
	3.6	(1.0)	2.6	4.6	(1.0)	3.6
	867.0	(44.0)	823.0	938.4	(46.3)	892.1

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

e) Contract balances

Receivables, contract assets and contract liabilities from contracts with customers are disclosed in notes 18 and 23. Significant changes in the contract assets and the contract liabilities balances during the year are as follows.

	Contract assets		Contract liabilities	
	2021 £m	2020 £m	2021 £m	2020 £m
At 1 April	25.8	23.8	(62.6)	(93.6)
Opening contract assets transferred to trade and other receivables	(20.6)	(19.6)	-	-
Cumulative catch-up adjustments	(0.1)	(0.7)	0.1	(0.6)
Additional contract asset balances recognised at the balance sheet date	16.8	22.3	-	-
Opening contract liabilities which have now been recognised as revenue	-	-	10.1	48.4
Increases due to cash received, excluding amounts recognised as revenue during the year	-	-	(37.7)	(16.8)
At 31 March	21.9	25.8	(90.1)	(62.6)

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

4. Total revenue and regulatory allowances (continued)

f) Total revenue and regulatory allowances 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.

g) Remaining performance obligations

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

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

	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
UK Airports	4.2	0.8	0.9	-	5.9
Defence Services	16.5	1.1	-	-	17.6
Other UK Business	0.9	0.8	0.8	2.3	4.8
International	6.0	0.2	0.1	-	6.3
	30.0	2.9	1.8	2.3	37.0

	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
UK Airports	7.5	6.8	7.9	8.3	30.5
Defence Services	20.4	3.2	0.7	-	24.3
Other UK Business	0.9	0.4	1.1	3.5	5.9
International	6.3	1.8	-	-	8.1
	47.3	22.4	37.9	11.8	119.4

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 group's revenue from the provision of services denominated in foreign currencies is cash flow hedged. Included in revenue is the recycling of the effective amount of foreign currency derivatives that are used to hedge foreign currency revenue. The amount included in revenue is a £0.6m loss (2020: £5.6m loss).

5. Operating segments

Service line contribution represents the total revenue and regulatory allowances under-recovered and costs which are directly attributed to a service line.

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

	2021 £m	2020 £m
Airspace	281.8	299.6
UK Airports	21.9	25.9
Defence Services	2.7	2.2
Other UK Business	9.2	7.9
International	0.1	(1.8)
Service line contribution	315.7	333.8
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	(105.7)	(134.6)
Impairment of goodwill	(111.0)	(49.0)
Profit on disposal of non-current assets	0.4	1.0
Employee share scheme (costs)/credits	(1.8)	4.8
Redundancy and relocation costs	(65.2)	(2.5)
Other costs not directly attributed to service lines	(40.5)	(103.7)
R&D expenditure above the line tax credits	0.9	1.2
Investment income	3.5	4.1
Fair value movements on financial instruments	(4.0)	(3.2)
Finance costs	(30.1)	(26.6)
(Loss)/profit before tax	(37.8)	25.3

The performances of Airspace and Defence Services include the group share of the results of European Satellite Services Provider SAS (ESSP SAS) and Aquila Air Traffic Management Services Limited respectively. The performance of International includes the group share of the results of FerroNATS Air Traffic Services SA and Searidge Technologies Inc (see note 35). Other costs not directly attributed to service lines include corporate costs providing central support functions.

Non-current assets additions

Additions to non-current assets are presented by service line below:

	2021 £m	2020 £m
Airspace	71.4	150.1
UK Airports	3.4	3.8
Defence Services	0.7	2.7
Other UK Business	3.3	1.1
International	-	0.8
	78.8	158.5

Geographical segments

The following table provides an analysis of the group's non-current assets (excluding financial assets and, for 2020, retirement benefit assets) by geographical location. An analysis of the group's total revenue and regulatory allowances by geographical location is provided in note 4 d).

	Non-current assets	
	2021 £m	2020 £m
United Kingdom	1,166.0	1,305.9
United States of America	39.5	48.6
Canada	-	0.2
Other European countries	5.9	5.9
Countries in Asia	0.4	0.7
	1,211.8	1,361.3

Included within the United States of America geographical segment is the group's equity investment in Aireon LLC, see note 17.

6. Operating profit for the year

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

	2021 £m	2020 £m
The CAA regulatory charges in respect of NERL's air traffic services licence	5.4	5.5
The CAA regulatory charges for safety regulation at airports	0.1	0.1
Impairment of goodwill (note 13)	111.0	49.0
Amortisation of intangible assets (note 14)	36.1	52.5
Impairment of intangible assets (note 14)	3.8	7.3
Depreciation of property, plant and equipment (note 15)	47.8	64.1
Impairment of property, plant and equipment (note 15)	4.5	4.1
Depreciation of right-of-use assets (note 16)	6.2	7.0
Impairment of right-of-use assets (note 16)	7.9	0.2
Deferred grants released	(0.6)	(0.6)
Redundancy costs	65.2	2.2
Staff relocation costs (net of credits for revisions to estimates) following site closure	-	0.3
Research and development costs	1.8	4.0
R&D expenditure above the line tax credits	(0.9)	(1.2)
Auditor's remuneration for audit services (see below)	0.3	0.2

A portion of the group'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: £2.2m gain).

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

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

The analysis of auditor's remuneration is as follows:

	2021 £m	2020 £m
Fees payable to the company's auditor for the audit of the company's annual accounts	0.2	0.1
Fees payable to the company's auditor and their associates for other services to the group		
- The audit of the company's subsidiaries	0.1	0.1
Total audit fees	0.3	0.2

Total non-audit fees of £20,000 (2020: £23,750) include agreed upon procedures in relation to the NERL regulatory accounts of £12,500 (2020: £10,700) and other agreed upon procedures of £7,500 (2020: £13,050).

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, including directors' remuneration, were as follows:						
Wages and salaries	353.1	54.4	407.5	371.7	2.1	373.8
Social security costs	39.8	7.1	46.9	45.0	-	45.0
Pension costs (note 7b)	90.3	3.7	94.0	97.4	-	97.4
	483.2	65.2	548.4	514.1	2.1	516.2
Less:						
Amounts capitalised	(27.1)	-	(27.1)	(48.2)	-	(48.2)
Government grants	(37.1)	-	(37.1)	-	-	-
	419.0	65.2	484.2	465.9	2.1	468.0

Government grants of £37.1m (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.

7. Staff costs (continued)

Wages and salaries include share-based payment credits or charges, other allowances and holiday pay.

b. Pension costs (note 33)

	2021 £m	2020 £m
Defined benefit scheme	66.5	73.9
Defined contribution scheme	27.5	23.5
	94.0	97.4

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	1,851	1,887
Air traffic service assistants	652	689
Engineers	899	923
Others	1,174	1,227
	4,576	4,726
The number of employees (including executive directors) in post at 31 March was:	4,227	4,860

The voluntary redundancy programme was completed in December 2020.

8. Investment income

	2021 £m	2020 £m
Interest on bank deposits	0.9	1.7
Other loans and receivables	2.6	2.4
	3.5	4.1

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 and interest accrued on loans to our joint ventures, Aquila and Searidge.

9. Fair value movement on financial instruments

	2021 £m	2020 £m
Credit arising from change in the fair value of derivatives not qualifying for hedge accounting	0.4	2.1
Change in the fair value of equity investment in Aireon designated as fair value through profit and loss (see note 17)	(4.4)	(5.3)
	(4.0)	(3.2)

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 20)	1.7	1.9
Other finance costs	6.6	4.9
	30.1	26.6

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	2.2	3.9
Adjustments in respect of prior year	0.1	(2.3)
Foreign taxation	0.1	0.7
	2.4	2.3
Deferred tax (see note 25)		
Origination and reversal of temporary timing differences	11.2	9.6
Adjustments in respect of prior year	(0.8)	2.3
Effects of tax rate change on opening balance	-	12.4
	10.4	24.3
	12.8	26.6

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

The charge for the year can be reconciled to the profit per the income statement as follows:

	2021		2020	
	£m	%	£m	%
(Loss)/profit on ordinary activities before tax	(37.8)		25.3	
Tax on (loss)/profit on ordinary activities at standard rate in the UK of 19% (2020: 19%)	(7.2)	19.0%	4.8	19.0%
Tax effect of change in corporation tax rate from 17% to 19% (see below)	-	-	12.4	49.0%
Tax effect of prior year adjustments: current tax	0.1	(0.2%)	(2.3)	(9.1%)
Tax effect of prior year adjustments: deferred tax	(0.8)	2.1%	2.3	9.1%
Patent box	(1.4)	3.7%	(1.6)	(6.3%)
Employee share scheme	0.4	(1.1%)	0.3	1.2%
Goodwill impairment	21.1	(55.8%)	9.3	36.8%
Change in fair value of equity investment	-	-	1.0	3.9%
Foreign permanent establishment exemption	-	-	(0.1)	(0.4%)
Joint ventures and associate	(0.2)	0.5%	0.8	3.1%
Unrecognised deferred tax assets on overseas subsidiaries	0.6	(1.6%)	(0.1)	(0.4%)
R&D expenditure credits/(deductions)	0.4	(1.0%)	(0.1)	(0.4%)
Other permanent differences	(0.2)	0.5%	(0.1)	(0.4%)
Tax charge for year at an effective tax rate of (33.9%) (2020: 105.1%)	12.8	(33.9%)	26.6	105.1%
Deferred tax (credit)/charge taken directly to equity (see note 25)	(57.5)		43.7	

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 pence per share (2020: 20.97 pence per share)	-	30.0
Second interim dividend of £nil pence per share (2020: 20.27 pence per share)	-	29.0
	-	59.0

13. Goodwill

	£m
Cost	
At 31 March 2021 and 31 March 2020	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 group 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	497.1	105.6	52.2	268.0	922.9
Additions internally generated	3.3	-	2.0	30.3	35.6
Additions externally acquired	2.7	0.2	-	67.8	70.7
Disposals during the year	(13.3)	-	-	-	(13.3)
Other transfers during the year	7.4	1.3	1.9	(11.7)	(1.1)
At 31 March 2020	497.2	107.1	56.1	354.4	1,014.8
Additions internally generated	0.9	0.3	0.1	13.2	14.5
Additions externally acquired	0.4	0.9	-	29.4	30.7
Other transfers during the year	0.5	13.1	-	(12.0)	1.6
At 31 March 2021	499.0	121.4	56.2	385.0	1,061.6
Accumulated amortisation and impairment					
At 1 April 2019	241.4	80.2	31.8	2.3	355.7
Charge for the year	41.1	7.4	4.0	-	52.5
Impairment provision recognised in income statement	-	-	-	7.3	7.3
Disposals during the year	(13.3)	-	-	-	(13.3)
At 31 March 2020	269.2	87.6	35.8	9.6	402.2
Charge for the year	25.9	6.2	4.0	-	36.1
Impairment provision recognised in income statement	-	-	-	3.8	3.8
Transfer of impairment provision	-	1.0	-	(1.0)	-
At 31 March 2021	295.1	94.8	39.8	12.4	442.1
Carrying amount					
At 31 March 2021	203.9	26.6	16.4	372.6	619.5
At 31 March 2020	228.0	19.5	20.3	344.8	612.6
At 1 April 2019	255.7	25.4	20.4	265.7	567.2

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: £7.3m) were made in respect of Airspace 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	246.8	45.6	1,436.2	25.6	169.6	1,923.8
Additions during the year	0.1	-	7.8	0.5	42.5	50.9
Disposals during the year	-	-	(66.0)	(0.1)	-	(66.1)
Other transfers during the year	0.1	-	9.3	0.1	(8.4)	1.1
At 31 March 2020	247.0	45.6	1,387.3	26.1	203.7	1,909.7
Additions during the year	-	-	4.5	0.1	28.8	33.4
Disposals during the year	(0.7)	-	(5.1)	(0.1)	-	(5.9)
Other transfers during the year	0.1	-	8.3	-	(10.0)	(1.6)
At 31 March 2021	246.4	45.6	1,395.0	26.1	222.5	1,935.6
Accumulated depreciation and impairment						
At 1 April 2019	145.0	38.9	1,222.3	20.2	2.1	1,428.5
Provided during the year	7.8	1.2	53.9	1.2	-	64.1
Impairment provision recognised in income statement	-	-	-	-	4.1	4.1
Transfer of impairment provision	-	-	0.2	-	(0.2)	-
Disposals during the year	-	-	(66.0)	(0.1)	-	(66.1)
At 31 March 2020	152.8	40.1	1,210.4	21.3	6.0	1,430.6
Provided during the year	7.8	1.2	37.7	1.1	-	47.8
Impairment provision recognised in income statement	-	-	0.9	-	3.6	4.5
Transfer of impairment provision	-	-	6.1	-	(6.1)	-
Disposals during the year	(0.5)	-	(4.8)	(0.1)	-	(5.4)
At 31 March 2021	160.1	41.3	1,250.3	22.3	3.5	1,477.5
Carrying amount						
At 31 March 2021	86.3	4.3	144.7	3.8	219.0	458.1
At 31 March 2020	94.2	5.5	176.9	4.8	197.7	479.1
At 1 April 2019	101.8	6.7	213.9	5.4	167.5	495.3

The group conducts annual reviews of the carrying values of its property, plant and equipment where there is an indicator of impairment. During the year, the group incurred impairment charges of £4.5m relating to the reduction in value in use of UK Airports assets in the course of construction and installation (2020: £4.1m 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 group 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	62.9	5.9	1.0	69.8
Additions during the year	0.6	0.3	0.4	1.3
Effect of modification to lease terms	0.1	(0.1)	-	-
Price changes - market value	0.1	-	-	0.1
Terminations during the year	(0.2)	(0.4)	(0.1)	(0.7)
At 31 March 2020	63.5	5.7	1.3	70.5
Additions during the year	-	0.1	0.1	0.2
Effect of modification to lease terms	0.2	0.2	-	0.4
Price changes - market value	0.4	-	-	0.4
Terminations during the year	(0.1)	(0.3)	(0.1)	(0.5)
Retranslation	-	-	(0.1)	(0.1)
At 31 March 2021	64.0	5.7	1.2	70.9
Accumulated depreciation and impairment				
At 1 April 2019	0.8	0.6	-	1.4
Charge during the year	4.9	1.6	0.5	7.0
Charge capitalised in the year	1.0	-	-	1.0
Impairment provision recognised in income statement	-	0.2	-	0.2
Terminations during the year	(0.1)	(0.2)	(0.1)	(0.4)
At 31 March 2020	6.6	2.2	0.4	9.2
Charge during the year	4.8	1.0	0.4	6.2
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)	(0.4)	(0.5)
At 31 March 2021	20.4	3.1	0.4	23.9
Carrying amount				
At 31 March 2021	43.6	2.6	0.8	47.0
At 31 March 2020	56.9	3.5	0.9	61.3
At 1 April 2019	62.1	5.3	1.0	68.4

The group 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: £0.2m) were made in respect of leasehold land and buildings reflecting a reassessment of the usage of the group'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 group 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. Investment in Aireon LLC

In May 2018, NATS paid £51.0m (US$68.75m) to acquire a minority interest in Aireon LLC (Aireon) (subsequently Aireon Holdings LLC upon transfer of shareholding), a limited liability company incorporated in Delaware USA, which provides a space-based air traffic surveillance system for air navigation service providers (ANSPs) through Automatic Dependent Surveillance-Broadcast (ADS-B) receivers on the Iridium NEXT satellite constellation. Aireon is an unquoted company. NATS' investment was made by NATS (USA) Inc, a wholly owned subsidiary. Other investors are Iridium and four other ANSPs: NAV CANADA (Canada), ENAV (Italy), the Irish Aviation Authority (Ireland) and Naviair (Denmark).

The investment in Aireon is in convertible redeemable cumulative 5% preference interests with voting rights of 9.1%. The investment is intended to result in fully diluted common interests (equivalent to ordinary shares) with voting rights of 11.1%. NATS is entitled to appoint one of the eleven Board members.

The interests carry a right of conversion to common equity interests until 2 January 2024 or are otherwise mandatorily redeemed in three annual instalments from that date. The dividend is payable on or after 1 January 2024 and stopped accruing from 1 January 2021.

The investment in Aireon meets the definition of a financial asset under international accounting standards. The conversion option and the mandatory redemption characteristics of the investment requires its measurement at fair value through profit or loss.

The valuation technique used to determine fair value is the income approach. The fair value of the investment reflects the present value of dividend projections based on Aireon's most recent long term operating plan (December 2020), performance since that plan and NATS' assessment of underlying plan assumptions. The discount rate assumed for this purpose is 14.3% (2020: 14.3%). The fixed cost nature of Aireon's business makes its plan sensitive to the achievement of management's revenue growth assumptions, which is reflected in the discount rate assumption. A 1% increase in the discount rate would result in a c£3.4m decrease in fair value and a 1% reduction in the discount rate would result in a c£3.9m increase in fair value. A 10% increase in revenue assumed from unsigned sales contracts would result in an increase in fair value of £3.6m and a 10% reduction in revenue assumed from unsigned sales contracts would result in a decrease in fair value of £3.6m. The investment is classified within Level 3 of the fair value hierarchy.

	£m
Fair value at 1 April 2020	48.1
Change in fair value in the period, reported in 'Fair value movements' (see note 9)	(4.4)
Effect of foreign exchange, reported in Other comprehensive income	(4.6)
Fair value at 31 March 2021	39.1

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

18. Financial and other assets

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

Trade and other receivables

	2021 £m	2020 £m Restated
Non-current		
Receivable from customers gross	4.2	1.9
Other debtors	0.1	0.2
Prepayments	2.5	4.7
	6.8	6.8
Current		
Receivable from customers gross	88.3	118.8
Less: expected credit loss provision	(17.1)	(21.0)
	71.2	97.8
Amounts recoverable under contracts	1.1	2.9
Contract spare parts	0.5	0.5
Contract assets	21.9	25.8
Other debtors	5.2	7.2
Prepayments	12.9	16.3
	112.8	150.5

Amounts recoverable under regulatory agreement

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

18. Financial and other assets (continued)

The average credit period on sales of services was 87 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.

Amounts recoverable under regulatory agreement which are non-current include the net present value of regulatory allowances under-recovered, which will be recovered after 31 March 2022 and across the next five year price control period from 2023 and pension pass through of £42.3m (2020: £9.1m), £7.7m of which relates to Reference Period 1 and is being recovered over a 15 year period to 31 December 2030 and £34.6m to Reference Period 2 which is being recovered over a 15 year period to 31 December 2035.

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	21.0	4.0
(Decrease)/increase in allowance recognised in the income statement	(1.8)	17.5
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	17.1	21.0

The group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. In order to measure the expected credit losses, the credit risk characteristics of trade receivables and contract assets (including amounts owed by related parties, as disclosed in note 34) 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 group has concluded that the expected credit loss rates for trade receivables are a reasonable approximation of the expected credit loss rates for contract assets.

At 31 March 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
NERL expected credit loss rate (%)	5.9%	3.8%	9.8%	55.1%	77.7%	51.0%	92.8%	100.0%	
NERL gross carrying amount (£m)	19.8	20.8	1.1	0.3	0.1	9.9	1.3	8.0	61.3
NERL lifetime expected credit loss (£m)	1.2	0.8	0.1	0.2	0.1	5.0	1.2	8.0	16.6
Other subsidiaries expected credit loss rate (%)	0.0%	0.7%	2.3%	0.8%	0.0%	0.0%	13.1%	100.0%	
Other subsidiaries gross carrying amount (£m)	3.6	41.2	3.4	4.0	-	-	0.9	-	53.1
Other subsidiaries expected credit losses (£m)	-	0.3	0.1	-	-	-	0.1	-	0.5
Total expected credit losses (£m)	1.2	1.1	0.2	0.2	0.1	5.0	1.3	8.0	17.1

18. Financial and other assets (continued)

	Restated 2020								
		Receivables - months past due							
	Unbilled income	Current	1 month	2-3 months	4-6 months	7-12 months	>12 months	In administration	Total £m
NERL expected credit loss rate (%)	10.9%	13.7%	72.6%	36.2%	54.3%	62.1%	84.7%	100.0%	
NERL gross carrying amount (£m)	38.4	42.6	3.4	0.3	0.2	0.1	0.6	6.9	92.5
NERL lifetime expected credit loss (£m)	4.2	5.9	2.4	0.1	0.1	0.1	0.5	6.9	20.2
Other subsidiaries expected credit loss rate (%)	0.0%	1.4%	1.3%	0.3%	0.0%	0.0%	100.0%	100.0%	
Other subsidiaries gross carrying amount (£m)	4.1	48.0	0.7	1.0	0.1	-	0.1	-	54.0
Other subsidiaries expected credit losses (£m)	-	0.7	-	-	-	-	0.1	-	0.8
Total expected credit losses (£m)	4.2	6.6	2.4	0.1	0.1	0.1	0.6	6.9	21.0

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. Non-current trade and other receivables include 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.

The group has assessed the carrying values of the loans to joint ventures at the balance sheet date and concluded that there should be no provision recorded under the expected credit loss methodology. The group monitors the performance of its joint ventures and their ability to meet loan obligations as they fall due. Expected credit losses have been assessed with the benefit of this visibility and past loan performance.

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 group and short term bank deposits with an original maturity of three months or less. The directors consider that the carrying amount of these assets approximates to their fair value.

Overall, the maximum credit risk for the items discussed above and loans to joint ventures, excluding amount recoverable under regulatory agreement, prepayments, VAT receivables and contract spare parts, would be £379.3m (2020 Restated: £738.0m).

19. Borrowings

	2021 £m	2020 £m
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
	646.7	688.2
Unsecured at amortised cost		
Advances of en route charges	67.4	-
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 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 31 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 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 £380.0m 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.

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.

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 was 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.

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

Undrawn committed facilities expire as follows:	2021 £m	2020 £m
Between one and two years	385.0	-
Expiring in more than two years	-	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.

NATS Services has an uncommitted overdraft facility of £1.0m that was undrawn as at 31 March 2021 and 31 March 2020 and is not included in the table above.

20. 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 group's lease liabilities:

	2021 £m	2020 £m
Due within one year or less	9.3	9.2
Due between one and two years	8.0	8.5
Due between two and five years	28.5	22.5
Due in more than five years	25.9	39.4
	71.7	79.6
Less: future finance charges	(7.8)	(9.6)
	63.9	70.0

Analysed as:

	2021 £m	2020 £m
Current	7.8	7.5
Non-current	56.1	62.5
	63.9	70.0

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

	2021 £m	2020 £m
Interest on lease liabilities (see note 10)	1.7	1.9
Short term lease expense	0.1	0.1
Expense relating to leases for cars provided as an employee benefit under IAS19	0.1	0.2

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

Minimum lease payments under operating leases recognised in the income statement are £0.1m (2020: £0.2m).

20. Leases (continued)

Nature of leasing activities

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

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	52	n/a	23.1%	0.7
Property leases with periodic uplifts to market rentals	46	n/a	71.1%	2.3
Property leases with fixed payments	6	0.9%	n/a	n/a
Leases of plant and equipment	21	4.4%	n/a	n/a
Vehicle leases	61	0.5%	n/a	n/a
	186	5.8%	94.2%	3.0

Year ended 31 March 2020	Lease contracts No.	Fixed payments %(i)	Variable payments %(i)	Sensitivity £m
Property leases with payments linked to inflation	51	n/a	22.6%	0.8
Property leases with periodic uplifts to market rentals	48	n/a	70.0%	2.5
Property leases with fixed payments	6	1.3%	n/a	n/a
Leases of plant and equipment	21	5.4%	n/a	n/a
Vehicle leases	78	0.7%	n/a	n/a
	204	7.4%	92.6%	3.3

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

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

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

At 31 March 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 group would not exercise its right to exercise any right to break the lease. In addition, the carrying amounts of some leases include the period to which the group is reasonably certain that options to extend the leases will be exercised. The remaining lease payments on all these leases is £21.1m (2020: £26.0m), of which £13.0m (2020: £13.2m) is potentially avoidable if the leases were not extended and a further £7.2m (2020: £8.2m) is potentially avoidable were the group to exercise break clauses at the earliest opportunity.

The group builds certain airport engineering assets used to satisfy its obligations under its Airport ATC contracts. Dependent on the agreement with individual airports those assets are either sold directly to the airports or the group enters into a sale and leaseback arrangement and recharges the monthly lease cost to the airport on a cost plus administrative fee basis. The leases have primary lease periods of between 5 and 7 years and are extendable to secondary and tertiary periods. In the event that an Airport ATC contract is not renewed the assets will be sold by the lease company directly to the Airport and the leases disposed of in the group financial statements. The outstanding discounted liability for these leases at 31 March 2021 was £1.7m (2020: £2.2m).

The group entered into one new sale and leaseback arrangements in the year to 31 March 2021, additions to right-of-use assets are £0.1m (note 16) and lease liabilities £0.1m (2020: right-of-use assets and lease liabilities £0.3m). The amount for leases not yet commenced to which the group is committed at 31 March 2021 is £0.6m (2020: £0.9m).

21. Derivative financial instruments

Fair value of derivative financial instruments

	2021 £m	2020 £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	2.9
Derivative financial instruments at fair value through profit and loss		
Forward foreign exchange contracts (cash flow hedges)	-	1.3
	0.1	4.2
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(5.4)	(4.6)
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)	(19.2)
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 22. 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 19, 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.

22. Financial instruments

Capital risk management

The group manages its capital to ensure that entities in the group are able to continue as going concerns, to ensure that NERL is able to meet its obligations under the air traffic services licence, for NATS Services to meet obligations to its customers, and to fund returns to shareholders.

The capital structure of the group consists of debt as disclosed in note 19, cash and cash equivalents and short term investments, as shown in this note, and equity attributable to shareholders as disclosed in the consolidated statement of changes in equity.

22. Financial instruments (continued)

External capital requirements

NERL's 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 group to target a credit profile for NERL 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

The group does not seek to maintain a target gearing level at group level but rather sets a monitoring threshold level for NERL, the economically regulated subsidiary, based on a ratio of net debt (as defned by its air traffic services licence) to its 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 for NERL 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 were as follows:

	2021 £m	2020 £m Restated
Financial assets		
Financial assets at fair value through profit or loss		
Equity investment (see note 17)	39.1	48.1
Financial assets at amortised cost		
Trade and other receivables	102.3	134.1
Loans to joint ventures	4.9	18.4
Cash and cash equivalents and short term investments	272.1	585.5
	379.3	738.0
Derivative financial instruments		
In designated hedge accounting relationships	0.1	6.0
At fair value through profit and loss	-	2.1
	418.5	794.2
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables	(139.9)	(174.4)
Borrowings	(714.1)	(688.2)
Lease liabilities	(63.9)	(70.0)
	(917.9)	(932.6)
Derivative financial instruments		
In designated hedge accounting relationships	(7.7)	(4.9)
At fair value through profit and loss	(94.9)	(107.9)
	(102.6)	(112.8)
	(1,020.5)	(1,045.4)

Financial assets at amortised cost includes balances for trade and other receivables (excluding prepayments of £15.4m (2020: £21.0m), VAT of £1.4m (2020: £1.7m) and contract spare parts of £0.5m (2020: £0.5m)), loans to joint ventures, cash and cash equivalents and short term investments.

Financial liabilities at amortised cost includes balances for trade and other payables (excluding contract liabilities of £90.1m (2020: £62.6m), deferred income of £33.0m (2020: £23.0m) and taxes and social security liabilities of £11.6m (2020: £13.9m)), advances of en route charges, 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 as 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).

22. Financial instruments (continued)

Financial risk management objectives

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

Market risk

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

- forward foreign exchange contracts to hedge the exchange risk arising on services provided to UK en route customers that are billed in euro, US dollar based surveillance services across the North Atlantic and other purchases from foreign suppliers in foreign currencies; and
- 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 group's international activities account for 2.4% of external revenue (2020: 2.6%). The group trades with and provides finance to its overseas joint ventures and subsidiaries. Where appropriate the transactions are conducted in sterling. The group benefits from natural hedges of its exposure to fluctuations on the translation of its foreign operations into sterling as a result of holding cash reserves in foreign currencies.

The group also enters into contracts for the purchase and sale of goods and services with overseas suppliers and customers who operate in foreign currencies. To mitigate currency risk the contract value is hedged when a firm commitment arises, either through the use of forward foreign currency contracts or by purchasing foreign currency at spot rates on the date the commitment arises or by setting aside already available foreign currency.

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

	Assets		Liabilities	
	2021	2020	2021	2020
Currency	£m	£m	£m	£m
Euro	23.4	80.6	(91.7)	(16.0)
US dollar	40.6	51.0	(7.9)	(3.7)
Hong Kong dollar	4.1	7.3	(1.0)	(1.0)
Canadian dollar	1.9	3.6	(0.4)	(2.4)
Singapore dollar	1.5	2.8	(0.3)	(0.7)
UAE dirham	0.6	1.6	(0.3)	(0.5)
Qatari riyal	0.8	1.2	-	-
Thai baht	0.7	0.8	-	-
Omani rial	0.3	0.4	-	-
Philippine peso	0.4	0.4	-	-
Kuwaiti dinar	-	0.3	-	-
Swedish krona	-	0.3	(0.3)	-
Norwegian krone	0.2	0.3	(0.2)	(0.1)
	74.5	150.7	(102.1)	(24.4)

Foreign currency sensitivity analysis

The group has assets and liabilities denominated in foreign currencies including: the equity investment in Aireon, loans to joint ventures and cash balances of £7.2m at 31 March 2021 (2020: £19.8m) in euro, Hong Kong dollars, US dollars, Canadian dollars, Singapore dollars, Qatari riyal, Thai baht, UAE dirham, Kuwaiti dinar, Norwegian krone, Omani rial, Swedish krona, and Danish krone. Furthermore, the group has entered into forward foreign currency contracts to hedge exchange risk relating to customer receipts and supplier costs which will arise in future periods.

22. Financial instruments (continued)

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

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

Currency	2021 Impact £m	2020 Impact £m
Euro	(4.9)	6.5
US dollar	(10.3)	(15.1)
Hong Kong dollar	(0.3)	(0.6)
Canadian dollar	(0.4)	(0.5)
Thai baht	(0.1)	(0.1)
Philippine peso	-	(0.1)
Qatari riyal	(0.1)	(0.1)
UAE dirham	-	(0.1)
Omani rial	-	(0.1)
	(16.1)	(10.2)

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. NATS believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk.

The group entered into forward foreign exchange contracts to buy euro to hedge the foreign exchange risks linked to NERL's 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 group did, however, continue to enter into various forward foreign exchange contracts to fund capital purchases and services. The group 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	35.1	31.3	0.8915	17.2	15.1	0.8821
91-365 days	80.6	72.9	0.9042	11.2	9.9	0.8829
> 365 days	15.4	13.6	0.8847	12.4	11.4	0.9178
	131.1	117.8	0.8985	40.8	36.4	0.8932
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	16.7	12.8	1.3049	33.9	25.1	1.3537
> 365 days	70.1	53.1	1.3199	93.3	70.9	1.3157
	94.7	71.9	1.3162	137.1	103.7	1.3232

22. Financial instruments (continued)

	2021			2020		
			Average exchange rate			Average exchange rate
Canadian dollar bought	C$m	£m		C$m	£m	
0-90 days	1.3	0.8	1.7716	1.7	1.0	1.7601
91-365 days	-	-	-	0.8	0.5	1.7050
> 365 days	2.5	1.4	1.7814	3.8	2.2	1.7780
	3.8	2.2	1.7780	6.3	3.7	1.7638
Danish krone bought	DKKm	£m		DKKm	£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
Norwegian krone bought	NOKm	£m		NOKm	£m	
91-365 days	1.4	0.1	11.6942	-	-	-
	1.4	0.1	11.6942	-	-	-
Singapore dollar sold	£m	SGDm		£m	SGDm	
0-90 days	0.2	0.4	1.8550	2.3	4.2	1.8125
91-365 days	0.7	1.4	1.8243	-	-	-
	0.9	1.8	1.8317	2.3	4.2	1.8125

At 31 March 2021, the aggregate amount of the unrealised gain under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £3.3m (2020: £5.0m). 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

The group is exposed to interest rate risk to the extent that it holds borrowings at fixed, floating and index-linked interest rates. Its interest rate risk management policies, which are kept under continuous review, are specific to NERL. Except for NERL, no other entity within the NATS group had borrowings at 31 March 2021 (2020: none).

The group seeks to minimise NERL's exposure to movements in interest rates by ensuring NERL holds an appropriate balance of fixed, floating and index-linked debt as a percentage of its net debt by the use of interest rate swap contracts and index-linked swap contracts.

The group's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section of this note. The group held no interest rate swaps at 31 March 2021 (2020: none).

22. Financial instruments (continued)

Economic interest rate exposure

The group'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	264.9	0.0	5	-	-	-	264.9
Euro	2.8	-	1	-	-	-	2.8
Hong Kong dollar	1.6	-	1	-	-	-	1.6
US dollar	1.1	-	1	-	-	-	1.1
Canadian dollar	0.4	-	1	-	-	-	0.4
Singapore dollar	0.3	-	1	-	-	-	0.3
Thai baht	0.5	-	1	-	-	-	0.5
Norwegian krone	0.2	-	1	-	-	-	0.2
Omani rial	0.3	-	1	-	-	-	0.3
	272.1			-			272.1

	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	518.4	0.5	18	47.3	0.6	171	565.7
Euro	8.0	-	1	-	-	-	8.0
Hong Kong dollar	3.1	-	1	-	-	-	3.1
US dollar	2.6	-	1	-	-	-	2.6
Canadian dollar	2.3	-	1	-	-	-	2.3
Singapore dollar	0.8	-	1	-	-	-	0.8
Qatari riyal	0.6	-	1	-	-	-	0.6
Thai baht	0.6	-	1	-	-	-	0.6
UAE dirham	0.5	-	1	-	-	-	0.5
Kuwaiti dinar	0.3	-	1	-	-	-	0.3
Norwegian krone	0.3	-	1	-	-	-	0.3
Omani rial	0.3	-	1	-	-	-	0.3
Swedish krona	0.3	-	1	-	-	-	0.3
Danish krone	0.1	-	1	-	-	-	0.1
	538.2			47.3			585.5

22. Financial instruments (continued)

The economic interest rate reflects the true underlying cash rate that the group was paying on its borrowings or receiving on its deposits at 31 March. The economic interest rate exposure of the group'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 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	63.9	-	-	63.9	2.53%	9.7
Total	778.0	462.4	-	315.6		
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	70.0	-	-	70.0	2.59%	10.4
Total	758.2	395.0	-	363.2		

Including derivatives

	Total £m	Variable rate £m	Inflation rate £m	Fixed rate £m	Economic interest rate %	Weighted average time 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	63.9	-	-	63.9	2.53%	9.7
Total	778.0	462.4	116.0	199.6		
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	70.0	-	-	70.0	2.59%	10.4
Total	758.2	395.0	138.0	225.2		

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

22. Financial instruments (continued)

The following table shows the percentage of fixed, index-linked and floating rate debt as a percentage of group net debt. Net debt is defined for this purpose as borrowings and lease liabilities net of cash and 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)	196.5	39.1	223.2	130.8
Index-linked	116.0	23.1	138.0	80.8
Floating (net of cash, short term investments and facility costs)	190.3	37.8	(190.5)	(111.6)
Net debt	502.8	100.0	170.7	100.0

At 31 March 2021, NERL is the only entity in the group with borrowings and had net debt of £599.0m (2020: £263.2m). NATS Services had cash of £89.1m (2020: £79.4m), NATS Limited had cash of £5.9m (2020: £6.0m) and other entities in the group has cash of £4.9m (2020: £11.8m). Net debt includes lease liabilities of £60.2m (2020: £65.3) in NERL and £3.7m (2020: £4.7) in other group entities.

The following table shows the percentage of fixed, index-linked and floating rate debt as a percentage of NERL net debt, reflecting the application of the interest rate risk management policies that are specific to NERL.

	2021		2020	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	192.8	32.2	219.4	83.4
Index-linked	116.0	19.4	138.0	52.4
Floating (net of cash, short term investments and facility costs)	290.2	48.4	(94.2)	(35.8)
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 group's cash and floating rate bank loans on profit for the year and on equity. A positive number represents an increase in profit and equity and a negative number a decrease in profit and equity.

	2021 Impact £m	2020 Impact £m
Cash at bank and short term deposits (2021: £272.1m, 2020: £585.5m)	2.7	5.9
Borrowings (2021: £462.4m, 2020: £395.0m)	(4.6)	(4.0)
	(1.9)	1.9

Overall the groups's sensitivity to interest rate changes remains unchanged. The group is more sensitive to an increase in interest rates reflecting a reduction in cash reflecting lower customer receipts, relative to the level of floating rate borrowings.

Inflation rate risk

The regulatory charge control conditions that apply to NERL's UK en route and North Atlantic services determines a regulatory allowance for financing charges that is linked to inflation (now CPI but previously RPI). To achieve an economic hedge of part of this income, in August 2003 coincident with the issue of its £600.0m 5.25% fixed rate bond, NERL entered into an amortising index-linked swap with a notional principal of £200.0m 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 £116.0m. 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.

22. 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 NERL 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 group. The group'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 18. With regard to funds or contracts held with financial institutions, the group's policy is to transact with counterparties that hold a minimum credit rating as supplied by independent rating agencies: Standard & Poor's, Moody's and Fitch Ratings.

The group's policy is to allocate limits to the value of investments, foreign exchange transactions and interest rate hedging transactions that may be entered into with a bank or financial institution and to allocate an aggregate credit risk limit. The limits are based upon the institution's credit rating with Standard & Poor's and Moody's; the Fitch rating is only used if one of these agencies does not provide a rating. Where there is a difference in the rating then the lowest rating is applied.

Currently, the group's investments take the form of bank time deposits and money market fund investments. Investments in bank time deposits with maturities up to 3 months and between 3 and 6 months are only entered into with institutions holding a long term minimum credit rating of A- and A+ respectively from Standard & Poor's or Fitch Ratings and A3 and A1 respectively from Moody's. 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 group'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 %
AAAm	6	225.1	82.7	7	284.1	48.5
AA-	0	-	-	2	51.2	8.7
A+	2	33.4	12.3	1	61.0	10.4
A	3	13.6	5.0	5	177.7	30.4
A-	0	-	-	1	11.5	2.0
		272.1	100.0		585.5	100.0

Liquidity risk management

The responsibility for liquidity risk management, the risk that the group will have insufficient funds to meet its obligations as they fall due, rests with the Board with oversight provided by the Treasury Committee. The group manages liquidity by maintaining adequate reserves and borrowing facilities by monitoring actual and forecast cash flows, including contributions to the defined benefit pension scheme, and ensuring funding is diversified by source and maturity and available at competitive cost.

22. Financial instruments (continued)

With regard to NERL, the group's 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 in NERL to average monthly UK en route services income during the year:

	2021 £m	2020 £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 group's bank borrowings to its gross borrowings at 31 March:

	2021 £m	2020 £m
Bank borrowings	395.0	395.0
Gross borrowings (including lease liabilities)	778.0	758.2
Bank borrowings as a percentage of gross borrowings	51%	52%

It is company policy not to issue new guarantees in respect of the borrowings of subsidiaries or to allow the creation of any new mortgages or other charges over group assets.

Maturity of borrowings

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

	2021				2020			
	Unsecured lease liabilities £m	Secured loans £m	Other liabilities £m	Total £m	Unsecured lease liabilities £m	Secured loans £m	Other liabilities £m Restated	Total £m Restated
Due within one year or less	9.3	57.8	200.8	267.9	9.2	61.8	126.5	197.5
Between one and two years	8.0	448.7	3.6	460.3	8.5	60.0	41.9	110.4
Due between two and five years	28.5	187.2	2.5	218.2	22.5	544.0	5.5	572.0
Due in more than five years	25.9	-	0.4	26.3	39.4	92.2	0.5	132.1
	71.7	693.7	207.3	972.7	79.6	758.0	174.4	1,012.0
Effect of interest, discount and unamortised bond issue and bank facility arrangement fees	(7.8)	(50.1)	-	(57.9)	(9.6)	(71.8)	-	(81.4)
	63.9	643.6	207.3	914.8	70.0	686.2	174.4	930.6

22. Financial instruments (continued)

Other liabilities above include trade and other payables (excluding deferred income of £33m (2020: £23.0m), contract liabilities of £90.1m (2020: £62.6m), taxes and social security liabilities of £11.6m (2020: £13.9m)) and advances of en route charges of £67.4m (2020: £nil).

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

The following table sets out the maturity profile of the group's 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 group'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	Due between one and £m	Due between two and £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	119.6	28.8	37.1	-	185.5
Foreign exchange forward contract payables	(126.3)	(30.0)	(38.7)	-	(195.0)
	(21.8)	(17.9)	(64.3)	-	(104.0)
2020					
Net settled:					
Index-linked swap payable	(14.6)	(15.1)	(56.9)	(21.8)	(108.4)
Gross settled:					
Foreign exchange forward contract receivables	230.7	27.8	60.8	-	319.3
Foreign exchange forward contract payables	(231.0)	(27.2)	(57.5)	-	(315.7)
	(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-19 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

Set out below is information about how the group determines fair values of various financial assets and financial liabilities.

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

22. Financial instruments (continued)

Fair value measurements recognised on the balance sheet

	2021				2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Equity investment	-	-	39.1	39.1	-	-	48.1	48.1
Derivative financial instruments in designated hedge accounting relationships	-	0.1	-	0.1	-	6.0	-	6.0
Derivative financial instruments at fair value through profit and loss	-	-	-	-	-	2.1	-	2.1
	-	0.1	39.1	39.2	-	8.1	48.1	56.2
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(7.7)	-	(7.7)	-	(4.9)	-	(4.9)
Derivative financial instruments at fair value through profit	-	(1.5)	-	(1.5)	-	-	-	-
Derivative financial instruments classified as held for trading	-	(93.4)	-	(93.4)	-	(107.9)	-	(107.9)
	-	(102.6)	-	(102.6)	-	(112.8)	-	(112.8)

There were no transfers between individual levels in the year.

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;
- the valuation technique used to determine the fair value of the equity investment in Level 3 of the hierarchy is explained in note 17; 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)

23. Financial and other liabilities

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

Trade and other payables

	2021 £m	2020 £m Restated
Current		
Trade payables	45.2	33.9
Other payables	2.8	9.5
Tax and social security	11.6	13.9
Contract liabilities	17.0	20.7
Accruals and deferred income	88.6	85.8
	165.2	163.8
Non-current		
Trade payables	-	24.2
Other payables	0.2	0.1
Contract liabilities	73.1	41.9
Accruals and deferred income	36.1	43.9
	109.4	110.1
	274.6	273.9

Amounts payable under regulatory agreement

	2021 £m	2020 £m Restated
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 62 days (2020: 40 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.

24. Provisions

	Property £m	Redundancy £m	Relocation £m	Other £m	Total £m
At 1 April 2020	8.2	2.5	0.8	3.2	14.7
Additional provision in the year	1.5	65.8	-	1.6	68.9
Transfer of provision in the year	-	-	-	-	-
Release of provision in the year	-	(0.6)	-	(0.1)	(0.7)
Utilisation of provision	-	(67.5)	(0.3)	(0.6)	(68.4)
At 31 March 2021	9.7	0.2	0.5	4.1	14.5

	2021 £m	2020 £m
Amounts due for settlement within 12 months	2.3	5.2
Amounts due for settlement after 12 months	12.2	9.5
	14.5	14.7

The property provision represents the best estimate of dismantlement, removal or restoration costs arising from property leases and other property-related costs. The ageing of the provision reflects the expected timing of the settlement of these costs.

The redundancy provision represents the best estimate of the future cost of redundancy payments to employees that have committed to the redundancy terms at 31 March 2021. The ageing of the provision reflects the expected timing of employees leaving the group.

The relocation provision represents the best estimate of the future cost of relocating staff when the site they work at closes and they are relocated to another site. The ageing of the provision reflects the expected timing of the settlement of relocation costs.

The other provisions represent the best estimate of other liabilities, including the cost of fulfilling onerous contracts. The ageing of the provision reflects the best estimate of when these potential liabilities will fall due.

25. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefits £m	Financial instruments £m	Other £m	Total £m
At 1 April 2019	111.9	(3.8)	(5.9)	(4.4)	97.8
Charge/(credit) to income	21.1	5.0	1.7	(3.5)	24.3
Charge to equity	-	42.9	0.8	-	43.7
At 31 March 2020	133.0	44.1	(3.4)	(7.9)	165.8
At 1 April 2020	133.0	44.1	(3.4)	(7.9)	165.8
Charge to income	3.9	5.8	0.7	-	10.4
Credit to equity	-	(55.9)	(1.6)	-	(57.5)
At 31 March 2021	136.9	(6.0)	(4.3)	(7.9)	118.7

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	136.9	177.1
Deferred tax assets	(18.2)	(11.3)
	118.7	165.8

26. Share capital

	Authorised		Called up, allotted and fully paid	
	Number of shares	£m	Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2021 and 31 March 2020	144,100,007	144.1	131,000,007	131.0
Ordinary A shares of 80 pence each				
At 31 March 2021 and 31 March 2020	54,272,594	43.4	12,048,193	9.6
		187.5		140.6

Each class of ordinary shares has the same voting rights and rights to dividends.

Special share

The authorised and issued share capital of NATS Holdings Limited includes one special rights redeemable preference share with a nominal value of £1. The share is redeemable at any time after the shareholding of the Crown falls below 25%. This share can only be held by a Minister of the Crown, the Treasury Solicitor or any other person acting on behalf of the Crown. The special shareholder is entitled to attend and speak at meetings. The special share does not carry any rights to vote at general meetings except in the following circumstances:

- alterations to the company's share capital;
- alterations to voting rights of any of the company's shares; and
- the removal of any director appointed by a Crown representative.

If an attempt is made to approve any of these events or to pass a resolution to wind up the company at a general meeting, on an ordinary resolution, the special shareholder will have no less than one vote more than the total number of all other votes cast, and on a special resolution, he shall have no less than one vote more than 25% of the total votes cast.

27. Share premium account

	£m
Balance as at 31 March 2021 and 31 March 2020	0.4

28. Other reserves

The following table shows a breakdown of the balance sheet line item 'other reserves' and the movements in these reserves during the year. A description of the nature and purpose of each reserve is provided in note 2.

	AESOP reserve £m	Hedge reserve £m	Translation reserve £m	Other reserves[1] £m	Total £m
At 1 April 2019	(0.3)	0.6	1.1	(34.7)	(33.3)
Other comprehensive (loss)/income for the year	-	3.5	2.8	-	6.3
At 31 March 2020	(0.3)	4.1	3.9	(34.7)	(27.0)
At 1 April 2020	(0.3)	4.1	3.9	(34.7)	(27.0)
Other comprehensive loss for the year	-	(6.7)	(4.8)	-	(11.5)
At 31 March 2021	(0.3)	(2.6)	(0.9)	(34.7)	(38.5)

[1] Other reserves arose on the completion of the PPP transaction in July 2001.

29. Non-controlling interest

The non-controlling interest (a 30% ownership interest in NATS Services LLC) recognised at the acquisition date was measured by reference to the fair value of the non-controlling interest and amounted to £0.1m (Omani rial 0.1m).

As at 31 March 2021, a loan to the non-controlling interest amounted to £0.1m (Omani rial 0.1m) and is included in other debtors (see note 18).

30. Notes to the cash flow statement

	2021 £m	2020 £m
Operating (loss)/profit from continuing operations	(9.2)	53.6
Adjustments for:		
Impairment of goodwill	111.0	49.0
Depreciation of property, plant and equipment	47.8	64.1
Amortisation of intangible assets	36.1	52.5
Depreciation of right-of-use assets	6.2	7.0
Impairment losses	16.2	11.6
Deferred grants released	(0.6)	(0.6)
Profit on disposal of property, plant and equipment	(0.4)	(1.0)
R&D expenditure above the line tax credits	(0.9)	(1.2)
Adjustment for pension funding	(30.5)	(25.9)
Operating cash flows before movements in working capital	175.7	209.1
Decrease/(increase) in amounts recoverable under contracts	1.8	(1.3)
(Increase)/decrease in trade, other receivables and amounts recoverable under regulatory agreement	(398.2)	24.8
Decrease in trade, other payables, provisions and amounts payable under regulatory agreement	(31.8)	(15.4)
Cash (used in)/generated from operations	(252.5)	217.2
Tax paid	(12.0)	(0.1)
Net cash (used in)/generated from operating activities	(264.5)	217.1

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

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	272.1	538.2
Short term investments	-	47.3
Borrowings	(711.0)	(686.2)
Lease liabilities	(63.9)	(70.0)
Net debt	(502.8)	(170.7)
Index-linked swap	(93.4)	(107.9)
Net financial liabilities	(596.2)	(278.6)
Cash and liquid investments	272.1	585.5
Gross debt - fixed interest rates (net of unamortised bond issue costs)	(312.5)	(361.2)
Gross debt - variable interest rates (net of unamortised bank facility arrangement fees)	(462.4)	(395.0)
Net debt	(502.8)	(170.7)
Index-linked swap	(93.4)	(107.9)
Net financial liabilities	(596.2)	(278.6)

30. 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 swap £m	Total net financial liabilities £m
Net financial liabilities as at 1 April 2019	214.6	46.4	(76.7)	(334.8)	-	1.3	(149.2)	(122.1)	(271.3)
Cash flows	323.5	0.9	7.5	43.2	-	(395.0)	(19.9)	12.1	(7.8)
New Leases in the year	-	-	(1.0)	-	-	-	(1.0)	-	(1.0)
Lease terminations	-	-	0.2	-	-	-	0.2	-	0.2
Foreign exchange adjustments	0.1	-	-	-	-	-	0.1	-	0.1
Fair value movements on index-linked swap	-	-	-	-	-	-	-	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	538.2	47.3	(70.0)	(292.1)	-	(394.1)	(170.7)	(107.9)	(278.6)
Cash flows	(265.7)	(47.3)	7.1	41.6	(101.5)	1.2	(364.6)	14.1	(350.5)
New leases in the year	-	-	(0.2)	-	-	-	(0.2)	-	(0.2)
Effect of modification to lease terms	-	-	(0.4)	-	-	-	(0.4)	-	(0.4)
Lease price changes - market value	-	-	(0.4)	-	-	-	(0.4)	-	(0.4)
Foreign exchange adjustments	(0.4)	-	-	-	-	-	(0.4)	-	(0.4)
Fair value movements on index-linked swap	-	-	-	-	-	-	-	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	272.1	-	(63.9)	(250.9)	(67.4)	(392.7)	(502.8)	(93.4)	(596.2)

(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.

Interest due on £600m 5.25% Guaranteed Secured Amortising Bonds and Bank loans was fully paid on 31 March 2021, therefore accured interest does not form part of net debt.

31. Financial commitments

	2021 £m	2020 £m
Amounts contracted but not provided for in the accounts	22.1	46.0

Guarantees

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

NATS Services has provided a parent company guarantee to the MOD to secure the performance by Aquila of its obligations under the Project Marshall contract.

NATS Services has guaranteed all of the obligations of NATS (USA) Inc to Aireon LLC in relation to its status as a member of Aireon LLC.

As part of the tendering process for new contracts, the NATS group may be required to put in place a tender or bid guarantee which expires once the contract is awarded. Where tenders are successful, contractual terms may also require performance or advance payment guarantees. These guarantees vary in length depending on the life of the contract and may run until the expiry of the contract. The total guarantees provided in these respects at 31 March 2021 was £9.2m (2020: £8.1m).

32. Share based payments

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

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

Date of share awards	No. shares awarded to employees	No. employee shares outstanding at 31 March 2021	No. employee shares outstanding at 31 March 2020
Free share awards			
21 September 2001	3,353,742	165,766	239,314
20 October 2003	2,459,000	159,777	224,782
10 September 2004	1,966,000	255,122	329,557
11 January 2008	1,071,840	204,188	259,557
18 September 2009	963,200	228,007	284,207
Partnership shares			
1 March 2011	694,783	206,285	256,916
26 September 2012	714,959	258,032	316,932
30 May 2014	496,738	234,891	280,066
31 October 2016	530,303	384,690	452,825
31 October 2018	635,048	522,551	603,136
Matching shares			
1 March 2011	694,783	205,700	256,931
26 September 2012	714,959	257,702	316,602
30 May 2014	496,738	234,957	280,132
31 October 2016	530,303	384,852	452,987
31 October 2018	635,048	525,351	603,136
		4,227,871	5,157,080
Dividend shares issued on 28 June 2005	247,017	20,549	28,544
Total employee shares in issue at 31 March		4,248,420	5,185,624

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	5,185,624	5,757,370
Forfeited during the year	(20,606)	(9,358)
Exercised during the year	(916,598)	(562,388)
Balance at 31 March	4,248,420	5,185,624

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 independent valuation at 30 June 2019 was £3.85. The liability for the employee shares at 31 March 2021 was £15.6m (2020: £13.9m), which includes amounts owing to good leavers since 1 April 2020, is included in other accruals and deferred income. The income statement includes a debit of £1.8m (2020: £4.8m credit). The payments made to employees for the shares they exercised during the year was £nil (2020: £2.1m).

33. Retirement benefit schemes

Defined contribution scheme

The group provides a defined contribution scheme to all qualifying employees who are not members of the defined benefit scheme. The assets of the scheme are held separately from those of the group in funds under the control of a board of Trustees.

The group operates a salary sacrifice arrangement whereby employees sacrifice an element of their salary in favour of contributions to the pension scheme. NATS operates a number of contribution structures. In general, NATS matches employee contributions to the scheme in a ratio of 2:1, up to a maximum employer contribution of 18%. For the year ended 31 March 2021 employer contributions of £17.1m (2020: £15.1m), excluding employee salary sacrifice contributions of £9.4m (2020: £8.4m), represented 15.8% of pensionable pay (2020: 15.5%). In addition, the company paid £1.0m (2020: £nil) in lieu of redundancy payments to defined contribution schemes.

The defined contribution scheme had 1,902 members at 31 March 2021 (2020: 2,041).

Defined benefit scheme

NATS Limited (formerly National Air Traffic Services Limited), the company's wholly-owned subsidiary, entered into a deed of adherence with the CAA and the Trustees of the Civil Aviation Authority Pension Scheme (CAAPS) whereby the company was admitted to participate in CAAPS from 1 April 1996. CAAPS is a fully funded defined benefit scheme providing benefits based on final pensionable salaries. At 31 March 2001, the business of NATS was separated from the CAA. As a consequence, NATS became a 'non associated employer' which requires the assets relating to the liabilities of NATS active employees at 31 March 2001 to be separately identified within the CAAPS. CAAPS was divided into two sections to accommodate this, namely the CAA section and the NATS section, and a series of common investment funds was established in which both sections participate for investment purposes. The assets and membership of the scheme prior to transfer were allocated between these sections in accordance with Statutory Instrument 2001 Number 853, Transport act 2000 (Civil Aviation Authority Pension Scheme) Order 2001. The assets of the scheme are held in a separate trustee administered fund. CAAPS is governed by a board of Trustees which is responsible for implementing the funding and investment strategy. The board comprises 6 employer (NATS and CAA) and 6 member-nominated trustees, as well as an independent chair.

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

During 2013 the group consulted on further pension reforms to mitigate rising pension costs. These included a change to the limit on increases in pensionable salaries to a maximum of the consumer prices index (CPI) plus 0.25%. In addition, the Trustees consulted members of the scheme on a change to the indexation of future service at CPI, rather than RPI. These reforms were agreed by staff.

The defined benefit scheme had the following membership at 31 March:

	2021 No.	2020 No.
Active members	1,653	1,911
Deferred members	1,172	1,053
Pensioners	2,862	2,782
	5,687	5,746

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 future benefit accrual and expenses 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.

33. Retirement benefit schemes (continued)

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 the 2018 calendar year, £41.8m in the 2019 calendar year and £25.4m in the 2020 calendar year. 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 at £2.3m per year.

During the year the group paid cash contributions to the scheme of £97.0m (2020: £99.8m). This amount included £8.1m (2020: £8.7m) of wages and salaries sacrificed by employees in return for pension contributions as well as contributions of £2.8m 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 pay.

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2022 is £92.5m, including salary sacrifice contributions estimated at £7.9m.

Contributions to the scheme are ultimately funded by NATS' two principal operating subsidiaries: NERL and NATS Services, in proportion to their pensionable payrolls.

Company's accounting valuation under international accounting standards

For the purpose of accounting for the scheme in these financial statements, the company obtains an updated valuation from a qualified independent actuary that is prepared in accordance with IAS 19: *Employee Benefits* .

This valuation differs from the Trustees' funding assessment explained above in a number of critical respects, including for example, differences in timing and frequency as well as in valuation assumptions. The Trustees' last funding assessment was prepared as at 31 December 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 in full 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 group arising from the scheme are in respect of:

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

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

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

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

33. Retirement benefit schemes (continued)

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

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate (bond yields)	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.

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	(67.3)	(72.7)
Past service cost	(3.3)	-
Net interest credit	6.4	0.6
Administrative expenses	(2.3)	(1.8)
Components of defined benefit costs recognised within operating profit	(66.5)	(73.9)

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)	414.3	(181.4)
Actuarial gains and losses arising from changes in financial assumptions	(801.4)	400.4
Actuarial gains and losses arising from changes in demographic assumptions	106.4	-
Actuarial gains and losses arising from experience adjustments	(13.3)	9.2
	(294.0)	228.2

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

	2021 £m	2020 £m
Present value of defined benefit obligations	(5,145.4)	(4,440.1)
Fair value of scheme assets	5,113.9	4,672.1
(Deficit)/surplus in scheme	(31.5)	232.0

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

	2021 £m	2020 £m
At 1 April	(4,440.1)	(4,789.8)
Current service cost	(67.3)	(72.7)
Past service cost	(3.3)	-
Interest expense on defined benefit scheme obligations	(100.1)	(115.8)
Actuarial gains and losses arising from changes in financial assumptions	(801.4)	400.4
Actuarial gains and losses arising from changes in demographic assumptions	106.4	-
Actuarial gains and losses arising from experience adjustments	(13.3)	9.2
Benefits paid	173.7	128.6
At 31 March	(5,145.4)	(4,440.1)

33. Retirement benefit schemes (continued)

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	(2,039.1)	(1,780.2)
Deferred members	(693.1)	(474.3)
Pensioners	(2,413.2)	(2,185.6)
	(5,145.4)	(4,440.1)

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

	2021 £m	2020 £m
At 1 April	4,672.1	4,767.7
Interest income on scheme assets	106.5	116.4
Return on plan assets (excluding amounts included in net interest expense)	414.3	(181.4)
Contributions from sponsoring company	97.0	99.8
Benefits paid	(173.7)	(128.6)
Administrative expenses	(2.3)	(1.8)
At 31 March	5,113.9	4,672.1

The major categories of scheme assets was as follows:

	2021 £m	2020 £m
Cash and cash equivalents	43.2	40.9
Equity instruments		
- Emerging markets	47.9	109.7
- Global	628.3	776.1
	676.2	885.8
Bonds		
- Fixed income	2,510.5	1,830.4
- Index-linked gilts over 5 years	1,120.9	1,328.3
	3,631.4	3,158.7
Other investments		
- Property	231.8	242.2
- Hedge funds	129.1	219.3
- Private equity funds	146.1	131.0
	507.0	592.5
Derivatives		
- Futures contracts	6.1	(5.8)
Other receivables	250.0	-
	5,113.9	4,672.1

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

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 the 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.

33. Retirement benefit schemes (continued)

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

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 £520.8m (2020: £65.0m loss).

34. Related party transactions

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

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 AG have not exercised undue influence on the group either acting individually or in concert and therefore the individual transactions with each member of AG have not been disclosed in this set of accounts.

Contractual arrangements existed during the year between LHR Airports Limited and NATS Services in relation to air navigation services provided at Heathrow Airport.

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the company and its subsidiaries are disclosed in the subsidiary companies' financial statements.

Transactions between the company and its joint ventures and associate, which are related parties, are disclosed below and in note 35.

Trading transactions

During the year, group companies entered into the following transactions with related parties.

	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
LHR Airports Limited	37.3	49.3	0.5	0.5	3.1	5.8	-	0.1
Ministry of Defence (MOD)	46.7	52.0	0.3	2.8	6.6	-	21.8	36.5
The Airline Group Limited	-	-	0.2	0.3	-	-	-	-
Department for Transport (DfT)	0.5	0.4	-	-	-	-	-	-
Meteorological Office	0.3	0.4	0.7	1.1	0.0	-	-	0.1
European Satellite Services Provider SAS	0.1	0.1	-	-	0.1	-	-	-
FerroNATS Air Traffic Services SA	0.8	0.5	-	-	0.3	-	-	-
Aquila Air Traffic Management Services Limited	26.7	23.6	0.8	0.5	8.9	0.2	0.3	0.3
Searidge Technologies Inc	0.4	0.1	0.4	2.3	-	-	-	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.

Sales are made to related parties at the group's usual rates and purchases at market prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. No expected credit loss provisions (2020: £nil) have been made in respect of amounts owed by related parties

34. Related party transactions (continued)

Remuneration of key management personnel

The remuneration of key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24: *Related Party Disclosures.* Key management includes the Board of directors of the company and the group's principal subsidiaries. Further information about the remuneration of individual directors is provided in the audited part of the Remuneration Committee report.

	2021 £m	2020 £m
Short term employee benefits	7.2	8.7
Post-employment benefits	0.4	0.4
Other long term benefits	-	1.2
Termination benefits	3.0	-
	10.6	10.3

35. Subsidiaries, joint ventures and associates

The group's subsidiaries at 31 March 2021, all of which have been consolidated in these accounts were:

Name of company	Principal activity	Proportion of ordinary shares and voting rights held	Country of registration	Country of operation
Direct holding:				
NATS Limited*	Corporate services	100%	England and Wales	United Kingdom
Indirect holding:				
NATS (En Route) plc*	En route air traffic services	100%	England and Wales	United Kingdom
NATS (Services) Limited*	Airport air traffic services	100%	England and Wales	United Kingdom
NATS Solutions Limited*	Airport and airfield air traffic services	100%	England and Wales	United Kingdom
NATSNav Limited*	Satellite based navigation	100%	England and Wales	United Kingdom
NATS Employee Sharetrust Limited*	Corporate trustee of employee share plan	100%	England and Wales	United Kingdom
National Air Traffic Services Limited*	Dormant	100%	England and Wales	United Kingdom
NATS Services DMCC *Suite 1201, Platinum Tower, Plot No. PH1-I2, Jumeirah Lake Towers, PO Box 392497, Dubai, United Arab Emirates*	ATM consultancy	100%	UAE	UAE
NATS Services LLC *PO Box 533, Ruwi, PC 112, Muscat, Sultanate of Oman*	ATM consultancy	70%	Oman	Oman
NATS Services (Asia Pacific) Pte. Limited *3 Raffles Place, #06-01 Bharat Building, Singapore 048617*	Airport and ATM consultancy	100%	Singapore	Singapore
NATS Services (Hong Kong) Limited *31F Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong*	Airport and ATM consultancy	100%	Hong Kong	Hong Kong
NATS (USA) Inc *The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle County, Delaware, United States*	Engineering and ATM consultancy	100%	USA	USA
NATS (Services) Canada Inc *100 King Street West, Suite 6200, 1 First Canadian Place, Toronto, Ontario, M5X 1B8, Canada*	Digital airport air traffic services	100%	Canada	Canada

* The registered office address of the entities registered in England and Wales is: 4000 Parkway, Whiteley, Fareham, Hampshire, PO15 7FL, United Kingdom.

35. Subsidiaries, joint ventures and associates (continued)

The group had one associate and three joint ventures as at 31 March 2021, details are as follows:

Name of company	Principal activity	Date of acquisition	Proportion of ordinary shares held	Country of incorporation
European Satellite Services Provider SAS *18, Avenue Edouard Belin - BPI 602, 31 401 Toulouse Cedex 9, France*	Satellite based navigation	1 September 2008	16.67%	France
FerroNATS Air Traffic Services SA *Calle Principe de Vergara, 135, 28002, Madrid, Spain*	Airport air traffic services	28 January 2011	50.00%	Spain
Aquila Air Traffic Management Services Limited *2 Dashwood Lang Road, The Bourne Business Park, Addlestone, Surrey, KT15 2NX, United Kingdom*	Asset provision and ATM services to UK MOD	9 October 2014	50.00%	United Kingdom
Searidge Technologies Inc *19 Camelot Drive, Nepean, Ontario, K2G 5W6, Canada*	Digital airport air traffic services	28 April 2017	50.00%	Canada

The associate and joint ventures are indirectly held by NATS Holdings Limited. The investment in ESSP is held by NATSNav Limited, investments in FerroNATS and Aquila are held by NATS (Services) Limited and the investment in Searidge Technologies is held by NATS (Services) Canada Inc.

Summarised financial information relating to the associate and joint ventures

European Satellite Services Provider SAS (ESSP)

In September 2008, the group acquired 16.67% of the issued share capital of ESSP for cash consideration of €0.2m (£0.1m).

The associate is accounted for using the equity method. Pursuant to the shareholder agreement, the group has the right to cast 16.67% of the votes at shareholder meetings. The financial year end is 31 December 2020. For the purposes of applying the equity method of accounting, the financial statements of ESSP for the year ended 31 December 2020 have been used.

Although the group holds less than 20% of the equity shares of ESSP, the group exercises significant influence by virtue of representation on the Board of directors, participation in policy making decisions of ESSP and the provision of essential technical information to ESSP.

Summarised financial information in respect of ESSP is set out below. These amounts have been prepared in accordance with French GAAP and converted from the euro, ESSP's functional currency.

FerroNATS Air Traffic Services SA

In January 2011, the group acquired 50% of the issued share capital of FerroNATS Air Traffic Services SA (FerroNATS) for a cash consideration of €0.1m (£0.1m). In June 2011, the group purchased an additional €0.4m (£0.3m) of share capital, maintaining a 50% holding of the issued share capital. FerroNATS is a joint venture with Ferrovial Servicios SA.

FerroNATS draws up its accounts to 31 December. For the purpose of these financial statements management accounts have been used to derive its performance as at 31 March 2021.

FerroNATS prepares its accounts in accordance with Spanish GAAP and its functional currency is the euro.

Aquila Air Traffic Management Services Limited

In October 2014, the group acquired 50% of the issued share capital of Aquila Air Traffic Management Services Limited (Aquila) for a cash consideration of £0.1m. Aquila provides air traffic management services at military airfields in the delivery of Project Marshall for the Ministry of Defence. Aquila draws up its accounts to 31 March and therefore these accounts have been used to determine its performance for the financial year. It prepares its accounts under IFRS and its functional currency is pounds sterling.

The group has recognised £2.5m (2020: £1.3m) as the carrying value of its investment in Aquila. This is less than a 50% share of Aquila's net assets of £8.4m (2020: £6.2m) at 31 March 2021. The difference is a result of impairment charges recognised due to differences in accounting policies and the uncertainty surrounding future profit forecasts.

During the year, Aquila repaid loan finance of £14.1m (net) (2020: £5.4m repayment (net)) from the group. At 31 March 2021, the loan (including interest) outstanding was £3.3m (2020: £16.8m).

35. Subsidiaries, joint ventures and associates (continued)

Searidge Technologies Inc

On 26 April 2017, NATS (Services) Limited incorporated a 100% subsidiary entity, NATS (Services) Canada Inc. On 28 April 2017, NATS (Services) Canada Inc. acquired 50% of the voting equity interest of Searidge Technologies Inc. (Searidge) at a purchase consideration of C$9.7m (£5.8m), including contingent consideration of C$1.5m (£0.9m) which is no longer payable due to the culmulative EBDITA threshold not being met by 31 August 2020. Searidge works with airports around the world, providing technology that helps reduce delays, increase efficiency, and overall safety. This includes the delivery of digital tower solutions, which see air traffic controllers managing aircraft from remote facilities instead of in traditional airport towers.

The carrying value of goodwill recorded at cost less any provisions for impairment is as follows:

	C$m	£m
At 31 March 2019	9.2	5.3
Impairment losses recognised to 31 March 2020	(9.1)	(5.4)
Exchange differences	-	0.2
At 31 March 2020	0.1	0.1
Impairment losses recognised to 31 March 2021	-	-
Exchange differences	-	-
At 31 March 2021	0.1	0.1

Searidge prepares its accounts in accordance with Canadian GAAP and its functional currency is the canadian dollar.

Searidge draws up its accounts to 31 August. For the purpose of these financial statements management accounts to 28 February 2021 have been used. No adjustments are required to be made for the effects of significant transactions between 1 March 2021 and 31 March 2021. The Searidge management accounts include unrealised tax losses of C$2.4m (£1.4m) that cannot be recognised in accordance with Canadian GAAP. The group has recognised a deferred tax asset of C$0.6m (£0.4m) on consolidation as the group considers that these losses will be set off against future taxable profits.

An impairment review of the goodwill recognised on consolidation has been performed based on the latest business plan. No additional impairment provision has been recognised (2020: C$9.1m (£5.4m)).

During the year, Searidge drew down loan finance of C$nil (£nil) from the group (2020: C$0.3m, £0.2m). At 31 March 2021, the loan (including interest) outstanding was C$2.8m (£1.6m) (2020: C$2.8m, £1.6m).

The group has assessed the carrying values of the loans to joint ventures at the balance sheet date and concluded that there should be no provision recorded under the expected credit loss methodology, based on historic loss experience and assessment of future prospects. The group monitors the performance of its joint ventures and their ability to meet loan obligations as they fall due. Expected credit losses have been assessed with the benefit of this visibility and past loan performance.

35. Subsidiaries, joint ventures and associates (continued)

The summarised financial information above is reconciled to the carrying amount recognised in the consolidated financial statements as follows:

	2021				2020			
	Associate ESSP £m	Joint venture FerroNATS £m	Joint venture Aquila £m	Joint venture Searidge £m	Associate ESSP £m	Joint venture FerroNATS £m	Joint venture Aquila £m	Joint venture Searidge £m
Non-current assets	1.7	0.3	37.1	0.5	2.1	0.1	6.0	0.7
Current assets	27.7	9.1	16.7	3.1	29.7	9.3	57.6	3.8
Current liabilities	(13.9)	(4.5)	(45.4)	(1.0)	(19.2)	(3.7)	(36.9)	(1.3)
Non-current liabilities	(0.8)	-	-	(3.1)	(1.4)	-	(20.5)	(3.1)
Net assets/(liabilities) of associate/joint ventures	14.7	4.9	8.4	(0.5)	11.2	5.7	6.2	0.1
Group share	2.4	2.4	4.2	(0.3)	1.8	2.9	3.1	0.1
Goodwill on acquisition of joint venture	-	-	-	5.5	-	-	-	5.5
Exchange difference on goodwill since acquisition	-	-	-	-	-	-	-	-
Impairment provision brought forward	-	-	(1.8)	(5.4)	-	-	(2.0)	-
Impairment (provision)/reversal recognised in income statement	-	-	0.1	-	-	-	0.2	(5.4)
Other adjustments	-	-	-	0.2	-	-	-	-
Carrying amount of the group's interest in associate/joint ventures	2.4	2.4	2.5	-	1.8	2.9	1.3	0.2
Revenue	53.4	14.6	101.6	3.2	52.6	15.0	101.6	7.1
Profit/(loss) after tax for the year	4.1	0.7	2.1	(0.4)	4.4	2.2	1.2	0.3
Group share	0.7	0.3	1.1	(0.2)	0.7	1.1	0.6	0.2
Impairment provision recognised in income statement	-	-	0.1	-	-	-	0.2	(5.4)
Group share of profit/(loss) after tax and impairment	0.7	0.3	1.2	(0.2)	0.7	1.1	0.8	(5.2)
Dividends received	-	(0.7)	-	-	(0.4)	(0.5)	-	-
Other comprehensive	(0.1)	(0.1)	-	-	0.1	0.1	-	0.1

36. Ultimate controlling party

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

37. 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.

Balance sheet
at 31 March

	Notes	2021 £m	2020 £m
Assets			
Non-current assets			
Investments	4	141.0	141.0
Net assets		141.0	141.0
Equity			
Share capital	5	140.6	140.6
Share premium account	5	0.4	0.4
Retained earnings		-	-
Total equity		141.0	141.0

As permitted by section 408 of the Companies Act 2006 the company has elected not to present its own income statement for the year. For the year ended 31 March 2021 the company recognised a profit of £nil (2020: £59.0m).

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 9 July 2021 and signed on its behalf by:

Paul Golby
Chairman

Alistair Borthwick
Chief Financial Officer

Statement of changes in equity
for the year ended 31 March

	Share capital £m	Share £m	Retained earnings £m	Total £m
At 1 April 2019	140.6	0.4	-	141.0
Profit for the year	-	-	59.0	59.0
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	59.0	59.0
Dividends paid	-	-	(59.0)	(59.0)
At 31 March 2020	140.6	0.4	-	141.0
At 1 April 2020	140.6	0.4	-	141.0
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Dividends paid	-	-	-	-
At 31 March 2021	140.6	0.4	-	141.0

Notes to the financial statements

1. Cash flow statement

No cash flow statement has been provided because the company does not maintain a bank account or have any cash transactions. Dividends were transacted by the company's subsidiary NATS Limited.

2. Significant accounting policies

The separate financial statements of the company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared on the historical cost and fair value basis. The principal accounting policies are the same as those set out in note 2 to the consolidated financial statements.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Income from subsidiaries is recognised when received.

3. Profit for the year and dividends

Profit for the year has been arrived at after charging:

	2021 £m	2020 £m
Staff costs	-	-
Auditor's remuneration	-	-

	2021 No.	2020 No.
Executive directors	2	2
Non-executive directors	10	10
	12	12

The company incurred no charge to current or deferred taxes in the year (2020: £nil).

Dividends	2021 £m	2020 £m
Amounts recognised as distributions to equity holders in the period:		
First interim dividend of £nil pence per share (2020: 20.97 pence per share)	-	30.0
Second interim dividend of £nil pence per share (2020: 20.27 pence per share)	-	29.0
	-	59.0

4. Investments

	Investments in subsidiary undertakings £m
Investments at 31 March 2021 and 31 March 2020	141.0

The company's investments in subsidiary undertakings are as set out in note 35 to the consolidated financial statements.

Pursuant to a loan agreement entered into by NERL, the company has granted a legal mortgage and fixed charge over its shares in NATS Limited, NERL's parent company, and a floating charge over all other assets.

Notes to the financial statements (continued)

5. Share capital and share premium accounts

These items are disclosed in the consolidated statement of changes in equity and notes 26 and 27 of the consolidated financial statements.

6. Financial instruments

The company held no financial instruments at 31 March 2021 (2020: none).

7. Ultimate controlling party

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

2020	Financial year ended 31 March 2020	HMG	Her Majesty's Government
2021	Financial year ending 31 March 2021	HMRC	Her Majesty's Revenue & Customs
3Di	3 Dimensional Flight Inefficiency Metric	IAS	International Accounting Standard
ACOG	Airspace Change Organising Group	IASB	International Accounting Standards Board
ADS-B	Automatic Dependent Surveillance-Broadcast	ICCAN	Independent Commission on Civil Aviation Noise
AESOP	All-Employee Share Ownership Plan	IFRIC	International Financial Reporting Interpretations Committee
AG	The Airline Group Limited	IFRS	International Financial Reporting Standards
AIREON	Aireon LLC, subsequently Aireon Holdings LLC	INEA	Innovation and Networks Executive Agency
AMPRPS	Annual Management Performance Related Pay Scheme	ISO	International Organisation for Standardisation
ANSP	Air Navigation Service Provider	iTEC	Interoperability Through European Collaboration
AQUILA	Aquila Air Traffic Management Services Limited	KPI	Key Performance Indicator
ATC	Air Traffic Control	LHRA	LHR Airports Limited
ATM	Air Traffic Management	LIBOR	London Interbank Offered Rate
CAA	Civil Aviation Authority	LTIP	Long Term Incentive Plan
CAAPS	Civil Aviation Authority Pension Scheme	MOD	Ministry of Defence
CANSO	Civil Air Navigation Services Organization	NATS	NATS Holdings Limited and its subsidiaries, together the NATS group
CAP1753	Cyber Oversight Process	NATS Services	NATS (Services) Limited
CDSB	Climate Disclosure Standards Board	NERL	NATS (En Route) plc
CEO	Chief Executive Officer	NESL	NATS Employee Sharetrust Limited
CFO	Chief Financial Officer	NHL	NATS Holdings Limited
CJRS	Coronavirus Job Retention Scheme	NR23	New price control from 1 January 2023
CPI	Consumer Prices Index	PPP	Public Private Partnership
CSO	Chief Security Officer	R&D	Research and Development
DB	Defined Benefit Pension Scheme	RAB	Regulatory Asset Base
DC	Defined Contribution Pension Scheme	RAT	Risk Analysis Tool
DfT	Department for Transport	RP1	Reference Period 1 (2012-2014)
DNV GL	DNV GL is a quality assurance and risk management company	RP2	Reference Period 2 (2015-2019)
DSESAR	Deploying Single European Sky ATM Research	RP3	Reference Period 3 (2020-2024)
EASA	European safety regulator	RPAS	Remotely Piloted Aircraft Systems
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation	RPI	Retail Prices Index
EC	European Commission	SAIP AD6	Airspace changes in Essex airspace
ESSP	European Satellite Services Provider SAS	SEARIDGE	Searidge Technologies Inc
EU	European Union	SES	Single European Sky
FerroNATS	FerroNATS Air Traffic Services SA	SESAR	SES ATM Research
FRC	Financial Reporting Council	SPA	Strategic Partnership Agreement
FRA	Free Route Airspace	TANS	Terminal Air Navigation Services
GAAP	Generally Accepted Accounting Principles	TRC	Technical Review Committee
GDPR	General Data Protection Regulation	USS	USS Sherwood Limited
GHG	Green house gas	WBS	Whole Business Securitisation

1 The regulatory asset base (RAB) represents the capital employed in the economically regulated businesses operated by NATS (En Route) plc (NERL), and is reported annually in regulatory accounts prepared on a calendar year basis. The regulatory accounts are published at www.nats.aero. The CAA's economic regulatory framework determines the basis for measuring regulatory assets. 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 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.

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

4 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

5 The severity of ground and airborne incidents is scored against six criteria: minimum separation achieved; rate of closure; detection of potential conflict; plan to achieve required separation; execution of the plan; and recovery when separation is lost.

6 Project Marshall is a 22 year contract awarded to the Aquila joint venture to transform the military's terminal Air Traffic Control technical services. It was initiated by the MOD to modernise ATM for over 100 MOD locations, of which over 60 are airfields or ranges, including overseas. It provides the foundation to deliver efficient and cost effective terminal ATM services and ensures that this capability keeps pace with modern regulatory demands and Single European Sky standards. NATS provides services to Aquila to enable it to deliver Project Marshall.

7 Aireon LLC provides a space-based air traffic surveillance system with global coverage capable of tracking and monitoring aircraft in real-time. This improves ATC and surveillance over regions with limited or no radar coverage and backup surveillance for regions with full radar coverage. Aireon is a private company whose investors are Iridium Communications, NAV CANADA, ENAV, IAA, Naviair and NATS.

8 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.

9 Link to Gender Pay Report: https://www.nats.aero/wp-content/uploads/2021/03/GenderPayReport2020.pdf

10 Link to NATS Slavery and Human Trafficking statement 2020: https://www.nats.aero/wp-content/uploads/2020/07/Modern-Slavery-Annual-Statement-May-2020.pdf

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