Company Number: 04138218

NATS Holdings Limited

Annual Report and Accounts 2021

nats.aero

Highlights

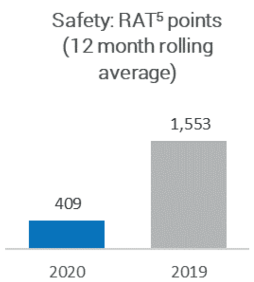
Financial highlights (year ended 31 March)

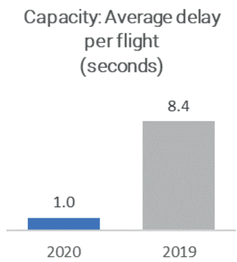
£m (unless specified)	2021	2020	Change (%)
Revenue and regulatory allowances	823.0	892.1	-7.7%
(Loss)/profit before tax	(37.8)	25.3	-
Cash (used in)/generated from operations	(264.5)	217.1	-
Capital expenditure	78.8	158.5	-50.3%
Net debt[a]	502.8	170.7	+194.6%
Gearing[b] (%)	49.6%	29.0%	+71.0%
Dividends	nil	59.0	-

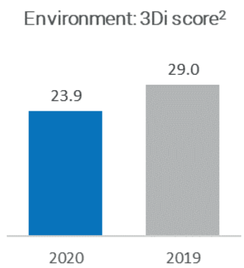
Notes: [a] includes advances of en route charges and excludes derivative financial instruments; [b] ratio of NERL's net debt (as defined by its licence) to regulatory assets[1]

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

Operational highlights







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

- Our priority has been the health and wellbeing of our workforce while maintaining a safe and resilient service for our customers. We have made significant economies but retained the skills and capacity necessary to safely support the recovery of aviation.
- The volume of flights in the year fell by 73% to 661,000 (2020: 2.48m) reflecting Covid travel restrictions.
- There were no risk-bearing airprox[3] attributed to our operation during the financial year (2020: one).
- The CMA's final decision on the RP3 price control has been overtaken by the impacts of Covid on the sector. The CAA is to determine a new five-year price control starting in 2023, which will include an assessment of the recovery of NERL's revenue shortfall in years 2020 to 2022.
- The London City digital tower entered operational service in January 2021.
- Gatwick Airport awarded us a 10-year air traffic control and engineering contract from October 2022.
- We are committed to sustainable aviation and shared our flight efficiency tool with the global industry.

[1] A number of explanatory notes are provided on page 166 of this report. Abbreviations used in this report are provided on page 165.

Contents

Who we are

NATS provides Air Traffic Control (ATC) services to aircraft flying in airspace over the UK and the eastern part of the North Atlantic, and at 13 UK airports. It also provides other ATC and related services to customers in the UK and overseas. Further information is provided in the description of our business model.

Our purpose

Advancing aviation, keeping the skies safe.

Our strategic objectives (revised following Covid)

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

Our values

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

Our business model

We generate income from ATC and related services mainly conducted through NERL and NATS Services.

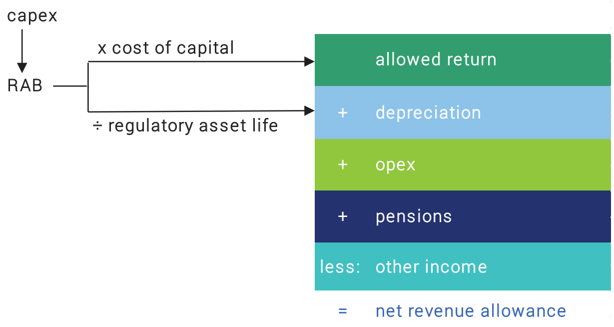
NERL

NERL is our core business and is the sole provider of ATC services for aircraft flying en route in UK airspace and the eastern part of the North Atlantic. It operates under a licence granted under the Transport Act 2000 and is economically regulated by the CAA and, until January 2021, the EC's Single European Sky[4] (SES).

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

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

Figure 1: The economic regulatory framework



control period. This model is illustrated in Figure 1.

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

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

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

NATS Services

NATS Services operates in contestable markets and services UK and international customers. It earns c94% of its revenue in the UK and c68% from UK Airports.

The UK Airports service currently provides ATC to 13 major UK airports as well as engineering support and airport optimisation services. The company's strategy is to win and retain UK ATC service or engineering support contracts by developing price competitive and innovative solutions.

NSL provides ATC and related engineering services to the UK MOD mainly through the Project Marshall[6] contract that is delivered in partnership with Thales by our Aquila joint venture. Other UK Business includes aeronautical information management, design and data services, consultancy and ATC training to airlines and airspace users.

Our International activities focus on providing the same range of services to the Asia Pacific and Middle East markets and is also targeted to specific international airports and ANSPs.

Our investments include: FerroNATS, which provides ATC services to airports in Spain; Searidge Technologies, a Canadian provider of digital tower technology; and a minority interest in Aireon[7] which provides space-based air traffic surveillance.

Chairman's statement

Covid

There continues to be great uncertainty in any return to normal levels of air travel. Through the pandemic we have made significant economies but retained the skills and capacity necessary to ensure that we are able to safely support the recovery of aviation. The form of any recovery remains unclear and may be subject to considerable volatility. We remain prepared for a variety of outcomes.

The pandemic has had a very significant impact on our business and we are reporting a pre-tax loss of £37.8m (2020: £25.3m profit) for the year. The volume of flights we handled fell by 73% from pre-pandemic levels, resulting in a similar reduction of our cash receipts. The company and Board responded quickly at the onset of the pandemic to ensure that our staff were protected while maintaining a safe and resilient air traffic control service for those able to travel, critical cargo flights and the military. We took decisive action to preserve liquidity by significantly reducing our cost base and, suspending all but essential capital investment. We also negotiated an additional two-year bank facility.

In June 2021 we secured £1.6bn from new unsecured bonds and bank facilities which enabled us to replace the funding arrangements in place since 2003, including removal of our whole business securitisation structure. This will ensure that the company is well placed to mitigate the impact of any further restrictions in air travel in the event of a resurgence in the pandemic and also bridge the shortfall in this year's income and allow us to resume our essential investment programme. However, it is essential that we continue our disciplined approach to costs and liquidity as we focus on future business sustainability, for the company and the wider aviation industry.

Regulatory framework

The company's business model and its financeability is underpinned by the Transport Act 2000 and NERL's economic regulatory framework. This has proved to be robust to the largest shock ever to hit the aviation market and wider economy.

Last summer the CMA concluded its review of the company's referral of the CAA's price control decision for RP3 (2020-2024). It upheld key elements of the company's referral, while sustaining other aspects of the CAA's proposals, although many of its findings were overtaken by the impact of Covid. The CMA, considering the impact of Covid, directed that the CAA should review these matters when better information was available. Therefore, the CMA's final determination was for a three-year settlement for 2020 to 2022 with NERL's charges set initially as if Covid had not occurred but with the CAA determining , as part of a price control reset, the appropriate level of recovery of revenue allowances.

The CAA is now consulting on its approach to a revised five-year price control starting in 2023 which will also seek to retrospectively assess these revenue allowances based on efficient costs incurred.

The company has proposed that the shortfall in revenue following this assessment is recovered over a longer period than the two-year period set out in the current licence, representing a further significant contribution by our shareholders to support the sector's recovery. The CAA is proposing that the revenue shortfall is recovered starting from 2023, by when the outlook for air travel and air traffic volumes is expected to be more certain.

Gatwick Airport contract award

The Board was delighted that Gatwick Airport chose NATS Services to provide air traffic control and engineering services. As the second largest airport in the UK, it goes without saying that this is a very important contract win that will see us once again working with Gatwick to support their future growth and development. This award is definitive evidence of our operational and technological capabilities, value for money and our ability to innovate.

Dividends

While the Board remains committed to paying a regular and progressive dividend, in light of the loss reported for the year, the uncertain recovery from Covid, together with the need to support our customers through deferred recoveries, no dividend is being paid for the year (2020: £59m).

Palamon

In February 2021, the CAA reported on air traffic delays at Stansted and Luton airports between 2018 and 2020. The CAA found no evidence to support allegations by Ryanair and Stansted Airport that NERL had discriminated against them or inaccurately recorded delay. However, it did conclude that in 2019 and early 2020 NERL was in breach of its licence as a result of staffing delay for the airspace used by aircraft arriving at Stansted and Luton airports. While we disagree with the CAA's conclusions we will implement its recommendations. Alongside these it is essential that the industry works together in the next price control period to modernise the airspace route network, which was not designed for the traffic levels we were handling pre-pandemic.

Environmental sustainability

Reducing CO2 emissions is one of the biggest long-term challenges the aviation industry faces. We are committed to a net zero emissions target from our operation by 2035 and to provide more fuel-efficient flight paths for aircraft. We support the Sustainable Aviation commitment to net zero by 2050 and we are making our environmental performance metric (3Di) available to the global industry to support fuel efficient flight profiles.

The work of the Airspace Change Organising Group, which we set up to coordinate the industry's airspace modernisation in RP3 has been reshaped as a result of Covid. Understandably, it has been difficult for the industry to engage in this area while also coping with the financial impact of the pandemic. Modernising UK airspace during the next price control period will be an essential enabler to achieving emission reductions.

Our Board and employees

There has been no change in the composition of the Board since last year's annual report following the reappointment of Maria Antoniou and Richard Keys by our DfT shareholder.

Alongside the rest of the company, the Board has had to adapt to remote ways of working whilst engaging with the Executive team and other stakeholders. This has proven to be very effective in maintaining a regular open dialogue and ensuring that stakeholder views are being captured in the boardroom.

I have been impressed with the company's response to the Covid crisis and what has been achieved during the last year and, on behalf of the Board, I thank all of our employees for their continued commitment and dedication during this very challenging and uncertain time.

Dr Paul Golby, CBE FREng

Chairman

Chief Executive's review

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

We responded quickly and effectively to restrictions caused by the pandemic, particularly in operational areas and found new ways of working during this period.

Restrictions on air travel to control the pandemic led to a 73% fall in the volume of flights we handled in the year. This significantly impacted our liquidity and our price control is now being redetermined by the CAA. However, the actions we have taken to maintain a resilient operation, support our customers, secure our long-term finances and reduce our cost base ensure that we are well placed to support the recovery in air travel. And in spite of the challenges we faced, we continued to demonstrate our capabilities by delivering a new digital tower service to London City Airport, implementing our intelligent approach tool at Toronto and Amsterdam airports and securing a new 10-year contract from Gatwick Airport from October 2022.

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

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

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

Our workforce

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

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

Live events and Yammer chats to ensure staff felt well informed and supported.

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

Low flight volumes and the suspension of the capital investment programme resulted in large numbers of staff being furloughed under the job retention scheme, nearly 60% at the peak, helping us to reduce costs wherever possible. However we also had to overcome the complexity of ensuring that air traffic controllers maintained their validity when combining periods of furlough alongside attendances in a low traffic environment.

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

We also undertook a voluntary redundancy programme which saw nearly 400 staff leave the organisation. This only applied to non-operational staff to ensure that we preserved the operational staff skills to protect the recovery. On present forecasts we do not anticipate any significant recruitment until summer 2022 at the earliest.

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

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

Impact of Covid

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

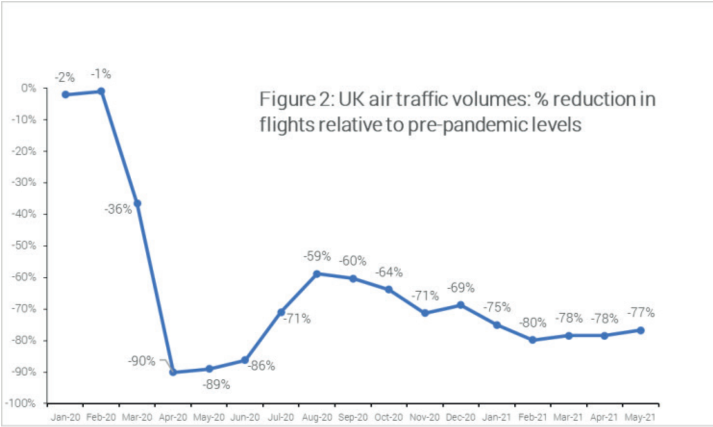


Figure 2: UK air traffic volumes: % reduction in flights relative to pre-pandemic levels

Following the restrictions in air travel in March 2020 and the first national lockdown, airlines grounded most of their fleets in April and May. As restrictions gradually eased in June and July there was some recovery to 40% levels by September before this reversed as tiered restrictions were introduced in October followed by a second lockdown in November for England alongside circuit-breakers in other home nations. The emergence of a new variant of Covid in December led to more countries banning air travel from the UK and traffic volumes remained at around 20% following the third national lockdown later that month. We have seen only a slight pick-up since 17 May 2021, given the limited number of destinations on the green list so far but we are well prepared as further destinations are approved.

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

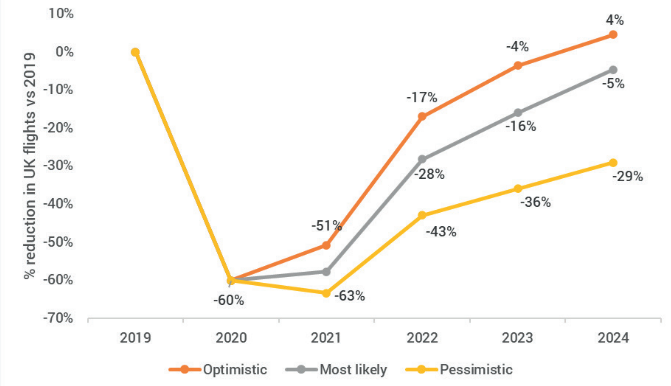
Our economic regulatory framework provides a defined level of protection from traffic shortfalls enabling these to be recovered through subsequent charges, as appropriate for critical national infrastructure which is required to be available at all times. However, the scale of the reduction of air traffic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

Preparing for a recovery in air travel

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

This continuing uncertainty is borne out by the scenarios underlying the latest outlook (May 2021; figure 3) from Eurocontrol, Europe's air traffic control network manager, which plots different paths to recovery based on vaccine progress and by States adopting consistent and coherent

Figure 3: Eurocontrol 4-year forecast scenarios
% reduction on 2019 flights



measures to support the aviation industry and ensure that passengers feel safe to fly again. The most likely forecast scenario indicates traffic at 95% of 2019 levels by 2024. However, it is clear from discussions with our customers and other stakeholders that we must not be a brake on any potential recovery of the sector and therefore for this summer we have planned our service to handle traffic volumes at up to 75% of 2019 levels. This will ensure we can handle peak demand and provide capacity if and when more destinations are approved, anticipating that airlines will be able to respond to pent up demand very quickly. While we do not know which additional routes may open, assuming that routes and schedules are not dissimilar to 2019, we will be able to handle this level of traffic with current social distancing measures in place in our operations rooms if required.

Our pause last summer in capital investment enabled us to engage with customers and other stakeholders on the options open to us to reshape our capital programme to support their priorities post Covid while delivering a resilient and safe service into the future. Customers endorsed the continued need to invest in new systems to support our operations including our En Route and Voice programmes which are central to our SESAR[4] commitment, initially providing new controller tools and capabilities to our operation and delivering a single, modern common technology platform. Our short-term focus for the 2021 calendar year is to operate our new systems for short periods during low traffic volumes before a full transition in 2023, along with the first trial of our main voice system and operational deployment of our second voice communications system.

London City Airport goes digital

In January London City became the first major commercial airport in the UK to switch its air traffic control provision from a visual control room based at the airport to a digital tower, which is operated from our Swanwick centre. This marks a significant achievement for the airport and for our business. In normal times delivering a project of this scale and complexity would have been a significant achievement. That this was delivered during the pandemic makes it even more impressive.

On a related note, our joint venture, Searidge Technologies, won a commercial bid to provide a digital tower for the Hong Kong International Airport Authority. This contract will position them very strongly in the digital tower market for large airports.

Our role in a sustainable future

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

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

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

When it comes to the operational impact of aviation, zero carbon solutions for flight are still a long way off and until then there will inevitably have to be a balance between the environment and air traffic capacity. We will continue to focus on enhancing the sustainability of our service while still meeting the capacity requirements of our customers.

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

Palamon

As the Chairman has explained, we disagree with the CAA's findings that NERL was in breach of its licence as a result of staffing delay in 2019 and early 2020. However, as we now recalibrate our business plan ahead of the redetermination of the price control from 2023, we will consider the extent of additional resilience we require and we will be looking to the CAA for clear guidance on service performance targets at the network level and an updated approach at a sector level as well as more financial flexibility to meet operational resourcing needs. This is necessary to ensure that we are able to support a recovery in air traffic which will inevitably have more peaks and troughs in demand across our network than pre-pandemic as travel restrictions are lifted and airlines and airport operators respond accordingly.

Concluding remarks

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

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

This is also an opportunity to build back better and we recognise we play an important role in delivering a more sustainable future alongside the industry. This must be accompanied by a new price control that provides the right level of resources to deliver the operational service, technology change and airspace modernisation to meet stakeholder priorities.

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

Martin Rolfe, FRAeS

Chief Executive

Business review

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

- Air traffic volumes

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

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

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

- Service performance

Service performance: calendar year	2020		2019	
	Target	Actual	Target	Actual
C1: avg. en route delay all causes (seconds)	15.6	1.2	15.6	13.2
C2: NATS avg. delay per flight (seconds)	12.0	1.0	10.8	8.4
C3: delay impact (score)[8]	24.0	2.5	24.0	15.8
C4: delay variability (score)[8]	1,800.0	35.0	2,000.0	63.0
C3Di: 3Di metric (score)	26.4-29.2	23.9	26.3-29.1	29.0

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

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

- Safety management

We provided a safe ATC service throughout the pandemic by managing the operational safety impact of significantly lower traffic volumes as well as addressing the occupational health and safety risks to our workforce, including their wellbeing. We applied our existing safety management system and its measures and procedures and adapted these in a proportionate way to reflect different ways of working. For example, the requirement for social distancing in the operations room was balanced against the need for team-working and safe procedures that rely on social interaction. Since the pandemic started, we have worked closely with the CAA and the European safety regulator (EASA), as well as other stakeholders and public health bodies to develop approaches to meeting regulations designed for more normal times. Low traffic volumes disrupted normal patterns of work, requiring heightened operational vigilance and situational awareness and an assessment of the safety risk of a low traffic movement environment. We undertook comprehensive assessments of the risks of a low traffic operation and assessed the operational effectiveness of our mitigating actions. One key adaptation was to place greater emphasis on local expertise in managing the unique circumstances being experienced at all NATS operational units.

We have also sought to mitigate the safety risks associated with traffic regeneration this summer and developed guidance for the operation from simulating different recovery scenarios for en route and airport operations, focussed on maintaining controller competency levels. We also completed an organisation-wide survey which will form the basis for actions to ensure our safety culture remains robust ahead of the recovery. We are also working closely with government, regulators and the industry to ensure that we are as coordinated as possible as restrictions on air travel are lifted.

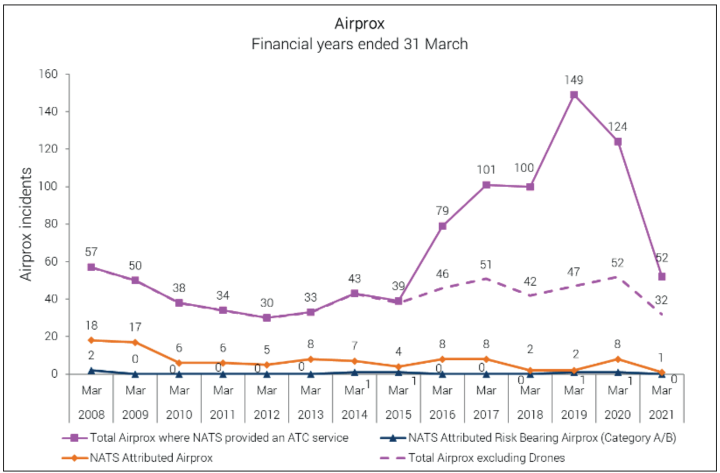
- Safety performance

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

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

We measure the RAT point score on a calendar year basis, and for 2020 we recorded 409 points (2019: 1,553). This included three severity B events against our target of less than 10. For each of the events a thorough investigation was performed and corrective actions have been taken.

There were no risk-bearing Category A or B airprox attributable to NATS during the financial year (2020:



one Category B). Also, there was a reduction in the total number of airprox in NATS airspace during the year. There was a significant reduction in the number and in the highest severity Remotely Piloted Aircraft Systems (RPAS or drone) related events, continuing the downward trend since a peak in 2018/19. This reflected changes in drone regulation and legislation and improved awareness and training of drone users, on which we have cooperated with the CAA, alongside the reduction in air traffic volumes generally.

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

Economic regulation

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

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

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

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

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

Airspace modernisation

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

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

Financial review

Results overview

The group reported a loss before tax of £37.8m (2020: £25.3m profit). This reflected the impacts of Covid leading to:

- Reduced income following an assessment of the recoverability of Airspace regulatory allowances in anticipation of the CAA's reconciliation exercise, lower North Atlantic traffic volumes and price concessions to support airport operators
- Impairment of the carrying value of assets, including goodwill by £111m (2020: £49m) and other assets by £16.2m (2020: £11.6m); and
- actions to reduce the cost base to preserve liquidity as a result of income receipts (including advances) being £380m lower than prior year, which included the costs of staff redundancies.

	£m	£m
2020 profit before tax		25.3
Revenue and regulatory allowance changes		
Airspace	(45.4)	
Airports	(24.1)	
Other (net)	0.4	
		(69.1)
Operating cost changes		
Salaries and pensions	30.8	
Job retention scheme grant	37.1	
Voluntary redundancies	(63.0)	
Capitalised internal labour	(21.1)	
Staff costs		(16.2)
Expected credit losses	19.3	
Depreciation net of impairment	28.9	
Other non-staff costs net	36.3	
		84.5
Goodwill impairment		(62.0)
Finance cost changes		
Fair value movements	(0.8)	
Other net finance costs	(4.1)	
		(4.9)
Associates & joint ventures		4.6
2021 loss before tax		(37.8)

After the tax charge, which is explained below, the group reported a loss of £50.6m (2020: loss of £1.3m).

Protecting our liquidity in response to Covid

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

Also impacting liquidity, to support customers, along with other European ANSPs we agreed to the deferred settlement of en route customer charges for February to May 2020 flights. The charges for February and March 2020 have now been settled with April and May 2020 charges paid in May 2021 and due in

August 2021, respectively. This deferral support was partly mitigated by advances provided by Eurocontrol to its member States, including the United Kingdom, following its procurement of a loan facility from commercial banks. Our airports business also supported airport operators with price concessions on ATC contracts.

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

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

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

Refinancing

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

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

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

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

The combination of the refinancing and the actions to preserve liquidity provide the company with funding to withstand a prolonged and uncertain recovery in air traffic volumes ahead of a new regulatory price control settlement, and the recovery of the revenue shortfall explained above. With respect to the latter, as explained in our Viability Statement we fully expect that the re-set of the price control will provide a balanced business plan which is aligned with our customers' priorities and flight schedules, taking account of the CMA's findings, the pre-existing commitment to traffic risk sharing and the financeability duties placed on the CAA under the Transport Act 2000.

Regulatory return

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

New accounting policy

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

Revenue and regulatory allowances

	2021	2020
	£m	£m
Airspace	658.3	703.7
Airports	104.9	129.0
Defence	28.2	26.0
Other UK business	11.9	10.0
International	19.7	23.4
Total	823.0	892.1

Overall, revenue and regulatory allowances at £823.0m (2020: £892.1m) were £69.1m lower than last year. By service line the significant developments were:

Airspace: £45.4m (6.5%) lower than last year mainly reflecting the impact of lower traffic volumes and the price control framework. Revenue from contracts with customers and other revenue at £241.1m (2020: £696.4m) was lower by £455.3m. Regulatory allowances under-recovered at £417.2m (2020: £7.3m) increased by £409.9m.

Under the extant regulatory framework traffic volume risk for UK en route services is capped at 4.4% of annual allowances. However, in light of Covid, we agreed with the CMA's proposal for a retrospective reconciliation by the CAA of actual costs and revenues. Revenue and regulatory allowances for this service reflect an assessment made to meet the requirements of accounting standards of the anticipated outcome of the CAA's reconciliation exercise and the extended period for recovering the shortfall in revenues through regulatory allowances. Revenue from North Atlantic en route services reflected the reduction in air traffic volumes, with no volume risk sharing mechanism allowed for in the licence.

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

Airports: revenue was £24.1m (18.7%) lower mainly as a result of price concession support provided to airport operators, funded in part by operating cost savings. Engineering project income was also lower as airport operators suspended their asset enhancement programmes.

Defence: at £28.2m was £2.2m higher (8.5%), reflecting the performance of the Project Marshall contract. More revenue was recognised for the asset provision contract, reflecting the delivery schedule and the impact of securing a variation to expand the scope of the asset deployment programme

Other UK business: revenue increased by £1.9m (19.0%) mainly as a result of new contracts secured to provide windfarm developers with mitigations for their impacts on ATC radar data.

International: revenue was £3.7m (15.8%) lower as customers in the Asia Pacific region slowed their capacity enhancement projects in response to Covid. Good progress continued to be made in implementing our intelligent approach tool at Toronto International and Amsterdam Schiphol airports.

Operating costs

Operating costs before goodwill impairment decreased by £68.3m or 8.7%, reflecting actions taken to preserve liquidity in light of the significant reduction in income receipts from customers.

Staff costs were £46.8m lower at £419.0m (2020: £465.8m) and with a headcount of 4,227 (2020: 4,860) there were 633 fewer employees at 31 March 2021.

	2021	2020
	£m	£m
Staff costs	(419.0)	(465.8)
Staff redundancies	(65.2)	(2.2)
Non-staff costs	(134.6)	(192.3)
Depreciation and amortisation, net of grants	(105.7)	(134.6)
Profit on disposal of assets	0.4	1.0
Other operating income	2.9	4.4
Operating costs before goodwill impairment	(721.2)	(789.5)
Goodwill impairment charge	(111.0)	(49.0)
Total operating costs	(832.2)	(838.5)

Cost savings were achieved by pay restraint, the suspension of performance related pay schemes, lower overtime and following staff redundancies. The latter, together with a recruitment freeze which we anticipate will endure for at least the next financial year, will enable an annualised saving of c£41m, which will benefit customers.

The impact of low air traffic volumes and the six-month pause in the capital investment resulted in many staff being furloughed under the government's job retention scheme, which provided grant income of £37.1m. The pause in capital investment also resulted in less internal labour being capitalised.

Non staff costs reduced by £57.7m or 30.0% due to cost related actions with reductions in professional fees, travel costs and contractors in particular. The charge for expected credit losses was also lower than the last year, which reflected uncertainty regarding agreements made at that time to extend the settlement period for en route charges, following a significant reduction in the year in outstanding receivables.

Depreciation and amortisation (net of grants) were £28.9m lower at £105.7m (2020: £134.6m). This reflected a reassessment and extension of the useful lives of assets at the start of the financial year to align with the capital programme delivery schedule, partly offset by impairment charges of £16.2m (2020: £11.6m).

Goodwill impairment

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

In assessing the recoverable amount, consideration is given to opportunities to outperform regulatory settlements and any premium above the value of the regulatory asset base (RAB) a purchaser would be willing to pay for a controlling interest, by reference to the projected financial return indicated by the company's business plan and recent UK and European market transactions in utilities and airport operators. The RAB premium was maintained at 0% (2020: 0%) in light of the continuing uncertainty in the recovery in air traffic volumes and the CAA's assessment of the shortfall in NERL's revenue to be recovered as a regulatory allowance.

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

Net finance costs and fair value movements on financial instruments

Net finance costs of £26.6m (2020: £22.5m) were £4.1m higher than last year as the group drew down on bank facilities for liquidity purposes.

A fair value charge of £4.0m (2020: £3.2m) was recognised this year which mainly reflected an assessment of the Aireon equity investment based on the company's plans and growth prospects in light of Covid.

Joint ventures, associates and other investments

The group recognised a net profit of £2.0m (2020: £2.6m loss) for the results of joint ventures and its associate. This included a profit of £1.2m (2020: £0.8m profit) for Aquila Air Traffic Services, our joint venture entity delivering Project Marshall. The improvement in the net result of other investments at £0.8m (2020: £3.4m loss) reflected the prior period impairment charge for Searidge Technologies which assumed slower new business growth due to Covid.

Taxation

The tax charge of £12.8m (2020: £26.6m) is based on a loss before tax of £37.8m which included the goodwill impairment charge which is not tax deductible. The effective rate of tax, excluding goodwill, is 17.5% (2020: 35.8%) which is lower than the headline rate of 19% and includes an additional deduction for patent box income. The effective rate in 2020 reflected the deferred tax impact of the change from 17% to 19% in the rate of corporation tax.

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

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

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

Balance sheet

	2021	2020
	£m	£m
Goodwill	38.3	149.3
Tangible and intangible fixed assets	1,077.6	1,091.7
Right-of-use assets	47.0	61.3
Investments	39.1	48.1
Pension scheme (deficit)/surplus	(31.5)	232.0
Other non-current assets	459.9	38.9
Cash and short term deposits	272.1	585.5
Derivatives (net)	(102.5)	(104.7)
Borrowings	(711.0)	(686.2)
Lease liabilities	(63.9)	(70.0)
Deferred tax liability	(118.7)	(165.8)
Other net liabilities	(297.3)	(270.8)
Net assets	609.1	909.3

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

Overall, net assets decreased in the year mainly following the change from a surplus to a deficit in the IAS 19 funding position of the defined benefit pension scheme, which reported a deficit of £31.5m (2020: surplus £232.0m - see below) and the loss for the year.

Capital investment

	2021	2020
	£m	£m
SESAR deployment	51.5	113.7
Airspace modernisation	5.0	10.0
Infrastructure	4.2	10.8
Operational systems	6.9	6.6
Other	3.0	6.4
Regulatory capex	70.6	147.5
Military systems	0.1	2.5
Other non-regulatory capex	8.1	8.5
Capital investment	78.8	158.5

Capital expenditure decreased by £79.7m or 50.3% with all but essential and sustaining capital investment suspended for six months until January 2021 to protect liquidity and to enable the scope of plans to be reviewed against the revised priorities of our customers and the regulator.

Defined benefit pensions

The group operates a final salary defined benefit pension scheme with 1,653 employee members at 31 March 2021 (2020: 1,911). The scheme was closed to new entrants in 2009 and a defined contribution scheme was put in place. More information on our pension arrangements is provided in note 33 to the financial statements.

a. IAS 19 charge and funding position

The cost of defined benefit pensions at £66.5m (2020: £73.9m) reflected a lower accrual rate of 38.2% (2020: 42.1%) of pensionable pay, reflecting higher real interest rates at the start of the financial year, as well as a 6.8% reduction in pensionable pay.

IAS 19 pension deficit	£m
At 1 April 2020	232.0
Charge to income statement*	(66.5)
Actuarial gains/(losses):	
- on scheme assets	414.3
- on scheme liabilities	(708.3)
Employer contributions*	97.0
At 31 March 2021	(31.5)
Represented by:	
Scheme assets	5,113.9
Scheme liabilities	(5,145.4)
Deficit	(31.5)

* including salary sacrifice

At 31 March 2021, the scheme's liabilities exceeded its assets by £31.5m (2020: £232.0m surplus) as measured under International Accounting Standards (IAS 19) using best estimate assumptions. The real yield on AA corporate bonds used to value RPI-linked pension obligations fell by 75 basis points during the year, which increased liabilities by more than the rise in asset values. The size of the scheme relative to the group means changes in financial market conditions can have relatively large impacts on the results and financial position.

b. Trustee valuation and funding obligations

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

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

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

Net debt and cash flows

	Cash and short-term investments	Borrowings (including lease liabilities)	Net debt
	£m	£m	£m
Balance at 31 March 2020	585.5	(756.2)	(170.7)
Cash flow	(313.0)	(51.6)	(364.6)
Non-cash movements	(0.4)	32.9	32.5
Balance at 31 March 2021	272.1	(774.9)	(502.8)

In order to maintain liquidity in response to the reduction in en route revenue receipts following the outbreak of Covid, NERL drew down £395m of its £400m bank facilities in March 2020 and maintained this borrowing during the year. At 31 March 2021, the balance outstanding on NERL's amortising bond was £250.9m (2020: £292.1m). As a result, at 31 March 2021 the group had borrowings of £774.9m (2020: £756.2m), including IFRS 16 lease liabilities and advances of en route charges, and held cash and short-term investments of £272.1m (2020: £585.5m). Net debt increased to £502.8m (2020: £170.7m), mainly due operating cash outflows.

The group used £264.5m of cash for its operating activities (2020: generated operating cash of £217.1m) which, despite extensive measures to control cost and conserve cash, reflected the significant reduction in revenue receipts following the fall in air traffic volumes in the period. Capital investment was curtailed at £79.5m (2020: £155.5m) which reduced cash outflows from investing activities. Financing inflows of £13.8m (2020: £252.2m) reflected drawdowns of £395m against bank facilities at the end of the previous year, advances of en route charges and the suspension of dividend payments. Dividends of £59m were paid in 2020. Overall cash and short-term investments were £265.7m lower at 31 March 2021 than at the start of the year.

Following the completion of the refinancing in June 2021, at 30 June 2021 the group had available liquidity of around £1005m which can support the recovery of the industry and is sufficient to meet our forecast needs for a period of at least twelve months from the date of issue of this report including under plausible stress scenarios, where appropriate mitigating actions would also be undertaken.

Alistair Borthwick

Chief Financial Officer

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 plausible changes in trading performance as well as severe traffic volume scenarios individually and in combination. These reflect the significant estimation uncertainty as to the timing, rate and extent of recovery in air traffic volumes and the possibility of further waves of the Covid pandemic, alongside unforeseen costs arising from other principal risks. The 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 followed from July 2022 by the same rate of growth assumed in NATS base case projections 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 assessed. 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. Taking all this into account, the group's cash flow forecasts, reflecting 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 plausible future traffic volume scenarios and potential mitigating actions that could be taken, together with the duties of the CAA and Secretary of State for Transport referred to in the Viability statement, the 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.

Viability statement

The directors have assessed the viability of the group based on its current position and future prospects, its business strategy and available financial resources. The directors have also assessed the potential financial and operational impacts in plausible downside scenarios of the principal risks and uncertainties facing the business, set out on page 25, and the effectiveness of currently available mitigating actions. In particular the directors assessed the solvency and liquidity risks arising from Covid, including further waves of the pandemic alongside a combination of other risk factors materialising, which the Board considered represented a reasonable worst-case scenario, as well as a reverse stress test. On the basis of this assessment, the directors have a reasonable expectation that the group will be able to continue in operation and meet its liabilities falling due over the three-year period to June 2024.

This period of assessment reflects the last 18 months of NERL's three-year price control ending 31 December 2022, which resulted from the CMA's review of the CAA's 2019 RP3 decision, and the first 18 months of a new five-year price control starting 1 January 2023, which is to be redetermined by the CAA to take account of the impact of Covid on air traffic volumes and NERL's operations. Notwithstanding the significant estimation uncertainty as to the timing, rate and extent of recovery in air traffic volumes, the Board considers that there is greater certainty around forecasting assumptions over a three-year period than a longer period, taking into account the CAA's proposed consultation on the redetermination of the new price control which the Board expects will be completed in 2022.

Specific consideration has been given to:

- Covid: the consequences for the group's en route and airport ATC income of a further wave of the pandemic on the aviation sector and the reasonably possible mitigating actions available to the group to manage its financial resources;
- The CAA's regulatory commitment (CAP 2119) to the recovery of the traffic shortfall and the redetermination of a new five-year price control from 2023, taking into account the general duties of the CAA and the Secretary of State for Transport under the Transport Act 2000 to exercise their functions in the manner they think best calculated to secure that NERL will not find it unduly difficult to finance its licenced activities;
- The term of NERL's bank facilities: the directors have a reasonable expectation that NERL will meet the conditions of its banking covenant and be able to raise funds in the capital market to repay bank facilities expiring in May 2023;
- Defined benefit pensions: the trustee's formal valuation at 31 December 2020 and agreement to a new schedule of contributions. The directors consider

that NERL's contributions will be recovered through the new price control starting 2023, and future reference periods, including additional contributions required arising from unforeseen changes in financial market conditions since the CMA's decision on the price control for 2020 to 2022. This is further supported by the CAA's issuance of a Pension Regulatory Policy Statement in April 2021. Contributions from NATS Services will be met from operating cash flows.

Principal risks and uncertainties

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

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

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

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

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

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

These risks, including the impact of Covid and risks to our finances, are reflected in and have been considered in assessing viability and going concern as explained on page 22. Further explanation of the impact of Covid on specific key risks is also included under those risks in the commentary which follows. An explanation of the estimation uncertainties arising from Covid is included in note 3 of the financial statements. A summary of risk management and internal control processes is on page 51.

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

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

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

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

Strategy: regulatory settlement

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

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

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

Operational: business continuity

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

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

The company reviewed the robustness of its service and continuity plans following the outbreak of Covid, which is being managed under NATS business continuity incident management procedures. The potential risk of operational staff absences due to the pandemic was mitigated initially by the lower traffic volumes, before strict social distancing measures, separate rosters and absence tracking measures could be implemented.

NATS is closely monitoring air travel demand and is proactive in managing the risks associated with the return to higher levels of traffic. The company is doing this while working closely with the Department for Transport and key stakeholders including the CAA, airlines and airports.

Operational: systems security

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

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

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

Operational: employee relations

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

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

Transformation: portfolio delivery

The complex deployment of new DSESAR technology and retirement of legacy systems could affect our ability to maintain service levels during transition and require additional costs to sustain legacy systems and support deployment during this period. NATS targets to deliver the change portfolio within the constraints of the business plan agreed with the CAA. Demonstrably inefficient or wasteful expenditure on capital assets may also result in reduced recovery of such expenditure under the regulatory regime. We maintain good programme governance and risk management processes overseen by the executive, the Transformation Review Committee and the Board. We have adopted industry best practice, by using a Portfolio, Programme and Project approach. As noted in the Chief Executive's review, we responded to the impact of Covid on the company's liquidity and the likely future capacity requirements of airline customers by suspending all but critical sustainment capital investment for a six-month period. The scope of the capital programme and associated risks is subject to ongoing review and is likely to lead to a lower rate of investment than planned pre-Covid.

Financial: defined benefit pension scheme

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

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

The directors monitor the funding position of the scheme. The group's financing arrangements and cash reserves, its projected operating cash flows and mechanisms within the established economic regulatory framework for recovery of such costs enable the group to meet the contributions required.

Financial: other risks

In addition to the top risks set out above, the main financial risks of the group relate to the availability of funds to meet business needs (including meeting obligations to the pension scheme), the risk of default by counterparties to financial transactions, and fluctuations in interest and foreign exchange rates. A detailed description of each of these risks and specific mitigations are set out in note 22.

Other matters: Brexit

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

Responsible business

Our investors, customers, suppliers and other stakeholders are aware of the need for, and benefits of, NATS as a responsible business. Our commitment to the welfare of society, including our employees, and the natural world is an increasingly important measure of our overall performance. We recognise the growing expectations of the public and policymakers to transparent reporting on our outcomes.

Scope of non-financial information statement

This statement focuses on employee and environmental matters which are the material non-financial matters that have an indirect financial impact on our business. Our gender pay report[9] and a slavery and human trafficking statement[10] are published on our website.

Governance

The NATS board is responsible for non-financial policy and performance. The Board has reviewed how it has applied the principles of the Code of Corporate Governance in each of the main areas of culture, diversity, workforce, stakeholders, remuneration and succession. The Board receives regular updates throughout the year on these topics and formally reviews the approach annually.

In addition to the Board, the Executive Committee and various sub-groups monitor health and safety, employee relations and environment matters.

Strategy

We have adopted a wide-ranging approach to being a responsible business, including how we manage and report our impacts. Specific measures include:

- Developing and monitoring appropriate policies, codes, management systems and targets, including a Responsible Business policy[11] which can be viewed at www.nats.aero and net zero emission targets.
- Reviewing and implementing various strategies and programmes e.g. sustainability strategy
- Embedding environmental KPIs in our refinancing to enable sustainability linked finance
- Monitoring performance and practices across our business and our supply chain
- Undertaking internal and external audits
- Raising awareness of responsibilities among employees and developing training
- Managing relevant enterprise risks and monitoring trends
- Transparently reporting non-financial performance information to our customers, key stakeholders and the public each year
- Monitoring levels of support provided through our employee assistance programme

We maintain a range of certified ISO (or equivalent) management systems, which are externally assessed by DNV GL, including ISO 31000 (risk management) and ISO 14001 (environment management).
The Audit Committee oversees all verification and assurance activity.

a. Employee policies and outcome

This has been a difficult year for our people whose skills and professionalism is at the heart of what we do. They make a critical difference to our success, and our investment in them protects and strengthens our safety and business culture. We operate a Just Safety culture enabling employees to raise safety related matters without fear of reprisal and we have recently completed our regular safety culture survey with a pleasing c.90% response rate which demonstrates our whole organisation commitment to Safety. During a year of furlough and homeworking for many of our teams, we have focussed strongly on employee wellbeing and provided on line resources and workshops that combined with our 24 hour peer support team, occupational health service and revised employee assistance programme, have been positively welcomed by employees. For those employees who needed to remain working on-site, a broad range of measures were implemented to ensure a Covid-secure workplace.

We continue to value the partnership we have with the trade unions however the relationship has experienced significant tension as we have had to take action and respond to the impact on aviation of the Covid pandemic, including terminating the redeployment and redundancy agreement. Although we remain committed to the partnership approach we are currently in dispute with our unions which could lead to ballots for action. Despite this we continue to make policy innovations with the trade unions through our successful policy forum and looking forward, we are focussed on developing a positive 'agile working' environment, balancing the opportunities of virtual and remote working while blending these with office and operational working activities.

We have continued to support our employees to feel that they can bring their true selves to work ensuring that our working environment creates a safe space in which our people are respected and valued for their differences. We are introducing equality impact assessments for major people change initiatives and members of the Executive now sponsor our employee networks as we continue our focus on diversity and inclusion.

b. Environment policies and outcome

Our sustainability strategy encompasses initiatives on sustainability linked finance, sustainable consumption and procurement, energy efficiency, reductions in greenhouse gas (GHG) emissions, climate change resilience and biodiversity improvements across our business and estate. It also includes initiatives to improve airspace efficiency, manage aircraft noise and to actively work with industry partners and others, including the UK Sustainable Aviation coalition, the Borealis Alliance, CANSO, Eurocontrol and the International Civil Aviation Organization, to ensure a coordinated approach to managing our shared environmental impacts. A recent example of this is making our environmental performance metric (3Di) available to the industry to support the identification of new opportunities to optimise the environmental efficiency of airspace.

ANSPs influence aviation CO_2 emissions, noise and other environmental impacts. We seek to reduce this impact as much as possible through how we run our business and manage air traffic, for example by using Intelligent Approach, cross border arrivals management and investing in space based ADSB to improve the efficiency of the domestic and oceanic airspace we manage. We develop many of these innovative solutions in partnership with our key suppliers and airport/airline customers for mutual benefit.

We support a new commitment by the aviation industry in the UK and Europe to reach net zero by 2050. Our ambition goes further in adopting a 2035 net zero target for greenhouse gas emissions linked to running our business. We are also working across the industry, including with the Airspace Change Organising Group (ACOG) to set out a plan for airspace modernisation which will help reduce the industry's CO_2 emissions over a similar timeframe, while we wait for changes to fleet and fuels to take effect in future.

Concerns about sustainability, particularly climate change, have increasingly been driving societal and political action. The Covid crisis has further intensified pressure on the industry to increase its ambition and advance its plans to decarbonise. Improving the sustainability of our business is key to achieving this and it can also reduce costs as we consume fewer resources and work in more efficient ways.

Annually we assess the effectiveness of our policies and actions in managing our environmental obligations. This performance is described in detail below.

Risk management

The group's risk management system is described above under Principal risks and uncertainties and is aligned with the ISO 31000 risk management standard. Employee relations is regarded by the Board as a key risk and is explained in this section also.

An enterprise level sustainability risk describes the risks linked to the delivery of our sustainability strategy, improvements to our environmental performance and meeting multiple compliance requirements, and the impact of those risks. A separate business level climate change risk describes the direct physical risks which will impact our operations, engineering, infrastructure and corporate functions e.g. as a result of increased frequency and severity of extreme weather events. It also describes the indirect policy, legal, market and reputational risks, arising from the transition to a low carbon economy.

Metrics and targets

a. Employee matters

Gender pay reporting has established benchmarks against which we will monitor the impact of our actions to address gender imbalance over the longer term, accepting that this will take time to address the structural imbalance within the industry. While we have limited external recruitment at this time, we have taken the opportunity to fully review all recruitment and selection practice to remove bias where possible, promote access and ensure fairness in decision making. Our plans for the relaunch of our early career programmes in 2022 will continue to focus particular attention on attracting and selecting diverse candidates and promoting ethnic minority and female representation in those early career recruits. Our objective remains to bring the best diverse talent into our organisation and support individuals to reach their full potential.

b. Environment

Our environmental performance continues to improve, in terms of the environmental impact from running our business and from our management of air traffic at airfields and in airspace we are responsible for. We are set annual targets by the CAA on airspace efficiency, as measured by a metric known as the three-dimensional inefficiency score (3Di), in each price control period. The price control for RP3 was overtaken by Covid and, as explained elsewhere in this report, the CAA is to redetermine a new five-year price control from 2023. As a result of the reduction in air traffic volumes due to Covid, the RP3 3Di targets are no longer relevant: for 2020 we recorded our most efficient 3Di score ever. The challenge we now face is to facilitate the expected increase in air traffic in the months and years ahead, while providing the most fuel efficient flight profiles possible.

As a result of airspace improvements and actions of air traffic controllers this year, we have helped enable almost 40,000 tonnes of CO_2 emissions savings, representing savings of £3.5 million in fuel costs for airlines. Cumulative benefits since a 2006 baseline now total 9.4 million tonnes of CO_2.

We have adopted a net zero emissions target for 2035 across each of our GHG emissions sources from running our business, which have been submitted for independent validation to the Science Based Target initiative. This aggregated total has reduced by 45% compared to a 2018-19 baseline, resulting from energy efficiency measures, site consolidation and lower occupancy levels. We now obtain 96% of our electricity consumption from green electricity and 100% of our gas is low carbon biogas.

We continue to work closely with the Department for Transport, the CAA, the Independent Commission on Civil Aviation Noise (ICCAN), airport operators and the wider industry to minimise the impact of aircraft noise on communities.

The Responsible Business statement and the environment metrics reported below have been prepared in accordance with non-financial information reporting guidance from the Financial Reporting Council, the European Commission, the Climate Disclosure Standards Board (CDSB) and the Task Force on Climate-related Financial Disclosures. An operational control approach is taken to non-financial information using the same boundary as the NATS Holdings group.

Supporting information

Description	FY 2020/21 (or CY 2020)	FY 2019/20 (or CY 2019)
Service performance and resilience		
3Di (calendar year)	23.9	29.0
Environmental performance		
Scope 1 emissions (location-based tonnes CO_2e)	3,706	3,477
Scope 1 (market-based tonnes CO_2e)	2	2^
Scope 2 emissions (location-based tonnes CO_2e)	12,500	15,301
Scope 2 emissions (market-based tonnes CO_2e)	668	1,064
Total scope 1 + 2 emissions (location-based tonnes CO_2e)	16,206	18,778^
Total scope 1 + 2 emissions (market-based tonnes CO_2e)	670	1,066^
Total scope 1 + 2 intensity metric (location-based tonnes CO_2e per £m of revenue)	19.7	21.0
Total scope 1 + 2 intensity metric (market-based tonnes CO_2e per £m of revenue)	0.8	1.2^
Scope 3 categories 1, 3, 4, 6 and 7 emissions (tonnes CO_2e)	6,111	15,878
Percent change in CO_2e against 2018-19 baseline towards net zero 2035 target (scope 1 and 2 emissions)	-22%	-9%
Percent reduction of CO_2e against 2018-19 baseline towards net zero 2035 target (scope 3 categories 1, 3, 4, 6, 7)	-69%	-19%
Scope 3 category 11 emissions (tonnes CO_2)	7,146,000	24,405,000
Avoided / modelled enabled ATM-related CO_2 reduction in tonnes*	39,785	30,739^
Water consumption (m^3)	45,091	54,500
Energy consumption (gas + electricity) MWh	63,864	71,686

^ restated due to inclusion of additional information, improvements to modelling accuracy and data quality.

*Modelled enabled ATM-related CO_2 reductions represent the saving in CO_2 emissions from improvements to the ATM network, such as technical changes which enable us to provide more fuel-efficient flight profiles, based on projections of the volume of flights likely to take advantage of the improvements. The enabled reduction in emissions is reported in full in the year in which the improvement is made. This is modelled based on industry best practice and is outlined in detail in our GHG report, available at www.nats.aero/environment/cr.

Our stakeholders	Why are they important to us?	How do we engage and have regard to their views in our decisions?
CUSTOMERS	A safe ATC service is an essential given for customers in the aviation industry to which we provide our services and expertise, and for the travelling public. Their requirements are key drivers of our business plan, defining demand for the ATC network, our staffing and capital investment. We operate a joint and integrated civil military operation with the MOD and support Project Marshall.	We consult airspace users on their priorities and our plans for our regulated activities before each reference period, and will do so for the price control re-set, and bi-annually on our service performance, capital investment and our charges. Generally, we have good alignment on many of their priorities, but they do not always agree with our plans and we reflect on this and refine our plans accordingly. When bidding for airport and other contracts we tender our cost effective and innovative solutions. Since Covid we have discussed with both airspace users and airports deferring settlement of charges, reducing cost, reassessing capital investment and preserving liquidity. We also engaged to ensure a coordinated industry re-start after the lifting of travel restrictions.
WORKFORCE	Our ATC service and infrastructure depends on the skill and professionalism of our workforce. They make a critical difference to our success, and our investment in them protects and strengthens our safety and business culture. Most of our employees are members of trades unions.	Through our Working Together partnership the executive and senior leaders have an open dialogue with trades unions and receive feedback on pay and benefits, including redundancy terms, a safe and healthy working environment, flexible working, talent development and career opportunities, and a diverse and inclusive culture. ATC training has been a focus of discussions since Covid, as well as mental health and wellbeing, and workforce diversity. Through the pandemic the CEO and executive communicated regularly to the workforce via our intranet and to senior leaders in bi-monthly virtual meetings. The Board receives a monthly report from the CEO which includes workforce matters and employee relations. We operate a Just Safety culture, enabling staff to raise safety matters and the company maintains a whistleblowing facility. Every few years we conduct an employee opinion survey.
REGULATORS	Our regulators ensure we provide our service and develop our infrastructure in accordance with our ATC licence and international safety standards. Ensuring we fulfil our licence obligations and develop the business for the long-term ensures the success of the company for all our stakeholders.	The CAA consults stakeholders as our economic regulator on our price control before each new control period before determining the prices, safety, service performance and capital investment targets and incentives. We are providing feedback to CAA's consultation on the new price control from 2023 and will engage with them and our customers during that price control review process. The CAA's safety regulator oversees the safety integrity of our training, operational processes and technical systems and we receive recommendations on improvements, which we implement to ensure safety standards are met. The CAA approves changes to airspace design over the UK by reference to legal requirements including safety, environment and user need.
GOVERNMENT	The government sets UK Aviation Strategy which provides a long-term vision for the industry and a framework for future ATC provision.	The Chief Executive maintains a regular dialogue with the Department for Transport. The government engages on matters of aviation policy that affect NATS, including travel restrictions relating to Covid and airspace modernisation.
SHAREHOLDERS	Our shareholders provide equity investment which finances our activities and enables us to invest in our ATC service and infrastructure, for which they expect a return. An employee share trust owns 5% of the company which enables employees to share in the company's long-term success.	The Board meets with shareholders twice a year. Engagement this year included refinancing proposals and alignment with shareholder interest as well as the response to Covid. The Strategic Partnership Agreement enables shareholders to appoint representatives to the Board. Shareholders wish to see remuneration policies which drive executive management to deliver strong sustainable performance aligned with the interests of key stakeholders.
COMMUNITIES AND ENVIRONMENT	Local communities around airports expect the aviation sector to pay attention to aircraft noise and CO_2 emissions. Our ATC service can help mitigate some environmental impacts. We are a significant employer where our UK operations are based. Society expects improvements in sustainability, and we are committed to net zero greenhouse gas emissions from our estate by 2035.	Airspace changes must follow the CAA's guidance on public consultation on airspace use, aircraft movements and environmental impacts. Communities generally identify noise, tranquillity, fuel emissions, local air quality and other quality of life concerns. We work with communities affected by flights below 7,000ft at an early stage of any change, to ensure they have a voice in airspace design (see details of the Swanwick Airspace Improvement Programme – Airspace Deployment 6 above). Changes mean some communities may be subject to more overflights than previously, while others are no longer overflown. Following consultation, we appraise design options before making our recommendation to the CAA.
LENDERS	Our lenders provide debt finance that we repay over time and compensate by way of a commercial return. Access to debt finance is necessary to fund our business activities efficiently.	We meet with lenders at least annually to discuss our performance, business plan and capital investment. Lenders wish to understand the robustness of the company's financial strength over the long-term and the principal risks it faces. The importance of these relationships has been demonstrated by the need and ability to raise significant additional finance as a result of Covid, and the June 2021 refinancing.
SUPPLIERS	Our suppliers provide goods and services to maintain and develop our operation. Working closely with them minimises risk and combines our expertise to develop innovative ATC solutions.	Our supply chain management approach involves regular and ongoing engagement with suppliers for procurement. In addition, we engage on joint projects, hold supplier conferences and supplier workshops. Our joint interests are an open and constructive relationship based on fair terms, good contractual performance and high standards of business conduct.

Having regard to our stakeholders in Board decision-making

Section 172 (1) statement

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

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

How our Board and its committees operate, and the way decisions are reached, including the matters discussed during the year, are set out in the Governance section on pages 36 to 77. The tables below illustrate how the Board had regard to section 172(1) in the key decisions it made of strategic importance in its response to Covid.

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

Since the outbreak of Covid the safety and wellbeing of staff has been the Board's priority. NATS employs 4,277 staff and engages with 130 contractors. It is fundamentally a people-based organisation which relies on highly trained professionals to deliver a safe resilient service to customers and the public day to day. The Board expanded the terms of reference of the Safety committee to include oversight of occupational health and staff wellbeing, in addition to the safe provision of air traffic services and security, enabling the Board to engage with, and have regard to, workforce matters.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Richard Churchill Coleman, Secretary

Director's biographies

Chairman

Dr Paul Golby CBE FREng

Paul served as Chief Executive Officer of E.ON UK plc from 2002 to 2011 and is a Fellow of the Royal Academy of Engineering. He is Chair of Costain Group plc and a non-executive director of National Grid plc and ERA Foundation. Paul chairs the Nomination Committee. Paul also attends the Audit Committee, Remuneration Committee, Safety Review Committee and Transformation Review Committee by invitation.

Executive Directors

Martin Rolfe, Chief Executive Officer

Martin took up the post of Chief Executive in May 2015 having been Managing Director, Operations since 2012, with responsibility for NATS' economically regulated UK and North Atlantic services. An engineer by training, Martin holds a Master's degree in Aerospace Systems Engineering from the University of Southampton. He has 20 years of experience in the defence and aerospace industry, and prior to joining NATS was the Managing Director of Lockheed Martin's Civil Division with responsibility for worldwide ATM programmes as well as UK Government business. Martin has also worked for the European Space Agency and Logica plc.

Alistair Borthwick, Chief Financial Officer

Alistair joined NATS as CFO in August 2019. In addition to his responsibilities for finance Alistair leads NERL's regulatory affairs team.

Previously he worked for SSE plc, most recently as Group Finance Director for its Regulated Networks and Enterprise divisions, as well as being responsible for Group Reporting, Tax and Treasury. He also spent time as Acting Managing Director for the Enterprise division.

Having qualified as a Chartered Accountant with Deloitte, working in both audit and corporate finance, Alistair subsequently held a number of senior roles in practice and industry focused on transport and infrastructure, including positions with John Menzies plc and FirstGroup plc.

Non-Executive Directors

Maria Antoniou

Maria is Group HR Director for Morgan Advanced Materials, she was appointed to this role in November 2020. Until April 2020 Maria was Senior Vice President HR/Executive HR based in E.ON's headquarters in Germany.

Maria joined E.ON in 2008 as the UK HR Director. During her time in the UK the business was significantly restructured and emphasis given to becoming a customer focused organisation. Prior to joining E.ON, Maria spent two years in the public sector as Group HR Director for Transport for London and 20 years with Ford Motor Company. Whilst at Ford, Maria was global HR Director for Jaguar, Land Rover and Aston Martin. Maria is Chair of Trustees of Transport for London's Pension Fund. Maria chairs the Remuneration Committee and is a member of the Nomination Committee. She is also a director and chairs the NATS Employee Sharetrust. Maria is also the designated non-executive director for workforce engagement with the Board.

Dr Harry Bush CB

Harry spent most of his career in HM Treasury where he focused latterly on policies towards growth, science funding and privatisation and private finance. He was UK Director at the European Investment Bank from 2001 to 2002. Harry left HM Treasury in 2002 to join the CAA Board as Group Director Economic Regulation responsible for the economic regulation of the designated airports and NATS, as well as the CAA's economic analysis generally. He was a member of Eurocontrol's Performance Review Commission from 2005 to 2009 and of the UK's Commission for Integrated Transport from 2006 to 2010. Since leaving the CAA in 2011, Harry has been a consultant on economic regulation, undertaking assignments across a range of industries in the UK and overseas. He was vice chair of UCL Hospitals Foundation Trust for six years until August 2019. He is a Fellow of the Royal Aeronautical Society. Harry is a director of The Airline Group Limited (AG) and NATS Employee Sharetrust, and a member of the Audit Committee.

Mike Campbell

Mike joined the Board in 2017 having spent the previous11 years at easyJet initially as Group People Director and subsequently as Group Director Europe. During his time at easyJet he has also been Group Director, Transformation and has led on a series of strategic projects including the integration of GB Airways and the successful development of easyJet's presence in Europe.

Mike's early career has covered a range of sectors, from high end luxury goods to high volume, low margin electronics and he has direct experience across a number of disciplines. Mike has a Bachelor's degree in Mathematics and a Masters in Fluid Dynamics with a background in education and HR. He has operated in organisations across the world and has led businesses and change programmes across all of these. Mike is Chair of AG, Chair of the Transformation Review Committee and a member of the Nomination and Remuneration Committees.

Richard Keys

Richard is a non-executive director of Merrill Lynch International, Glaziers Hall Limited and a non-executive member of the Departmental Board of the Department for Transport. He was previously a non-executive director of Sainsbury's Bank plc, Wessex Water Services Limited and a Council member of the University of Birmingham. He retired from PricewaterhouseCoopers in 2010 where he was a senior partner and Global Chief Accountant. Richard chairs the Audit Committee and is a member of the Nomination Committee and Transformation Review Committee.

Kathryn Leahy

Kathryn is currently Director of Operations at Heathrow Airport, where she holds functional responsibility for airside and airfield operations, as well as umbrella responsibility for the day-to-day management and operations of the Airport Operations Centre, resilience and emergency planning. Kathryn sits on the Risk and Assurance Committee and chairs the Airspace Governance Board for Heathrow and is a Trustee for the Heathrow Multi-Faith Chaplaincy Charity. She joined Heathrow Airport in 2010 as Risk and Safety Director and has held a number of senior operational roles.

Kathryn started her career in financial services working for AIG, and moved to the aviation industry in 1997. She spent 13 years at Virgin Atlantic Airways running their Risk and Safety Management team, as well as establishing the Internal Audit department and Board Audit Committee. She is a member of the Safety Review Committee.

Hugh McConnellogue

With over 30 years' experience in the airline industry, Hugh has held senior leadership roles across engineering and airline operations functions. He holds two senior roles with easyJet, Director of ATM strategy and Delivery and Director of Operations Gatwick. Hugh started his career as an apprentice engineer for Britannia Airways moving on to work in freight and passenger operations with airlines across Europe. In his time with easyJet he has been responsible for line and hangar maintenance, maintenance operations control, deputy post holder for engineering for easyJet Switzerland, airline network operations and emergency response management. During this time he led the merger of airline operations through acquisitions, implementation of new technologies and systems as well as managing large teams of people. Hugh is a director of AG and a member of the Safety Review Committee.

Iain McNicoll CB CBE

Iain served 35 years in the Royal Air Force, retiring in 2010 as an Air Marshal. His military flight hours total over 4,300, the majority in fast-jet aircraft, but he also flew large multi-engine aircraft, light aircraft and helicopters. He commanded a Tornado squadron from 1992-1995, a Tornado station from 1998-2000, and was Air Officer Commanding No. 2 Group from 2005-2007. In his last appointment, Deputy Commander - Operations, he was responsible for generating and delivering all of the RAF's front line operational capability. He had RAF responsibility for all safety and environmental matters, and was the RAF's first Chief Information Officer. Since 2010, Iain has been an aerospace, defence and security consultant. He is a Fellow of the Royal Aeronautical Society. Iain chairs the Safety Review Committee and is a member of the Transformation Review Committee.

Gavin Merchant

Gavin joined Universities Superannuation Scheme (USS) in 2011 and is Co-Head Direct Equity with responsibility for sourcing, evaluating and monitoring investments within the infrastructure and related portfolio. Gavin serves on a number of portfolio company boards for USS as well as a number of advisory boards for infrastructure funds. Gavin has worked in the infrastructure sector in the UK and Australia for 20 years. Prior to joining USS, Gavin was a Director at Equitix Limited. Gavin graduated with an honours degree in Law from the University of Edinburgh and is a member of the Institute of Chartered Accountants of Scotland. Gavin is a director of AG and a member of the Remuneration Committee.

Louise Street

Having completed a degree in Japanese and Business Management at Durham University, Louise joined British Airways on the graduate intake scheme in 1998. Her first 8 years were in the commercial organisation specifically in Sales and Revenue Management. She then moved to the operational side of the business and has undertaken a number of senior management roles in Customer Service and Operations. In March 2021, Louise was appointed into her current role as Head of Business Readiness which is responsible for overseeing the airline's preparation to safely return to a full flying programme as demand returns following the Covid pandemic. Louise is a director of AG and a member of the Audit Committee.

Officer

Richard Churchill-Coleman, Legal Director

Richard is Legal Director which includes the role of Company Secretary. He joined NATS in June 2007 from TUI Northern Europe Limited where he held the position of Group Legal Counsel. Richard has more than 30 years' experience in the aviation industry having begun his career as an undergraduate aerospace engineer with British Aerospace plc before qualifying as a solicitor with Norton Rose and subsequently as a Chartered Secretary. Richard has previously held positions at Thomsonfly, Virgin Atlantic Airways and DHL Worldwide Express and holds a private pilot's licence.

NATS governance framework

Introduction

NATS was formed as a PPP in July 2001. A key element in its governance structure is the Strategic Partnership Agreement (SPA) between its main shareholders: the Secretary of State for Transport; The Airline Group Limited (AG); and LHR Airports Limited (LHRA).

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

The Board and Directors

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

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

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

The boards of the subsidiary companies within the group are accountable to the NATS Holdings Board for all aspects of their business activities.

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

Executive Directors

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

Non-Executive Directors

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

Changes to the Directors

From 1 April 2020 to the date of approval of the accounts, there were no changes to the directors. Richard Keys and Maria Antoniou were re-appointed (see Nominations Committee report).

The roles of the Chair, Chief Executive and executive management

The Chair of the NATS group is responsible for the leadership of the Board and for its governance. He has no day-to-day involvement in the running of the group. Day-to-day management of the NATS group is the responsibility of the CEO, Martin Rolfe, supported by the NATS executive team. The NATS executive team is responsible for delivering NATS' overall strategy. The executive team is structured as follows:

- CEO;
- CFO;
- Operations Director;
- Safety Director;
- Commercial Director;
- HR Director;
- Technical Services Director;
- Communications Director; and
- Legal Director.

The responsibilities of the Board

The Board has adopted a schedule of matters reserved for its decision and has put in place arrangements for financial delegations to ensure that it retains overall control of the business. The Board also has oversight of key business drivers and risks. Matters reserved for the Board include the monitoring of NATS' safety performance, appointments to the NATS executive team, and issues with political, regulatory or public relations implications. In addition to the schedule of matters reserved to the Board, specific matters are reserved for Partnership directors, AG directors and the LHRA director, as follows:

Partnership and AG directors

- adoption of the business plan;
- entry into significant debts, charges or contingent liabilities;
- major agreements outside the ordinary course of business;
- significant litigation proceedings; and
- external investments, and acquisition and disposal of material assets.

LHRA director

- acquisition or disposal of any asset representing more than 10% of the total assets of the business;
- any aspects of the business plan which could adversely affect NERL's service to UK airports; and
- disposal of NATS Services shares by NATS.

Access to legal and professional advice

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

Board meetings

The Board routinely meets seven times per year in January, March, May, June, July, September and November, and supplements these scheduled meetings with additional meetings as business priorities require. This year, the Board met ten times with each member (who served as a director during the year) as set out in the table on page 42. This includes additional meetings which have also taken place to review the impact of Covid on the business and management's response.

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

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

The Board's performance

Board effectiveness review

The Board is committed to continuous improvement and a performance evaluation of the Board, its committees, and the Chair is conducted each year. This year, the Board Effectiveness Review was administered internally. The results were assessed by the Board at its 25th March 2021 meeting and appropriate actions agreed.

Director induction

Following their appointment, the Company Secretary consults with new directors on the scope of induction to NATS which they require and a personalised induction programme is developed.

The Board's Committees

The Board has established five standing committees which operate within approved terms of reference. These are the:

- Audit Committee;
- Nomination Committee;
- Remuneration Committee;
- Safety Review Committee; and
- Transformation Review Committee.

The number of meetings held by the principal Board committees, and attendance by executive directors and by non-executive director committee members, is provided in the table below together with attendance at Board meetings:

	Number of meetings attended / Number of eligible meetings					
	Board	Audit	Nomination	Remuneration	Safety Review	Transformation Review
Paul Golby	10/10		3/3			
Martin Rolfe	10/10	9/10	3/3	4/4	3/4	6/6
Alistair Borthwick	10/10	10/10				
Maria Antoniou	10/10		3/3	4/4		
Harry Bush	10/10	10/10				
Mike Campbell	10/10		3/3	4/4		6/6
Richard Keys	10/10	10/10	3/3			6/6
Kathryn Leahy	10/10				4/4	
Gavin Merchant	9/10			4/4		
Hugh McConnellogue	10/10				4/4	
Iain McNicoll	10/10				4/4	6/6
Louise Street	10/10	10/10				

The terms of reference for the Board and its committees are available to all employees and shareholders and can be made available externally with the agreement of the Legal Director. Reports from each of the standing committees are set out on pages 45 to 77. However, in addition to the standing committees, from time to time the Board may form committees on an ad hoc basis to deal with specific business issues. During the year the Board continued with the RP3 sub-committee comprising the Chair, Martin Rolfe, Alistair Borthwick, Harry Bush and Richard Keys, to consider the RP3i plan and CAA's investigation under s34 of the Transport Act 2000 (Project Palamon).

Meetings with shareholders

A shareholders meeting is usually held once a year to provide the group with an opportunity to update the shareholders on the progress of the annual business plan and long term strategy. This year meetings were held on 30 July 2020, 2 December and 9 March 2021. Shareholders may also meet informally with the Chair, CEO, CFO and other members of executive management upon request.

Compliance with the UK Corporate Governance Code

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

Provision 9: Independence of the Chair

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

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

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

Provisions 17 and 32: Composition of the Nomination and Remuneration Committees

Details of the work of the Nomination and Remuneration Committees are set out below. However, the manner in which directors are appointed, as noted above, means that these committees' processes do not fully comply with the Code as regards independence.

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

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

Provision 18: Re-election of directors

The non-executive directors are appointed by the shareholding groups and are therefore subject to the relevant shareholding groups' selection processes, rather than those included in the provisions of the Code. They are therefore not subject to annual re-election as stipulated by Provision 18, although Partnership directors are appointed by the Government on three-year fixed-term contracts. The tenure of non-executive directors at 31 March 2021 was as follows:

Name	Date of appointment	Years of service to 31/3/21
Paul Golby	1/9/14	6 years 7 months
Maria Antoniou	1/8/16	4 years 8 months
Harry Bush	27/5/14	6 years 10 months
Mike Campbell	26/5/17	3 years 10 months
Richard Keys	1/9/13	7 years 7 months
Kathryn Leahy	31/5/18	2 years 10 months
Hugh McConnellogue	4/10/18	2 years 6 months
Iain McNicoll	1/9/13	7 years 7 months
Gavin Merchant	20/3/14	7 years
Louise Street	29/11/18	2 years 4 months

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

Provision 3: Engagement with major shareholders

Within the PPP structure, there are no institutional or public shareholders. However, the nature of the SPA is such that the shareholders have representatives amongst the directors with whom they enjoy a close working relationship. All non-executive directors are invited to relay the views of their respective shareholders into Board discussions. The Board is therefore able to take decisions in the best interests of the group, having taken account of the views of the shareholders. The Chair also has regular discussions with shareholders in addition to the formal meetings noted under the 'Meetings with shareholders' section above.

Audit Committee report

The role of the Audit Committee

The Committee has met six times since the publication of the 2020 Annual Report and Accounts in October 2020. Of these meetings, three were held to consider to routine business and three to provide Board oversight to the refinancing completed in June 2021 (see Refinancing below). It is chaired by Richard Keys; Louise Street and Harry Bush are the remaining two members of the Committee. The Committee members all have wide-ranging commercial and management experience and Richard Keys, a former audit partner at PricewaterhouseCoopers LLP (PwC) has recent, relevant financial and audit experience. The Committee members maintain their competence in the sector and on company specific issues (such as pensions) through targeted training and briefing at Committee meetings.

The Chairman, CEO, CFO, Director Group Financial Control, Head of Internal Audit and the responsible partner from our outsourced internal audit provider, NATS Head of Business Risk and the external auditors are invited to attend each meeting dealing with routine business by standing invitation and others by exception as appropriate.

Part of each routine business meeting is set aside as required for members of the Committee to hold discussions without executive management present, including holding separate discussions with the external and internal auditors.

The main duties of the Committee include:

- monitoring the integrity and compliance of the group's financial statements;
- reviewing the effectiveness of both the external and internal auditors;
- reviewing the scope and results of internal and external audit work; and
- reviewing NATS' risk management and internal controls.

During the last year the Committee has also provided oversight on behalf of the Board of the refinancing completed in June 2021.

The Committee makes recommendations to the Board on matters relating to the appointment, independence and remuneration of the external auditors and, to ensure independence, monitors the extent of non-audit services provided by the external auditors (as explained below). The Committee also reviews whistleblowing arrangements under which employees and third parties dealing with NATS may confidentially report suspected wrongdoing in financial reporting or other matters with the objective of confirming that the arrangements in place and for the investigation and follow-up of matters raised are appropriate. The Committee reviews its Terms of Reference annually and, taking account of updates to corporate governance best practice, recommends any changes to the Board for approval.

Main activities of the Committee during the year

a. Financial reporting

The primary role of the Committee in relation to financial reporting is to review with both management and the external auditors the annual financial statements of the group and its subsidiaries and NERL's regulatory accounts, having regard as appropriate to:

- the suitability of accounting policies adopted by the group;
- the clarity of disclosures and compliance with Companies Act legislation and financial reporting standards, including the requirements of NERL's Air Traffic Services Licence; and
- whether significant estimates and judgements made by management are appropriate.

In addition, the Committee assists the Board in its assessment of whether the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

To aid its reviews the Committee considers reports from the CFO and reports from the external auditors on the outcome of the annual audit.

The Committee considered the following significant accounting judgements and sources of estimation uncertainty in the year:

Impact of Covid

The Committee considered the financial reporting implications of Covid and the CAA's proposals for the redetermination of NERL's price control including the significant judgements, sources of estimation uncertainty and other assumptions made in the preparation of the financial statements and the adequacy of disclosures. In particular, the Committee considered: the recognition of NERL's revenue and the recoverability of its revenue allowances (see below); the carrying value of goodwill (see below); the carrying values of the group's investments, including in Aireon; the recoverability of other assets; and onerous contracts.

The Committee also reviewed the evidence supporting the assessments of going concern and viability, including the impact of the refinancing transaction completed since the balance sheet date on projected liquidity, the company's March 2021 business plan financial plans, the significant judgements and assumptions in the company's forecasts of the recovery in air traffic volumes and the timing and likelihood of further mitigating actions in the form of cost savings and government support measures. Following its review, the committee concluded it was satisfied with the approach being taken and the reasonableness of the judgements made together with the relevant disclosures, in particular the disclosures made in the going concern and viability statements and in note 3 to the financial statements.

Revenue recognition

The economic regulatory price control for UK en route services allows for the recovery (or reimbursement) of regulatory allowances where actual traffic volumes or inflation are different to the regulator's forecasts made at the start of the reference period, where actual service performance is different to the regulator's annual targets and for adjustments brought forward from the previous charge control period. NATS' policy is to recognise these regulatory adjustments in the year of service, based on traffic, inflation and service performance experienced. Where regulatory adjustments for pension costs are assessed after the end of a reference period, their recoverability (or reimbursement) is dependent on the assessment of the economic regulator and recognised on this basis.

As a result of Covid, the CMA's determination of the referral of the RP3 price control (2020 to 2024) was for a three-year settlement for 2020 to 2022 with NERL's charges set initially as if Covid had not occurred but recognised that the CAA would need to take a view subsequently of the recoverability of regulatory allowances for this three-year period as part of its redetermination of a new five-year price control for the period 2023 to 2027. The CAA's redetermination of the price control and its assessment of the recoverability of NERL's regulatory allowances will not be completed until 2022. As a result, the company was required to estimate the amount of licence revenue to which it expects to be entitled for the services it provided in the financial year, giving consideration to the risk of potential reversal in making that estimate.

The Committee reviewed the nature, value and basis of the regulatory adjustments, having regard to the reduction in air traffic volumes due to the impact of Covid and the risk of recovery of regulatory allowances in the event of changes by the CAA to the regulatory framework through the redetermination of the price control from 2023 to support the recovery in the aviation sector, including the impact of there being an extended period for the recovery of those allowances.

The Committee also considered the International Accounting Standards Board's Exposure Draft (ED) on Regulatory Assets and Regulatory Liabilities which was published in January 2021 and the similarities between the approach proposed and the company's existing revenue recognition policy.

NATS has followed its policy on the recognition and measurement of regulatory allowances since adopting IFRS in the 2005/06 financial year with further detailed review being undertaken as part of the implementation of IFRS15 in the 2018/19 financial year. Our auditors have been satisfied with this approach; their opinions have been unqualified. Without a specific applicable IFRS dealing with regulatory assets and liabilities we have applied the principles of IFRS 15 in relation to variable consideration and the recognition and measurement of regulatory allowances. The accounting policy, and the basis for recognising in the period of service variable consideration arising from the regulatory agreement, has been clearly described and amounts recoverable or payable under the regulatory agreement have been disclosed within the notes to the accounts. The committee reaffirmed its view and that of the board that the recognition of regulatory allowances has been and continues to be fundamental to a true and fair view being given by the financial statements providing users with relevant and reliable financial information concerning the effects of the regulatory environment in which NATS operates and its economic impact.

In conducting its review, the Committee acknowledged, pending the finalisation of the ED, the continuing lack of definitive guidance in IFRS on the recognition of regulatory allowances and their related treatment which the ED is intended to address. The Committee however takes note of the consequence of the guidance contained within the ED that regulatory allowances are distinct from revenue from contracts with customers as defined by IFRS15 at the point they are recognised, albeit that the regulatory framework is such that they become so subsequently when combined into the regulator agreed revenue charges to customers in future periods. Accordingly the Committee agreed it was appropriate to reassess the accounting policy to ensure that its historical basis and the related disclosures were clearly explained and suitably enhanced, differentiating between revenue for the amount of consideration for ATC services provided to customers for flights in airspace controlled by NATS and the variable consideration associated regulatory allowances due or payable due to the operation of the regulatory framework in place. In the circumstances the group has changed its accounting policy and the presentation of its income statement and balance sheet, also restating prior years, to enable users to understand better the impact of Covid on the results and financial position, and to gain a better understanding of the relationship between the regulatory framework and future cash flows.

The Committee notes that the restatement has no prior year effect on the quantum of net assets in the comparative period, nor on the net results or cash flows for that period. There is however greater clarity on the accounting adopted for regulatory allowances both in the balance sheet and income statement.

The carrying value of goodwill

The Committee continued its focus on this recognising both the materiality of the group's carrying value of goodwill, the impact of impairment on the group's result and the inherent subjectivity of judgements made in assessing recoverable value and the associated impairment testing. The key judgements relate to: the assumptions underlying the calculation of value in use, including the extent to which cash flow projections are achievable taking account of the CMA's price control for 2020 to 2022 and the CAA's forthcoming redetermination of the price control from 2023, including its review of the reconciliation of actual costs incurred in the period 2020 to 2022, to take account of the impact of Covid; and assessing fair value less costs of disposal, including the extent of any premium which may be realised in excess of the value of regulatory assets.

In addressing this review, the Committee had regard to the higher of the values determined on a value in use and fair value less costs of disposal basis reflecting: NERL's revenue allowances taking account of the matters referred to above and the cash flows implied by a the group's business plan and an extended period over which the revenue shortfall for years 2020 to 2022 is to be recovered; the cost of capital assumption used to discount value in use; and the value of NERL's regulatory assets, including the extent to which a premium was appropriate to reflect the scope for out-performance of regulatory settlements having regard to those implied by market transactions in regulated entities but also reflecting upon the potential impact of the Covid pandemic on these factors. The Committee also considered the costs of a theoretical disposal of NERL's regulatory assets and appropriate sensitivities. Following its review, the Committee was satisfied with the explanations and disclosures provided in notes 2, 3 and 13 to the accounts.

Retirement benefits

The pension funding position determined under international accounting standards requires a number of actuarial assumptions to be made, including judgements in relation to long term interest rates, inflation, longevity and salary growth. The Committee reviewed the basis for determining these assumptions. The final calculations in respect of the defined benefit pension scheme are performed by a qualified actuary, independent of the scheme. Note 3 to the accounts summarises critical judgements and key sources of estimation uncertainty and note 33 sets out the main actuarial assumptions used, including sensitivity analysis.

The Committee also considered the adequacy of the explanations for the different basis of valuation for the Trustees funding assessment and for the balance sheet position under international accounting standards. The Committee was satisfied that the approach being taken and related disclosures were appropriate.

Refinancing

The Committee discussed and reviewed the refinancing transaction with the CEO, CFO and Director, Group Treasury and Corporate Finance. On behalf of the Board, the Committee reviewed the refinancing strategy involving the decision to repay the existing bonds and subsequently the proposed transaction and timetable, the terms and conditions of the bank facilities, the bonds and the hedging strategy, the bond prospectus and the process for effecting the redemption of the existing financing arrangements. In particular the Committee's review had regard to: the sources and uses of funding; the cost efficiency of the proposed new funding including the redemption of the existing bonds; the sufficiency of funding taking account of the likely extended period of recovery of revenue allowances following the CAA's redetermination of the price control and the risk of an uncertain recovery in air traffic volumes; and the implications for the company's gearing levels under a range of scenarios. The Committee also reviewed the company's engagement with key stakeholders, including: shareholders, existing lenders, the CAA and rating agencies.

Other matters

The Committee also reviewed the half year financial statements issued to shareholders under the terms of the SPA.

b. Internal audit

The group's internal audit department reviews the controls in place to mitigate NATS' business risks, which includes reviews of internal financial control and risk management. In order to access the specialist skills required to perform assessments across the wide range of areas in which NATS operates, the internal audit function has been operated as a co-source arrangement, primarily with PwC but with other providers if required. Going forward from financial year 2021/2022, this will change to a fully outsourced model provided by PwC.

The results of internal audits and agreed actions are reported as appropriate to relevant directors, executives and managers and reported on regularly to the Committee. The Committee oversees and monitors the completion of actions taken by management to address internal audit findings and considers the ongoing independence of internal audit. The Committee oversees the performance of internal audit through the receipt of a report on its work presented to each Committee meeting and agrees the annual work plan in the context of the group's audit and assurance universe. Work is also continuing to develop the universe in supporting more broadly the assurance needs of the group across its business leveraging the work of Risk Management and Internal Audit to provide an integrated approach. Through its process of regular review of Internal Audit's work, the Committee is able to ensure also that assurance resource is appropriately directed to meet specific needs, for example in response to exceptional circumstances. This was the case with respect to the impact of the Covid pandemic, where internal audit have reviewed measures undertaken by the company in response, including NATS' use of the Government's furlough scheme, mitigations to ensure that any capability gaps arising from voluntary redundancies were mitigated, and the reshaping of NATS' technology transformation programme.

c. External audit

BDO LLP was re-appointed as external auditor on 21 October 2020. The Committee reviewed the performance and the continuing independence of BDO at its June 2021 meeting and recommended to the Board that BDO be re-appointed. Accordingly, a resolution recommending their re-appointment will be considered by shareholders.

d. Risk management

The Committee receives each meeting reports from risk management and the internal auditor on the performance of principal risks, the effectiveness of internal controls, and material emerging risks. These reports include reviews of the policies and processes for identifying, assessing and mitigating emerging and principal risks and assessing risk appetite.

During the last 12 months the committee has continued its oversight of risk by conducting a regular review of key risks and, as appropriate, supplementing this with detailed review of specific risks. The Committee has also reviewed changes to the risk management process and its reporting. Risk reports to the executive and the Committee are clearly organised by principle risk. Each of the principal risks is owned by an accountable executive director who is responsible for the framework, policies and standards that are required for keeping the risk within appetite. NATS is committed to implementing an effective and resilient Enterprise Risk Management framework across the business.

In conjunction with the review of internal controls, commented on further below, the Committee reviews the processes in place to identify, assess, mitigate and manage risk, in particular at enterprise level, in order to satisfy itself that they are appropriate and within the specified risk tolerance agreed by the Board or where that is not the case, to ensure that the Board is aware and that appropriate steps are in place to manage and mitigate the exposure.

On the basis of this work, the Committee is satisfied that the directors have carried out a robust assessment of the emerging and principal risks facing the business. The Committee also reviews the extent of warranties and guarantees entered into by the group, with particular focus on any unlimited liability indemnities entered into as part of commercial arrangements.

The Committee specifically considered the risk management and controls aspects arising as a result of the Covid pandemic and the response to it with management and internal audit (as noted above), including those arising from changes in working practices and the widespread adoption of working from home.

To ensure adequate and timely risk-based decisions during the pandemic the Audit Committee endorsed an enhanced programme of board and Audit Committee meetings and related management reporting. These changes were implemented and continue to date.

e. Internal control

The Board is responsible for the group's system of internal control and risk management and for reviewing its effectiveness.

NATS' system of internal control is designed to ensure that the significant financial, operational, safety, legal, compliance and business risks faced by the group are identified, evaluated and managed to acceptable levels. This system was in place during the year and up to the date of approval of the Annual Report and Accounts. As explained above, the Committee receives regular reports from internal audit concerning the results of their work and agrees their annual programme of work, as well as regular reports from risk management.

The Committee's reviews of internal audit work have covered reports on the effectiveness of controls which manage key risks including financial and information technology controls, key aspects of the technology investment programme, and commercial processes. The Committee also approved the scope and phasing of activity for the internal audit function for the first half of 2021/22 which focussed on key aspects of NATS' response to the Covid outbreak and the associated risks. The Committee continues to monitor the follow-up by internal audit of management actions taken to address the internal audit recommendations arising from their work.

In addition, to the work of internal audit, the Committee also reviews reports from the external auditors, reports of any attempted or actual frauds, reports from the management's Tax and Treasury Committees and considers the circumstances of whistleblowing reports. However, as with all such systems, internal controls can only provide reasonable but not absolute assurance against misstatement or loss.

On the basis of the foregoing, the Committee believes that the directors review the effectiveness of internal controls on an ongoing basis during the year.

In overseeing NATS' whistleblowing procedures, the Committee reviewed progress since the appointment of an independent provider for NATS' whistleblowing hotline in 2017. The Committee was satisfied that the appointment of the independent provider and the associated whistleblowing procedures continue to meet best practice and are promulgated effectively throughout the company and to interested stakeholders and third parties.

The Committee is satisfied that the company's response to whistleblowing reports received during the year has been appropriate and, if necessary, appropriate actions have been taken in line with the high standards of governance which the Board requires.

Richard Keys
Chairman of the Audit Committee

Nomination Committee report

The role of the Nomination Committee

The Nomination Committee is chaired by Paul Golby and, during the year, comprised three further non-executive directors, Mike Campbell, Richard Keys and Maria Antoniou. The Committee meets when considered necessary by its members and may invite executives and advisors to attend meetings as appropriate.

Appointments to the Board are made by the relevant sponsoring shareholder under the terms of the SPA. The Committee evaluates the balance of skills, knowledge and expertise required by the Board and makes recommendations to the shareholders with regard to Board appointments. It also reviews succession plans for executive directors and senior executives.

During the year the DfT undertook a recruitment process for two Partnership Directors, following which Richard Keys and Maria Antoniou were re-appointed in April 2021.

The Chairman's contract was renewed on 1 September 2020 for a three-year term.

Main activities of the Committee during the year

During the year, the Committee met three times in October and November 2020 and March 2021. In October the Committee received an overview of the voluntary redundancy programme and talent update with a further talent and succession update (including CEO succession) in November and March.

The Committee's terms of reference require it to give due regard to the benefits of diversity, including gender, on the Board. Currently there are three female directors on the Board, representing 25%. There is one female member of the Executive, representing 11%.

Paul Golby
Chair of the Nomination Committee

Remuneration Committee report

Dear Shareholders,

I am pleased to present the directors' remuneration report for the year ended 31 March 2021. A key priority for NATS is to deliver a safe, efficient, and reliable service to our customers, every day, and that we reward the management team accordingly. In this context, we have incorporated overrides into our variable pay schemes to ensure that no additional reward is delivered to our executives if a safe and reliable service is not delivered.

Our remuneration policy's primary objective is to ensure we are able to attract, retain and motivate key executives to deliver strong sustainable business performance which is aligned with both the long-term success of the company and with the interests of our key stakeholders. This report highlights the remuneration decisions made by the Committee over the course of the year, including the Remuneration actions that have been taken since our last report in response to the Covid pandemic.

Response to Covid

In particular since the start of 2020 the Remuneration Committee and the Board have had regard to the impacts of Covid on the company and the wider aviation sector. Since the severity of the pandemic became clear, pay across the company has remained at 2019 levels. In our last report we noted that NATS Executive team, non-executive directors and management team took part in voluntary salary and fee reductions for the period April to June 2020.

Given the continued disruption caused by the Covid pandemic, Martin Rolfe (CEO) asked the company to defer the long-term incentive payments due to him during 2020/21 until a more appropriate time. The company supported this personal decision of the CEO.

The executive proposed to the Remuneration Committee during 2020 that the Annual incentive (AMPRPS) payments relating to 2019/20 that would have been paid in June 2020 be deferred. The Committee agreed that it was appropriate to release those deferred incentive payments earned prior to the Covid pandemic relating to 2019/20 performance in December 2020, consistent with the company wide performance incentive payments for 2019/20. The Committee continue to focus on actions that recognise the importance in this period of protecting the workforce, preserving liquidity and ensuring that the company supports and enables the sector's recovery.

Key decisions made in 2020/21

Following a review of external sector practice and market conditions, advice received and on the recommendation of the Executive team, it was agreed than no incentive schemes would be granted for the 2020/21 performance year, reflecting the practice seen across our industry.

A review of target measures for both short and long term incentives has been conducted, and it has been agreed that no incentive schemes will be granted until a further review of the external environment and traffic recovery has taken place later in 2021.

Reward for 2020/21

The Committee agreed that no salary increases would be applied to the NATS Executive team, non-executive directors, or the wider management group due to the external environment and ongoing cash preservation measures in place. There were no active incentive arrangements in place for 2020/21, this is appropriate and in line with best practice for organisations who have utilised the Coronavirus Job Retention Scheme (CJRS) for this period .

Remuneration for 2021/22

For the 2021/22 financial year, in light of the Covid pandemic, the Committee will operate the remuneration policy as set out over the following pages. The highlights include:

- no base salary increases for the CEO, CFO and wider Executive and management teams; and
- no short or long term incentive schemes will be granted until a further review of the external environment and traffic recovery has taken place later in 2021.

Conclusion

Whilst we continue to ensure that our policy delivers a robust link between reward and performance, this year we are in extremely unusual circumstances and it is important that our reward strategy appropriately reflects the challenging external environment our customers are facing and the additional work the executive team is undertaking to deal with Covid. We continue to respond to the remuneration challenges and also review emerging practice across our industry and the UK. We are working to evaluate appropriate target measures in preparation for a positive recovery of traffic to ensure that we continue to motivate and incentivise our executive team and management team during a critical period for the business.

Maria Antoniou

Chair of Remuneration Committee

Purpose and responsibilities of the Committee

The Committee meets when necessary and is responsible for:

- considering and approving, on behalf of the Board, the arrangements for determining the remuneration, benefits in kind and other terms of employment for the Chairman and executive directors and the company's Personal Contract Group (around 360 senior managers);
- considering and approving company incentive targets for executive directors and other members of the wider executive team;
- considering and approving a statement of remuneration policy;
- confirming details of the remuneration of each executive director for inclusion in the Annual Report and Accounts;
- confirming reward arrangements for all executive team members; and
- considering exit arrangements for executive team members.

The terms of reference for the Committee require it to ensure the company's remuneration policy complies with the current Corporate Governance Code, as far as practicable under the SPA. No director is involved in decisions relating to his or her own remuneration.

Activities in the year

The Committee met four times in the year and its main activities were to:

- Review and approve the approach to remuneration incentive arrangements for 2020/21 and 2021/22 in response to Covid, considering independent advice, financial stability and the external environment
- review and approve the timing and payment of deferred incentives relating to the 2019/20 performance year.

Membership

The Remuneration Committee of the Board is comprised entirely of non-executive directors. It is chaired by Maria Antoniou. Other members are Gavin Merchant and Mike Campbell. Paul Golby also attends the meeting (but is absent for discussion about his own remuneration).

Advisers and other attendees

As appropriate, the CEO and HR Director are invited to attend Committee meetings.

Wholly independent advice on executive remuneration is received from the Executive Compensation practice of PwC UK who were appointed in January 2021 to replace Aon plc. There were no fees charged by Aon in the year. PwC fees for advice to the committee for 2020/21 were £23,000.

Directors' Remuneration Policy

It is the company's policy to establish and maintain competitive pay rates that take full account of the different pay markets relevant to its operations. In return, employees are expected to perform to the required standards and to provide the quality and efficiency of service expected by our customers and in line with the NATS values and behaviours. In fulfilling this policy, the company adheres where possible to the principles and provisions of the UK Corporate Code on directors' remuneration as outlined below.

The level of executive directors' remuneration takes into account competitive practice across comparator companies as agreed with the

Committee, (companies from which NATS might seek to recruit employees or are considered similar to NATS) together with the need to attract and retain talent. Executive directors are rewarded based on responsibility, competence and contribution, and the average budgeted increase in salaries elsewhere in the group. Performance-related reward forms a substantial part of the total remuneration package and is designed to align the interests of directors with those of stakeholders and to promote the long-term success of the company.

Performance is measured against a portfolio of key business objectives and payment is determined based on performance beyond that expected of directors as part of their normal responsibilities. In implementing this strategy, the Committee adopts the principle that incentive scheme targets must be stretching and in line with the Board's agreed strategic growth and business plans.

The tables on pages 59 and 60 describe the key components of each element of the remuneration arrangements for the executive directors, and the company's policy in this respect. Earnings and benefits are set out in the table of directors' remuneration on page 66.

Discretions retained by the Committee in operating the variable pay schemes

The Committee operates the group's various incentive plans according to their respective rules and, where applicable, in accordance with relevant legislation and HMRC guidance. In order to ensure efficient administration of these plans, certain discretions are reserved to the Committee, these include:

- determining who may participate in the plan;
- determining the timing of grants of awards and/or payments under the plans;
- determining the quantum of awards and/or payments (within the limits set out in the remuneration policy table);
- determining the performance measures and targets applicable to an award (in accordance with the remuneration policy table);
- where a participant ceases to be employed by the company, determining whether 'good leaver' status applies;
- determining the extent of vesting of an award based on assessment of the performance conditions, including discretion as to the basis on which performance is to be measured if an award vests in advance of normal timetable (on cessation of employment as a 'good leaver' or on the occurrence of corporate events);
- whether recovery and/or withholding shall be applied to any award and, if so, the extent to which they shall apply; and
- making appropriate adjustments to awards on account of certain events, such as major changes to the constitution of the company.

Approach to recruitment remuneration

In the event that the company recruits a new executive director (either from within the organisation or externally), when determining appropriate remuneration arrangements, the Committee will take into consideration all relevant factors to ensure that arrangements are in the best interests for the company and its shareholders. This will include the application of the policy described in the policy table. In exceptional circumstances for externally recruited directors, the Committee may offer additional cash awards to compensate an individual for remuneration forfeited on leaving a previous employer.

The awards would not exceed what is felt to be a fair estimate of the remuneration forfeited and would reflect (as far as possible) the nature and time horizons attached to that remuneration and the impact of any performance conditions.

For an internal appointment, any remuneration terms awarded in respect of the previous role may either continue on its original terms or be adjusted to reflect the new appointment.

When recruiting non-executive directors, the remuneration arrangements offered would normally be in line with those paid to existing non-executive directors, details of which are set out in the Annual Report on Remuneration.

Remuneration policy table

Component	Link to strategy	Operation	Maximum opportunity	Framework to assess performance	Recovery and withholding
Base salary	To provide fixed remuneration for each role which reflects the size and scope of executive directors' responsibilities and their individual skills and experience	Executive directors' salaries are normally reviewed annually and fixed for the 12 months commencing on 1 April. The Committee takes into consideration: • role, experience and performance of the individual; • internal and external relative positioning for total reward; and • the average budgeted increase in base salaries elsewhere in the group.		Not applicable	Not applicable
Benefits	To provide flexible, market aligned benefits on a cost-effective basis.	May include private health cover for the executive and their family, life insurance cover of up to eight times annual base salary, income protection and a car allowance. Relocation support and any associated costs or benefits may also be provided if considered by the Committee to be appropriate and reasonable to meet the requirements of the business. Other benefits may be offered from time to time broadly in line with market practice. Executive directors may participate in any all-employee share plan which may be operated by the company on the same terms as other employees.	The overall value of benefits will depend on the individual's circumstances and therefore there is no formal maximum. Participation in the all-employee share plan will be subject to the scheme's rules and in line with any relevant statutory limits.	Not applicable	Not applicable
Pensions	To provide cost-effective and competitive post-retirement benefits	Executive directors' pensions and life assurance are based on salary only, with performance-related incentive payments and other discretionary benefits excluded. The principal method of securing pensions for executive directors is auto-enrolment into the NATS Defined Contribution Pension Scheme (DC). NATS also offers a company-wide pension cash alternative in lieu of employer pension contributions for those with total pension savings close to the Lifetime Allowance, which is also available to eligible executive directors.	Maximum employer contributions are: • 18% for members of the DC; or • 15% of base salary as a pension cash alternative in lieu of employer contributions to the DC; or for legacy members of the defined benefit pension scheme (DB) who have transferred out of that scheme, 25% of base salary as a pension cash alternative in lieu of employer contributions to the DB.	Not applicable	Not applicable
Annual Incentive	To reward and incentivise the	An Annual Incentive scheme (AMPRPS) is in place for the executive team and all employees in the Personal Contract	Maximum opportunity is capped at 70% of base salary.	Targets are set annually and are a mix of corporate and personal	The rules of the annual incentive include a recovery

Component	Link to strategy	Operation	Maximum opportunity	Framework to assess performance	Recovery and withholding
	achievement of annual financial and strategic goals which are selected to align to the strategy of the business.	Group. The annual incentive is paid entirely in cash. As per the rules of the scheme, the Committee may determine that vesting should not be applied for any participant(s) should the Committee consider that individual performance or other circumstances makes this an appropriate outcome. This power would only be exercised in circumstances when the Committee decides that there has been or could be significant damage to the reputation of the company either during the performance years or as a result of the award. In these cases, the decision would be referred to the non-executive directors of the Board for ratification.	The annual incentive starts accruing from threshold levels of performance. The current maximum potential for each executive director is set out in the annual report on remuneration.	performance. They are determined by the Remuneration Committee each year taking into account the group's key strategic priorities and the approved budget for the year and are set out in the Annual report on remuneration. The Committee may apply discretion as appropriate.	provision whereby individuals are liable to repay or forfeit some or all of their AMPRPS if there is a material misstatement of the results.
Long-term incentive	To incentivise executives to achieve the company's long-term strategy and enhance shareholder value.	Cash awards based on the achievement of financial targets over the relevant regulatory price control period. The RP3 award is currently being considered to ensure that the structure, timing and performance conditions align to the revised regulatory periods and are appropriate in the business environment.	Award levels for the future (2020+) regulatory price control periods are being considered and will be reported in future years.	Awards vest based on both performance-measuring the weighted return performance of NERL and NATS Services over the applicable measurement and regulatory periods, and also based on the payment opportunity dates linked to approved share valuations.	The rules of the current LTIP include provisions for recovery and withholding to apply if the Committee concludes that: • the performance on variable pay awards, that have been made or vested, was materially misstated or should have been assessed materially differently; • the assessment of any performance condition was based on an error, or inaccurate or mis-leading information or assumptions; • the relevant individual has committed serious misconduct; or • there is a major safety or operational incident resulting in serious consequences for the organisation, its customers or air passengers. Recovery and withholding may be applied for up to the third anniversary of the end of the LTIP award's performance period.
Legacy arrangements: Long-term incentive (Cycles 6 and-7)	To incentivise executives to achieve the company's long-term strategy and enhance shareholder value.	Awards of notional shares are made annually with vesting dependent on the achievement of performance conditions over the three subsequent years. To the extent that performance conditions are met, awards will normally vest in three tranches: 50% in the third financial year, 25% in the fourth financial year and 25% in the fifth financial year. Notional shares are linked to the NATS all-employee share ownership plan share price and, subject to remaining eligible under scheme rules, participants receive cash payments in relation to the value at the time of vesting and dividends paid in the period, representing a total shareholder return.	Maximum annual opportunity is capped at 110% of salary Outstanding awards are set out in the Annual report on remuneration	The LTIP is designed to reward the achievement of a set of financial and strategic targets for rolling three-year periods.	

Service contracts

Executive Directors

The employment contracts of the CEO and CFO provide for 12 months' notice in the event of termination by the company or 6 months' notice from the Executive Director.

Exit payment policy

The Committee is committed to ensuring that it does not pay more than is necessary when executives leave NATS. The table below sets out the key provisions for executive directors under their service contracts and the Incentive Plan rules.

For all leavers, the Committee may also determine to make a payment in reimbursement of a reasonable level of outplacement and legal fees in connection with a settlement agreement.

Non-Executive Directors

Charges for the services of non-executive directors are determined in agreement with the relevant sponsoring body: the DfT in the case of the Partnership directors and The AG in the case of AG appointed directors.

Partnership directors are normally engaged on three-year fixed-term contracts and have letters of appointment from the DfT.

When setting the policy for directors' remuneration, the Committee takes into account the pay and employment conditions elsewhere in the group. The Committee is informed of salary increases for the general employee population and is kept informed of pay negotiations. It takes these into account when determining salary increases for executive directors.

Where relevant and appropriate, the Committee seeks to align the remuneration policy for executive directors with that of other senior managers, or exercise upward or downward discretion where appropriate. Selected employees are able to share in the success of the group through participation in the Annual incentive. Executive Directors and other members of the Executive management team are eligible for participation in the LTIP.

Exit payment policy table

Element	Termination policy
Base salary, benefits and pension	Payment will be made up to the termination date in line with relevant contractual notice periods and will not exceed contractual entitlements.
Annual incentive	Unless otherwise provided in the service contract, executives are not entitled to accrued Annual incentive payments unless the individual is determined by the Committee to be a good leaver. A good leaver is any individual who leaves due to death, agreed retirement or for any other reason if the Committee so decides.
Long-term incentive	Unvested tranches will generally lapse at the time of exit. Vested tranches will remain exercisable for a period of one month following the date of cessation. For individuals determined by the Committee to be a good leaver (defined above), unvested tranches shall continue under the plan on existing terms save that the Committee may adjust down the size and/or life of such tranches on such basis as it determines appropriate (for example, on account of assessment of performance conditions over curtailed periods and by reference to time elapsed into performance periods) and retains discretion for early vesting.

Consideration of the views of shareholders in setting the Remuneration Policy

The Committee is mindful of the views of the DfT and AG and the Regulator in determining the appropriate levels of remuneration and ensuring that shareholder, Regulator and director interests are aligned.

Annual Report on Remuneration

This part of the directors' remuneration report sets out how the remuneration policy will be applied for the financial year ending 31 March 2022 and summarises the emoluments of executive and non-executive directors for the 2021 financial year.

Implementation of the remuneration policy for the year ending 31 March 2022

Executive directors

Base salaries

	Annual base salary with effect from 1 April		
	2020	2021	% change
Martin Rolfe	£463,500	£463,500	0%
Alistair Borthwick	£300,000	£300,000	0%

Base salaries for both Martin Rolfe and Alistair Borthwick remain unchanged. Both elected for a 3-month voluntary effective 20% reduction in basic pay for the period April to June 2020 (equivalent to 5% for the full year) in response to the Covid pandemic. Of this reduction, half was salary waived and half was donated by them to the NHS Covid relief fund.

Pension and benefits

Martin Rolfe and Alistair Borthwick both receive a pension cash alternative of 15% of base salary in lieu of employer contributions to the defined contribution scheme. The cash percentage is applicable group-wide.

Annual incentive scheme

No incentive schemes will be granted until a further review of the external environment and traffic recovery has taken place later in 2021

Long-term incentive plan (LTIP)– RP3

No LTIP incentive schemes will be granted until a further review of the external environment and traffic recovery has taken place later in 2021

Long-term incentive plan (LTIP) – CEO entitlement to payments

Given the current circumstances, Martin Rolfe (CEO) asked the company to defer the long-term incentive payments due to him in 2020/21 until a more appropriate time. The company supported this personal decision of the CEO.

Non-Executive Directors

The company's approach to setting the fees of non-executive directors is by reference to those paid by similar companies. Fees are reviewed annually by the NATS CEO and HR Director and it was agreed that it was not appropriate to make any changes to base fees this year. As for executive directors, all non-executive directors elected for a three-month voluntary reduction in fees of 20% for the period April to June 2020.

Chairman

The Chairman's contract was renewed on 1 September 2020. He has a three-year contract specifying the remuneration he receives. This is £165,120 on an annualised basis, which represents no increase from his previous contract period base fee. The Chairman's effective salary for 2020/21, reflecting his voluntary 20% reduction in pay was £156,864, equivalent to an annual pay reduction of 5%.

Partnership directors

Fees with effect from 1 April	2020	% change	2021
Base fee	£36,900	0%	£36,900
Fee for chairs of Board sub-committees *	£8,200	0%	£8,200

*Remuneration Committee; Audit Committee; Safety Review Committee; Transformation Review Committee

The base fees remain unchanged. In 2020/21, non-executive directors elected for a voluntary reduction of 20% for April to June 2020 in the fees they received (see below).

Airline Group (AG) appointed directors

AG directors receive no remuneration for their services to the NATS Board. Fees are reviewed on annual basis by the NATS CEO and HR Director and it was agreed that it was not appropriate to make any changes to fees this year. The Airline Group elected to take a 20% reduction in fees to cover the period April to June 2020. As a result, the annual fee for 2020/21 was £206,416, which represents a 5% reduction for the year (2019/20: £217,280). The annual fee for 2021/22 will remain unchanged at £217,280.

LHR Airports (LHRA) appointed director

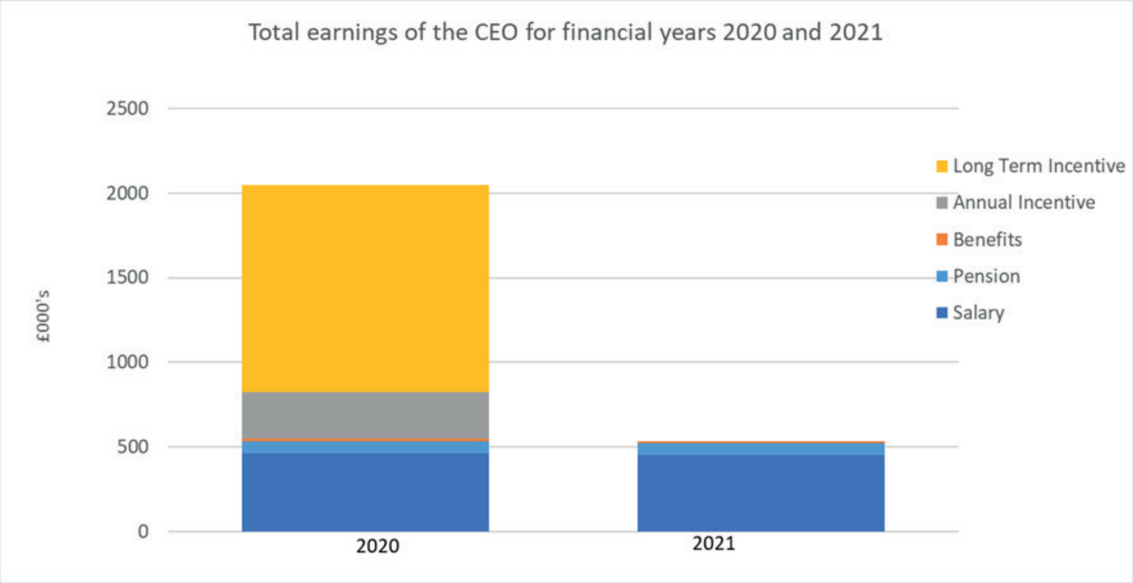
The LHRA Director is employed and remunerated by LHRA. LHRA does not charge NATS for the services of its director.

Directors' remuneration for the year ended 31 March 2021

Base salaries of executive and non-executive directors and AG fee for AG appointed directors (audited)

	Annual salary with effect from 1 April or date of appointment		
	2019	2020/(after waiver of entitlement and charitable donation)	% change/(after waiver of entitlement and charitable donation)
Martin Rolfe	£463,500	£463,500/(£440,325)	0%/(-5%)
Alistair Borthwick	£300,000	£300,000/(£285,000)	0%/(-5%)
Partnership directors: Base fee Fee for chairs of Board sub-committees	 £36,900 £8,200	 £36,900/(£35.055) £8,200/(£7,790)	 0%/(-5%) 0%/(-5%)

Martin Rolfe and Alistair Borthwick both elected for a three-month voluntary effective 20% reduction in basic pay for the period April to June 2020 (equivalent to 5% for the year) in response to the Covid pandemic. Of this reduction, half was salary waived and half was donated by them to the NHS Covid relief fund. Non-executive directors also elected for a voluntary pay reduction of 20% for the period April to June 2020.
The following chart explains the change in the CEO's earned remuneration between financial years ended 31 March 2020 and 2021.



AG Directors receive no remuneration for their services to the NATS Board. However, a payment of £206,416 for 2020/21 (2019/20: £217,280) was made to AG in lieu of remuneration for these directors. This sum is used to fund the activities of AG.

Annual incentive award for the year ended 31 March 2021 (audited)

No annual incentive was agreed for 2021 in light of the impact of Covid on the aviation sector and the company's response by preserving liquidity and reducing operating expenditure.

Long term incentive payments

Long term incentive payment (LTIP) arrangements are established for executive directors and other members of the NATS Executive in order to incentivise long term performance and align performance with shareholder interests, and reward exceptional performance. Performance conditions are generally established for LTIPs for periods of three years. Payments under LTIP arrangements are made according to a predetermined vesting schedule covering a period of three years following completion of each LTIP scheme. Payments are subject to eligibility criteria under scheme rules. These require participants to be employed at the vesting date or to be good leavers under the scheme rules.

Given the continued disruption caused by the Covid pandemic, Martin Rolfe (CEO) asked the company to defer the long-term incentive payments due to him during 2020/21 until a more appropriate time. The company supported this personal decision of the CEO.

Outstanding LTIP Cycles (audited)

LTIP schemes (Cycles 6 and 7) awarded up to April 2017 were based on awards of notional shares made annually with performance conditions measured over a period of three years. Performance conditions relating to Cycle 6 and Cycle 7 were determined in previous years and achieved 46.4% and 71.7% of target respectively.

Amounts paid under LTIP Cycles 6 and 7 are based on the value of notional shares at each vesting date, which is linked to the price of an employee share and the total shareholder return since the award date. The value of vesting payments under these LTIP cycles is determined at the vesting dates indicated in the table below and are reported in the directors' emoluments table when vested (or paid to a good leaver). The values of Cycle 6 and 7 tranches vesting from July 2020 onwards remain undetermined, being dependent on an HMRC approved employee share price at the vesting date. Vesting under all tranches since July 2020 has been deferred due to Covid and additionally is not capable of being determined following suspension of the employee share scheme.

Director	Cycle	Date of award	% of salary awarded	Value of notional shares awarded	Share price at award (£)	Outstanding vesting schedule
Martin Rolfe	Cycle 6	April 2016	110%	£440,000	£4.20	25% July 2020; 25% July 2021
	Cycle 7	April 2017	110%	£473,000	£3.95	50% July 2020; 25% July 2021; 25% July 2022

Amounts earned by Martin Rolfe based on the % of target performance conditions determined for each cycle (46.4% for cycle 6 and 71.7% of cycle 7) will be reported in the table of director's remuneration in the year in which the outstanding awards vest.

Nigel Fotherby, a former Finance Director, was granted awards of 90% of salary under LTIP cycles 6 and 7 during his period of service. He was deemed a good leaver on retirement in June 2019 and is eligible for vesting payments based on the % of target performance conditions determined for each cycle (46.4% for cycle 6 and 71.7% of cycle 7). Amounts paid will be reported as a payment to a past director in the financial year payment is made.

Remuneration earned by directors for the year ended 31 March 2021 (audited)

The table sets out the emoluments of the Chairman and directors. It shows all of the remuneration earned by an individual during the year and reports a single total remuneration figure. Amounts actually paid to directors during a financial year will be different reflecting the timing of annual bonus payments and the vesting schedule of long-term incentive schemes explained above.

Audited information

Directors' remuneration

Emoluments of the Chairman and directors were as follows:

		Salary or fees*		Benefits*		Performance related payments*		Long term incentive plan*		Replacement award*		Pension Cash Alternative*		Total*	
	Notes	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Chairman															
Dr Paul Golby CBE	1	161	165	4	8	-	-	-	-	-	-	-	-	165	173
Executive directors															
Martin Rolfe	2, 3, 4, 5	452	464	13	13	-	279	-	1,221	-	-	70	70	535	2,047
Alistair Borthwick	4, 6	293	150	19	19	-	106	-	-	87	87	45	23	444	385
Non-executive directors															
Maria Antoniou		44	45	-	-	-	-	-	-	-	-	-	-	44	45
Richard Keys		44	45	-	-	-	-	-	-	-	-	-	-	44	45
Iain McNicoll CB CBE	1	44	45	-	1	-	-	-	-	-	-	-	-	44	46
Michael Campbell	7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dr Harry Bush CB	7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gavin Merchant	7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Hugh McConnellogue	7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Louise Street	7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Kathryn Leahy	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Former director (at 31 March 2020)															
Nigel Fotherby		-	107	-	4	-	34	-	549	-	-	-	18	-	712
		1,037	1,021	37	45	-	419	-	1,770	87	87	115	111	1,275	3,366

* There were no resignations or appointments in the year ended 31 March 2021.

Notes to the table of directors' emoluments:

1 Benefits paid to the Chairman and non-executive directors represent the reimbursement of travel costs.

2 The table sets out Martin Rolfe's earnings during the financial year. For 2020 this included future long term incentive payments which are conditional, as explained in note 5 to this table below. Actual payments made to Martin Rolfe in 2021, including for 2020 performance related payments to which he was entitled in the financial year, amounted to £802,000 (including salary sacrifice) as shown on page 67. Martin took a voluntary reduction in salary of 20% in the first three months of the 2021 financial year. Of this amount half was waived and is not reported above, while half was donated by Martin to the NHS Covid relief fund.

3 Martin Rolfe is a member of the defined contribution pension scheme in order to make employee contributions only and sacrificed £4,000 (2020: £10,000) of his salary under the company's salary sacrifice arrangements. These contributions are reported in his salary above. The company did not make any employer contributions.

4 Martin Rolfe and Alistair Borthwick were eligible for the pension cash alternative payment scheme in lieu of employer pension contributions. Under the pension cash alternative payment scheme, Martin Rolfe received £69,525 for the year (2020: £69,525), Alistair Borthwick received £45,000 for the year (2020: £22,500).

5 Martin Rolfe participates in the Long Term Incentive Plan. The value for 2020 included amounts which vested in the year. In light of Covid**, Martin Rolfe (CEO) asked the company to defer all long-term incentive payments due to him from June 2020 onwards until a more appropriate time. The company has agreed this as a personal decision by the CEO.**

6 Alistair Borthwick's salary and benefits for the previous financial year are reported from the date of his appointment to the Board in October 2019. Alistair took a voluntary reduction in salary of 20% in the first three months of the 2021 financial year. Of this amount half was waived, and is not reported above, while half was donated by Alistair to the NHS Covid relief fund. His remuneration includes partial compensation for performance related remuneration that he forfeited on leaving his previous employer. His contractual entitlement of £261,063 is payable in three equal annual instalments. Annual amounts are reported above as a replacement award. Alistair has voluntarily deferred his payment for 2021 until after completion of both the refinancing and publication of the annual report and accounts.

7 These directors are appointed by The Airline Group (AG) which charged NATS a total of £206,416 (2020: £217,280) for the services of the directors. The Airline Group elected to take a 20% reduction in fees covering the period April to June 2020.

8 Kathryn Leahy is appointed by LHRA and received no fees from NATS for her services.

Ratio of the Chief Executive's pay to UK employees

Although the requirement to disclose the pay ratio is not a statutory requirement for NATS, the Committee considered it appropriate to include the relevant disclosures on an entirely voluntary basis as it helps to demonstrate the link between the Chief Executive's pay and the remuneration of the wider workforce. We have published our pay ratio for April 2020 and April 2021, in addition to the previous two years.

Date	Method of calculation adopted	25th percentile pay ratio (Chief Executive: UK employees)	Median pay ratio (Chief Executive: UK employees)	75th percentile pay ratio (Chief Executive: UK employees)
April 2019	Option B	18 : 1	13 : 1	9.5 :1
April 2020	Option A	35 : 1	23 : 1	16.5 : 1
April 2021	Option A	8.5 : 1	6 : 1	4 : 1

The median, 25th percentile and 75th percentile figures used to determine the ratios in 2018 and 2019 were calculated by reference to option B, which uses the most recent pay information available from the NATS gender pay report data to allow us to make best estimates on the 25/50/75th centile pay data for comparison. For 2020 and 2021, the Committee changed the calculation methodology to Option A, as it was decided that this considered more statistically accurate, and data became available to use this method. The Committee considers that the median pay ratio disclosed above is consistent with the pay, reward and progression policies for the company's UK employees taken as a whole. Due to the flexibility that employees have around pensions and benefit selections, some variance in the ratios and comparator employees is to be expected from one year to the next. The significant movement in ratios from 2019 to 2020 and the reduction in 2021 is primarily due to the vesting of the CEO's Long Term Incentive Plans. The employees used in the calculations are considered to be reasonably representative of the 25th, 50th and 75th percentiles of the Company renumeration for the relevant financial year.

Five-year history of Chief Executive remuneration

The following table sets out a five-year history of the remuneration of the Chief Executive. It also details amounts actually paid in each financial year, reflecting the timing of annual bonus and long- term incentive payments.

Financial years ended 31 March	2017	2018	2019	2020		2021
Earned for the year (£'000s)	944	1,179	1,103	2,047		535**
Paid in the year (£'000s)	836	956	1,098	1,061		802
AMPRS (% of maximum entitlement)	75.3%	92.5%	89.8%	86.0%		0%
LTIP (% of maximum entitlement)	Cycle 4 96.3%	Cycle 5 80.0%	Cycle 6 46.4%	Cycle 7* 71.7%	RP2* 100%	n/a

* Given the current circumstances, Martin Rolfe (CEO) has asked the company to defer any long-term incentive payments due to him until a more appropriate time. The company has agreed this as a personal decision by the CEO.

** This value is consistent with the statutory single figure of remuneration for the CEO in the emoluments table and includes the value of all vested incentive schemes in the year. For 2021 no incentive schemes were earned, however the CEO received payment of the deferred 2019/20 annual incentive during this period.

Statement of directors' interest in shares

Aggregate emoluments disclosed above do not include any amounts for the value of shares awarded under the company's all-employee share ownership plan. NATS' all-employee share ownership plan is designed to give every employee (including executive directors but not non-executive directors) an equal opportunity to acquire a stake in the future success of the company.

The share plan holds 5% of the shares in NATS and is administered by a special trustee company with three directors – one each appointed by HM Government, AG and the Trades Unions (collectively known as the Trustee). Maria Antoniou chairs the Trustee meetings.

Details of the shares held by directors during the year are set out in the table below. The value of Martin Rolfe's shareholding at 31 March 2021 is indicative only. For the purpose of this report this indicative value is based on an internal valuation and market comparable benchmarks in the absence of an HMRC approved valuation since Covid and the temporary suspension of the employee share scheme. Proceeds from the disposal of employee shares can only be realised and therefore ascertained based on an HMRC approved valuation.

Director	Date from which exercisable			Holding (number of shares)	Indicative value at 31 March 2021 (estimated at £3.12 per share)	Indicative value at 31 March 2020 (estimated at £2.85 per share)
	Exercisable (brought forward)	30/10/2021 (brought forward)	30/10/2023 (brought forward)			
Martin Rolfe	662	162	200	1,024	3,195	2,918

There were no awards of employee shares during the 2021 financial year.

Maria Antoniou

Chair of the Remuneration Committee

Safety Review Committee report

The role of the Safety Review Committee

The Safety Review Committee (SRC) supports the Board in discharging its accountabilities for the safe provision of air traffic services and for security arrangements across NATS. It meets quarterly as a formal committee and receives separate in-depth briefings as required. Its remit includes the requirements to:

- monitor and review the effectiveness of the safety and security arrangements in place in the group;
- review the delivery of the Group's safety objectives through its operations, structures and processes;
- review the group's safety performance;
- monitor the implementation of safety enhancement programmes; and
- make recommendations to the Board for improving the group's safety and security management systems.

The Committee is chaired by Iain McNicoll and there were two other non-executive director members in the period of this report: Kathryn Leahy and Hugh McConnellogue. In addition, the NATS Chair attends the Committee.

During the year, the Committee took advice from the following special adviser, who attended each meeting by standing invitation:

- Captain John Monks, Director of Safety and Security, British Airways.

At least two of the following four members of NATS Executive team are required to attend routine meetings: the CEO, Safety Director, Operations Director and Technical Services Director.

Director En Route ATM, Director Airports, Director Commercial, Director Safety & Assurance - Operations, Director Safety & Assurance - Technical Services and Director Safety Management and Oversight are invited to attend routine meetings, but may not be required. Attendance is coordinated through the executive team.

The Chief Security Officer formally reports to the Committee on the security arrangements in NATS twice per annum. In addition, FerroNATS and Aquila provide an update on their safety performance once per annum.

The CAA's Head of Airspace, ATM and Aerodromes has an annual invitation to meet and brief the Committee. This year, ensuring the strong relationship between NATS and the CAA continues and is developed after Brexit (given that the CAA has taken over EASA responsibilities for the UK) has been an area of joint focus. However, the regulator's and NATS' main emphasis was on the impact of the Covid pandemic on the aviation industry, on managing the associated potential aviation safety risks, and on taking pragmatic and proportionate steps to ensure safety.

- Safety Performance

The SRC carefully monitors the group's safety performance and progress towards its targets. New regulatory targets were set for RP3, building upon the learning gained in RP2. These new measures provide a broader and more detailed understanding of NATS safety performance. In calendar year 2020 NATS met all of these performance targets. While the sustained fall-off of traffic for the past year has contributed to excellent safety statistics as assessed by these metrics, the sound performance has also been a result of effort across the company during the pandemic to maintain a clear focus on safety and to keep all risks as low as reasonably practical.

- Safety Risk Management

The risk of an accident involving aircraft under NATS control is NATS' top safety risk; the Committee regularly reviews an assessment of this risk. Information on safety occurrences, together with models to estimate the probability of different accident scenarios, including runway incursions, controlled airspace infringements, aircraft leaving controlled airspace and drone encounters, provides the Committee with oversight of event types, trends and, importantly, associated safety improvement activities. As the Covid pandemic effect on global aviation developed, NATS risk management approach necessarily evolved from strategic safety improvements by adding tactical and immediate measures required to ensure both operational and occupational safety were managed in the crisis. The response used the existing safety management framework, ensuring that safety risks were reassessed and addressed during the downturn in traffic and then identifying proportionate actions to prepare for service regeneration. The Committee was briefed on the measures put in place and reviewed current mitigations for their operational effectiveness, and future actions for continued relevance for the rate of recovery. For the longer term, the issues from 2019 with the then rising traffic levels creating capacity management problems have decreased, but the need for technical innovation and airspace modernisation traffic remains.

The Committee also welcomed the work within NATS on merging Health & Safety/Wellbeing with operational safety, and viewed this as essential in order to tackle human factors risks holistically.

- Board Safety Workshop

A safety workshop in October provided the Board and SRC members with an overview of how NATS was responding to the significant challenges of the Covid pandemic and managing the consequences and potential risks. There was a particular focus on the cultural impacts of the changes to the organisation as a result of Covid, and on the voluntary redundancy programme and the subsequent re-organisation of the business.

- NATS Safety Strategy

The NATS Safety Strategy sets out the vision for how safety will evolve in NATS out to 2030. Since its publication, actions have been identified and progressed to deliver enhanced safety capabilities and associated outcomes.

- Physical Security

Covid secure ways of working have been used by the business, including pre-authorisation for site access and ensuring all visits are business critical, in order to protect the operation and reduce the risk of workplace transmission.

External Threat and Incident Management: NATS security teams continued to work with the Joint Terrorism Analysis Centre to assess threats and to maintain vigilance. An external threat to a NATS remote site was successfully responded to, working closely with Hampshire Constabulary. A new incident management tool has been deployed and a virtual incident room established to support remote working in the event of an incident.

Insider Threat Activities: Work has continued to ensure that NATS takes all reasonable steps to mitigate the risk from potential insider threat activities.

Overseas Support and Travel Security: Travel safety guidelines were updated to ensure that any business travel during the pandemic was authorised and business critical.

Security Vetting: Vetting activities have continued throughout Covid, albeit in a limited capacity as the UK Vetting Agency has been unable to provide its normal services.

Data Protection: GDPR is now well established within the organisation and there were no GDPR infringements.

Iain McNicoll, CB CBE

Chair of the Safety Review Committee

Transformation Review Committee report

The role of the Committee

The Committee's objective is to provide the Board with oversight of NATS' transformation programmes and assurance on the quality of the strategy, planning and delivery of those programmes.

This includes the development of and the delivery of adequate and cost-effective long-term investment plans (LTIP), operational transformation programmes, wider company transformation programmes and additional items, such as cyber security, as well as the people and procedure changes required to realise the operational and commercial benefits.

The Committee is chaired by Mike Campbell with two other non-executive directors as members: Iain McNicoll and Richard Keys. The NATS Chair, Paul Golby, also attends. The CEO is invited to attend the TRC by standing invitation and the following executive directors are invited to attend as appropriate:

- Technical Services Director;
- Operations Director;
- Commercial and Strategy Director;
- Legal Director;
- Human Resources Director;

Main activities of the Committee during the year

As part of its governance and oversight, the Committee receives regular in-depth reports and briefings on the existing and planned transformation agenda and organisational risk profiles. During 2021, the following have been the key areas of focus by the Committee:

The impact of Covid

The impact of Covid has presented significant challenges during the last year to the sustainability of the LTIP portfolio to upgrade our technology and modernise our airspace. The TRC provided scrutiny of these challenges, reviewing several options alongside the prevailing economic conditions and uncertainty across the industry in order to make the recommendation of a six month delay to the Board. The pause was necessary to protect the business but also provided an opportunity to respond to the emerging priorities of customers post-Covid and ensure that these priorities could be accommodated within the revised plan and approach. Several options were investigated in consultation with our customers via the Service and Investment Plan (SIP) and the revised plan has identified the appropriate scale of investment to fit the current environment that will deliver key components of SESAR, essential changes to airspace, as well as critical sustainment of our current operational systems. The capital investment plan restarted in December 2020.

DSESAR

SESAR is the European wide standard for future systems, designed to produce a step change in safety, performance and efficiency. The main challenge in the years ahead is the introduction of SESAR compliant systems which NATS will achieve through its Deploying SESAR Programme. Each of the main programme components represents a significant change to the operation and its systems. The size and complexity of the composite programme brings an additional scale of risk to the business as a whole, which the Committee is committed to review on a continuing basis, in order to provide the necessary levels of assurance to the Board.

At the heart of the programme is iTEC. This is the new generation of core flight data processing systems which will underpin all NATS future operations and will operate on a common modern architecture to support all of UK airspace.

During the last year, the TRC maintained oversight of all aspects of this programme including programme sustainability, investment governance and programme delivery and responded to the challenges presented as a result of the Covid pandemic.

The Committee remains focused on oversight of key elements of the transformation programme including:

- Core infrastructure
- Voice communications and
- Surveillance strategy

The final business case for the deployment of iTEC and a new main voice communications system into operational service over the next number of years was approved by the TRC in March.

As well as adapting to the Covid constraints, lessons have been learnt from transformation programmes from the previous reference period, a variety of audits and other similar external projects including review of the Slaughter & May report into issues surrounding TSB's migration onto a new IT platform in April 2018 in order to provide assurance that NATS had appropriate controls in place to ensure that risks are managed appropriately during technology deployments.

Airspace Change

Modernising airspace remains a top investment priority and the impact of Covid has made it more critical than ever to deliver improved performance to our customers.

Airspace changes in Essex airspace (SAIP AD6) will improve capacity and safety in the airspace above Stansted and Luton through new arrival routes and a new hold. The public consultation took place in February on a virtual platform as a result of Covid restrictions and received public and customer engagement beyond levels of a traditional approach. It is planned to deploy in early 2022 subject to CAA approval of the formal airspace change proposal. Work continued in support of this airspace change during the LTIP pause as customers were strongly in favour of progressing network level airspace change while traffic levels remained low. The introduction of Free Route Airspace (FRA) in less congested upper airspace will enable airlines to plan their own routes improving airspace capacity. The first deployment across Scottish airspace is on track for delivery in December 2021.

Operational improvements and structural changes to airspace also form a crucial part of the wider industry effort to decarbonise in response to the net zero requirements of aviation in the UK by 2050.

Airspace change initiatives are reviewed by the Committee on a continuing basis, in order to provide the necessary levels of assurance to the Board.

Cyber Security

The TRC plays a key role in providing Board oversight of cyber security and receives updates from the Chief Security Officer (CSO) on all aspects of cyber security assurance, including technical compliance, monitoring and reporting on events as well as people and cultural aspects designed to improve awareness and reduce risk. Changes in the external threat environment are monitored and the effectiveness of key controls within the organisation are assessed, considering the highest risks to operational and corporate systems. During 2021, specific topics reviewed by the Committee included the implications of significant remote working, assurance of the supply chain, incident management preparedness and activities to comply with the CAA's newly established Cyber Oversight Process (CAP1753).

Resilience

The TRC regularly reviews the approach taken to deliver and maintain resilience of current operational systems. The revised capital investment plan includes critical sustainment of our current operational systems to continue to provide service continuity to air traffic control and mitigating technical risk over a longer lifespan than originally planned.

This year the Committee has also reviewed NERL's incident management approach in the virtual environment to understand how the business operates through key stages of response to an event, including initiation, escalation and recovery. The virtual incident management process was proven to provide some benefits over the traditional 'in person' incident management response due to the instantaneous virtual availability of all required parties and ability to share information.

ATC Training

The TRC has reviewed the ATC training transformation programme and controller supply chain over the past year. A key area of focus for the Committee has been the review of the supply of valid controllers to ensure operational staffing levels are sufficiently resilient to support service delivery for safe industry restart and future traffic growth.

Impact of transformation on our employees

The people element of the transformation programmes is an area of focus for the TRC to ensure that the impact of the transformation is understood and our employees are engaged with the change being delivered.

Programme Governance

The organisational aspects of the programmes are another key consideration of the TRC to ensure that the right level of governance is in place so that the programmes deliver the benefits against the baseline plan.

Mike Campbell
Chair of the Transformation Review Committee

Report of the directors

The directors present their annual report on the affairs of the group, together with the financial statements and the auditor's report for the year ended 31 March 2021.

The Governance report is set out on pages 36 to 77 and forms part of this report. A review of the group's key business developments in the year and an indication of likely future developments, as well as information regarding greenhouse gas emissions, energy consumption and actions to increase energy efficiency, are included within the Strategic report. Information about the use of financial instruments by the group is given in note 22 to the financial statements.

Dividends

The company has paid no dividends in the year (2020: £59m). The Board recommends a final dividend for the year of £nil (2020: £nil).

Directors and their interests

The directors of the company at the date of this report are set out on pages 36 to 39. Details of changes in the Board during the year and to the date of this report are set out in the Governance report on page 40.

The interests of the directors in the share capital of the parent company, through their participation in the All-Employee Share Ownership Plan, are set out on page 68.

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

Directors' indemnities

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

Employee engagement

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

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

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

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

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

Business relationships

We explain on pages 33 to 35 how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and other stakeholders, and the effect of that regard, including on principal decisions taken during the financial year.

Going concern, viability statement and subsequent events

The directors' assessment of going concern and their viability statement are set out on pages 22 to 24. Subsequent events are disclosed in note 37 to the financial statements.

Directors' responsibilities

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

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

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the group's ability to continue as a going concern.

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

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

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

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

Auditor

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

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

Richard Churchill-Coleman

Secretary

9 July 2021

Registered office

4000 Parkway, Whiteley, Fareham, Hampshire PO15 7FL

Registered in England and Wales
Company No. 04138218

Opinion on the financial statements	In our opinion: • the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2021 and of the Group's loss for the year then ended; • the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; • the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and • the financial statements have been prepared in accordance with the requirements of the Companies Act 2006. We have audited the financial statements of NATS Holdings Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2021 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheets, the Consolidated and Company statement of changes in equity, the Consolidated cash flow statement and the related notes to the financial statements, including a summary of significant accounting policies. . The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.
Separate opinion in relation to IFRSs as issued by the IASB	As explained in note 2a to the Group financial statements, the Group in addition to complying with its legal obligation to apply international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied IFRSs as issued by the International Accounting Standards Board (IASB). In our opinion the Group financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRSs as issued by the IASB.
Basis for opinion	We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. *Independence* We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
Conclusions relating to going concern	In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting are detailed below. We considered going concern to be a key audit matter at the planning stage of our audit because the COVID-19 pandemic has had a significant impact on air traffic and the Company's operations and the Group was in the process of refinancing its bank and bond facilities. There has been a significant impact on the UK economy and the demand for air travel, and therefore the demand for the Group's air traffic control services. This is detailed within the Directors' Going Concern statement on pages 22 and 23, with further going concern information within note 2a on pages 92 and 93 of the financial statements. In making their judgement the Directors' have taken into consideration that in June 2021 NATS (En Route) plc completed a refinancing of its bank facilities and its publicly traded bonds which delivered £750m of new fixed rates bonds and £850m of new bank facilities. This is detailed within note 37 on page 160. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting and in response to the key audit matter included: • Reviewing the Directors' going concern assessment, forecasts and covenant compliance for the Group for a period of at least 12 months from the date of approval of the financial statements. This included checking that the forecasts were consistent with the latest Board approved budgets. • Detailed enquiries of the Board and management on reasonableness of the assumptions made in the preparation of these forecasts. This included making comparisons to actual results achieved in the year. • Reviewing management's reverse stress testing on forecasts and consideration of the downside scenarios that would result in a breach of the net debt to Regulatory Asset Base ("RAB") covenant. We considered management's assessment of the likelihood of such circumstances arising in determining their conclusion related to going concern. • Assessing the accuracy of management's financial model by testing the mechanical integrity of forecasts, assessing the historical forecasting accuracy and future air traffic assumptions by comparing these to third party forecasts from June 2021 through to at least June 2022. • Reviewing the Group's facility agreements, including the refinancing that happened in June 2021, and other key documents for significant matters that could impact on the going concern assessment.

- Reviewing management's assessment of controllable mitigations available to the Group to reduce cash flow spend in the going concern period in order to determine whether such mitigations are realistic.
- Considering the adequacy of the disclosures in the financial statements against the requirements of the accounting standards and consistency of the disclosure against the forecasts and reverse stress test assessment.

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

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

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

Overview

Coverage

99% (2020: 99%) of Group loss before tax (2020: profit before tax)

99% (2020: 99%) of Group revenue

99% (2020: 99%) of Group total assets

Key audit matters

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

Materiality

Group financial statements as a whole

£5.0m (2020: £3.7m) based on 0.7% of net operating costs excluding goodwill impairment (2020: 5% based on profit before tax and goodwill impairment).

An overview of the scope of our audit

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

We carried out full scope audits on all four significant components, being NATS Holdings Limited, NATS Limited, NATS (En Route) plc and NATS (Services) Limited, which covered 99% of the Group's revenue and 99% of the Group's loss before tax. Non-significant components were subject to either specified procedures or desktop review procedures.

There has been no significant change in the Group's operations, other than the continuing significant impact as result of COVID-19, therefore the assessed risks of material misstatement described above, which are those that had the greatest effect on the audit strategy, the allocation of resources in the audit and directing the efforts of the audit team, are the same risks as in the prior year.

The audits of the four significant components were performed by the BDO LLP group audit team in the UK and remotely in light of COVID-19 restrictions.

Key audit matters

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

<table>
<tr><th colspan="2">Key audit matter</th><th>How the scope of our audit addressed the key audit matter</th></tr>
<tr><td colspan="3">Carrying value of goodwill</td></tr>
<tr><td>As disclosed in note 13 the Group has goodwill with a carrying amount of £38.3m (2020: £149.3m). The carrying value of goodwill at 31 March 2021 was impaired by £111.0m (2020: £49.0m) during the year.

The Group's accounting policy for goodwill is set out in note 2a and note 3 includes details of the estimation uncertainty with respect to the impairment of goodwill.

Note 13 includes details of the Group's assessment of the recoverable amount, determined by reference to the higher of its fair value less costs of disposal and its value in use.</td><td>Management has undertaken an impairment review of the carrying value of goodwill by comparison with the recoverable amount.

The determination of the recoverable amount is subject to a significant level of estimation. This includes the premium applied to the RAB, in determining the Fair Value Less Costs of Disposal, which was assessed by management to be 0% at 31 March 2021 (2020: 0%), and the inputs into the value in use calculations.

As a result of the above, the carrying value of goodwill and the related disclosures were considered an area of focus for our audit.</td><td>Our procedures included:
• Considering the impairment review methodology, ensuring that it is in accordance with IAS 36 and that the carrying value of goodwill is based on Fair Value Less Costs of Disposal (FVLCD), being higher than Value In Use (VIU).
• Testing the FVLCD by agreeing the underlying RAB value to the carrying value of the RAB at 31 March 2021.
• Challenging, with the assistance of our valuation specialists, management's assessment of the RAB premium to be applied in the calculation of FVLCD.
• Reviewing managements VIU scenarios, and comparing these to the FVLCD, given the lack of alternative observable market data.
• Ensuring that costs to dispose were appropriately deducted in the FVLCD calculation, by checking that they were included within the FVLCD calculation.
• Considering and challenging the reasonableness of management's VIU scenarios, which included:
o the periods over which regulatory allowances will be recovered
o alternative outcomes in respect of the CAA's price control review from 2020 to 2022; and
o varying the forecast returns of traffic volumes.
• Checking the integrity of the underlying calculations for the FVLCD and VIU scenarios and agreeing these to the underlying models.
• Recalculating the £111.0m goodwill impairment that was recognised in the year and ensuring that this was appropriately disclosed within the financial statements.
Key observations
As a result of performing the procedures above we found that the carrying value of goodwill, the impairment recognised during the year, and the related disclosures were acceptable.</td></tr>
</table>

Key audit matter		How the scope of our audit addressed the key audit matter
Valuation of pension scheme assets and liabilities		
As disclosed in note 33, the Group has £5,113.9m (2020: £4,672.1m) of plan assets that are included in the measurement of the net defined benefit liability/asset recorded on the Group balance sheet. As disclosed in note 33, the Group has recorded a gross defined benefit obligation of £5,145.4m (2020: £4,440.1m) in the measurement of the net defined benefit pension liability/asset recorded on the Group balance sheet. Note 33 also includes details of the Group's assessment of the sensitivity of the present value of the scheme obligation to changes in actuarial assumptions.	The quantum of the Group's plan assets recorded in the net defined benefit liability/asset on the Group's balance sheet is significant and for certain assets, by their nature, the asset valuations are subjective. The determination of the gross defined benefit obligation is subject to a significant level of estimation uncertainty, based on the use of actuarial assumptions. When making these assumptions, the Directors take independent actuarial advice relating to their appropriateness. As a result of the above the valuation of pension scheme assets and liabilities and the related disclosures were considered an area of focus for our audit.	Our procedures included: • Performing audit procedures in order to substantiate the value of the scheme assets. This included comparing the values of investments held at the balance sheet date to external investment manager asset confirmations and statements. • Assessing the competence and objectivity of the Investment Fund Managers who provided the value of plan assets by obtaining relevant controls reports and, where necessary, bridging letters to check that the period covered by the report was appropriate and that adequate effective controls existed within the fund managers. • Testing a sample of the individual asset valuations either to quoted market prices or, in respect of a sample of derivatives, by using our valuation experts to assist us in determining that the valuations were appropriate. • With the use of our internal actuarial experts, challenging the appropriateness of the actuarial assumptions used by the Group in calculating the gross defined benefit pension obligation. This included benchmarking certain assumptions such as the discount rate, RPI and CPI against those used for similar schemes and considering where each of these assumptions sit within an acceptable range of possible outcomes. • Agreeing member information to source data to ensure it was accurate. • Assessing the adequacy of the disclosures within note 33 to the financial statements to ensure these are in line with IAS19. Key observations As a result of performing the procedures above, we found that the valuation of total plan assets, the measurement of the gross defined benefit pension scheme obligations and the related disclosures were acceptable.

Key audit matter	How the scope of our audit addressed the key audit matter
Recognition of licence fee revenue and amounts recoverable under regulatory agreement Total revenue and regulatory allowances in the year is £823.0m (2020: £892.1m), of which regulatory allowances under-recovered totals £417.2m (2020: 7.3m). The accounting policy for 'revenue recognition' and for 'Amounts recoverable or payable under regulatory agreement' are included in note 2a. Details of a Prior year restatement and resulting change in accounting policy in respect of the presentation of Regulatory allowances under recovered and Amounts recoverable/payable under regulatory agreement is set out within note 2b. Note 4 includes details of total revenue and regulatory allowances. Notes 18 and 23 include details of the amounts recoverable and payable under regulatory agreement. Note 3 sets out the significant estimation uncertainty in respect of the recognition of the shortfall in revenue and regulatory allowances. As a result of the significant impact of COVID-19 on flight volumes and the CAA opening a price control review, the recognition of licence fee revenue and regulatory allowances under recovered is subject to significant estimation uncertainty. This estimation includes management judgement in respect of the outcome of the CAA price control review, the basis for their assessment of efficient costs and the period over which any amounts recoverable under regulatory agreement will be recovered. As a result of the above, the recognition of licence fee revenue and amounts recoverable under regulatory agreement and the related disclosures were considered an area of audit focus.	Our procedures included: • Understanding the regulatory framework in respect of licence fee revenue and regulatory allowances under recovered to ensure that they are accounted for in accordance with the appropriate accounting standards. This procedure assisted in checking that the prior year restatement was appropriate. • Completing a test in total on the NATS (En Route) plc revenue, corroborating each of the underlying revenue streams to supporting contract documentation, to ensure that the revenue is appropriately recognised. • Ensuring that airspace revenue is being accounted for in line with the provisions of the air traffic services licence, the regulatory charging mechanisms for the reference period, and the basis for the on-going price control review being conducted by the CAA. This procedure was appropriate for the change in accounting policy. • Consideration of the recognition of the amounts recoverable under regulatory agreement by assessing the right to receive the assets, the period over which it will be recovered and the impact of discounting. • Reviewing publicly available information, including CAP2119 and CAP2160, setting out the CAA's proposed approach to setting the licence fee. Comparing Management's approach to determining licence fee entitlement to that proposed by the CAA. • Challenging management's judgement as to whether it is highly probable their assessment of the costs the CAA will determine to be recoverable, will not give rise to a significant risk of revenue reversal. This included reviewing management's assessment of: o the period over which any regulatory allowances under-recovered would be recovered; and o the determination of the cost base • Challenging management's basis for spreading the recognition of the annual licence fee revenue and regulatory allowance entitlement through the year by assessing alternative input and output based recognition bases. • Agreeing the basis of the prior year restatement and resulting change in accounting policy, recalculating the impact and agreeing to the underlying records. • Reviewing the disclosures presented in respect of the above within the financial statements. Key observations As a result of performing the procedures above, we found that the recognition of licence fee revenue, amounts recoverable under regulatory agreement and the related disclosures were acceptable.

Key audit matter		How the scope of our audit addressed the key audit matter
Capital investment programme The carrying value of other intangibles assets is £619.5m (2020: £612.6m) and property, plant and equipment is £458.1m (2020: £479.1m). The accounting policy for these is included in note 2a. Notes 14 and 15 set out details of amounts invested in the Group's capital investment programme.	The group invests significant sums in the sustainment and development of air traffic control infrastructure. A substantial proportion of the costs incurred are the amounts charged by staff employed by the group that are capitalised to specific projects. A key judgement is that either time is not appropriately capitalised or the quantum of the labour rate used could be misstated. In addition, management makes judgements around the useful economic lives of currently deployed systems, assesses indicators of impairment and considers feasibility of individual projects. Therefore, the capital investment programme and the related disclosures were considered an area of focus for our audit.	Our procedures included: • Holding discussions with project managers outside of the Group finance team in order to gain an understanding of the capital projects, and assessing them for impairment factors. • Testing a sample of capitalised projects that included verifying the appropriateness of the labour rates being used and the amount of labour time being capitalised per project to supporting payroll information. • Agreeing a sample of externally generated assets to supporting documentation to test existence and that costs are materially accurate. • Comparing useful economic lives to prior years and our own expectations and challenging project managers to assess performance to date and expected out turn we have assessed management's judgement of the useful economic lives of currently deployed systems to ensure that the position taken is reasonable. • Ensuring that a detailed project-by-project review had been completed and that the review process was appropriately documented. We considered management's assessment of any indicators of impairment for a sample of current capital projects carried forward as either tangible or intangible fixed assets. Key observations We consider the judgements made by management in respect of the capital investment programme and the related disclosures to be acceptable.

Our application of materiality

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

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

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

	Group financial statements		Parent company financial statements	
	2020	2019	2020	2019
Materiality	£5.0m	£3.7m	£2.8m	£2.8m
Basis for determining materiality	0.7% of operating costs excluding goodwill impairment	5% of profit before tax and goodwill impairment	2% of total assets	2% of total assets
Rationale for the benchmark applied	Due to the COVID-19 pandemic, the group has experienced significantly lower flight traffic levels and as a result has incurred a loss for the year. As a result and given that costs incurred will form the basis on which the licence fee for the period will be set by the CAA, we considered that operating costs provide the most appropriate measure on which to base materiality.	We considered profit before tax and goodwill impairment to be the most significant determinant of the group's financial performance used by shareholders.	This was considered the most appropriate benchmark as the Parent Company does not trade.	This was considered the most appropriate benchmark as the Parent Company does not trade.
Performance materiality	£3.8m	£2.8m	£2.1m	£2.1m
Basis for determining performance materiality	We set our performance materiality at 75% of overall materiality. In setting the level of performance materiality, we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments. Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.		We set our performance materiality at 75% of parent materiality. In setting the level of performance materiality, we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments. Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.	

Component materiality

We set materiality for each component of the Group based on a percentage of between 16% and 94% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £0.8m to £4.7m. In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

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

Other information	The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.
Corporate Governance statement	We are required to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Parent Company's compliance with the provisions of the UK Corporate Governance Statement specified for our review. Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability	• The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified as set out on page 22 and 23; and • The Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why the period is appropriate as set out on page 23 and 24.
Other Code provisions	• Directors' statement on fair, balanced and understandable as set out on page 77; • Board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out on page 77; • The section of the annual report that describes the review of effectiveness of risk management and internal control systems as set out on page 25; and • The section describing the work of the audit committee as set out on page 45.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Directors' remuneration	In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006 that would apply if the Company was a fully listed Company.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Our tests included, but were not limited to:

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

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

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

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

DocuSigned by:
Chris Pooles
F75710324A07463...

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

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

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
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

NATS

Contacts

Talk to us

If you would like to find out more about any of the information in this report, please talk to us:

AIRLINES

Louise Tomicic
General Manager Customer Affairs

louise.tomicic@nats.co.uk

AIRPORTS

Jonathan Astill
Director Airports

jonathan.astill@nats.co.uk

ASIA PACIFIC & MIDDLE EAST

Ben Kiff
Director International

ben.kiff@nats.aero

Our Offices

Corporate Headquarters
4000 Parkway
Whiteley
Fareham
Hampshire
PO15 7FL
UK

Tel: +44 1489 616001

Dubai Offices
NATS DMCC
Suite 1201
Platinum Tower, Cluster I
Jumeirah Lake Towers
Dubai
United Arab Emirates

PIC: Alexandru Ignat

Tel: +971 557 942 549

Hong Kong Offices
2/F, Cathay Dragon House
11 Tung Fai Road
Hong Kong International Airport
Lantau
Hong Kong

PIC: Charlene Lam

Tel: +852 2167 8650

Singapore Offices
51 Changi Business Park Central 2
#04-06, The Signature
Singapore 486066

PIC: Catherine Tan

Tel: +65 6909 7684

Customer website

Our dedicated customers website www.customer.nats.co.uk provides the latest news, operational information, meeting details, contacts and links to other resources.

Customer Forums

We have a number of forums for engaging with customers including our monthly lookahead sessions, Lead Operator for airspace design, Service & Investment Plan consultation as well as future price control consultations. Please get in touch for any more information.

Help.CUSTOMERHelp@nats.co.uk