Financial highlights (year ended 31 March)

£m (unless specified)	2022	2021	Change (%)
Revenue and regulatory allowances	749.8	823.0	-8.9
Profit/(loss) before tax	8.7	(37.8)	-
Cash used in operations	(172.5)	(264.5)	+34.8
Capital expenditure	100.1	78.8	+27.0
Net debt[a]	849.5	502.8	+69.0
Gearing[b] (%)	60.1%	49.6%	+21.2
Dividends	nil	nil	-

Notes: [a] see note 29 to the financial statements. Net debt excludes derivative financial instruments; [b] ratio of NERL's net debt (as defined by its licence) to regulatory assets[1]

- We handled 1.29m flights (2021: 661,000) as Covid travel restrictions lifted. Whilst a 95% increase on the prior year, this was still only equivalent to 50% of pre-pandemic volumes, resulting in an operating cash outflow before capital investment and financing of £172.5m (2021: £264.5m outflow).
- The group reported a profit of £8.7m, after refinancing costs of £41.7m. As for the prior year, the result includes an assessment of regulatory allowances for the Covid revenue shortfall which are being determined by the CAA's retrospective reconciliation of revenue and costs. The prior year loss included redundancy costs (of £65.2m) and a goodwill impairment charge (of £111m).
- 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 agreed £850m of new unsecured bank facilities. This enabled the repayment of more expensive secured bonds in place since 2003 and of existing bank borrowings. The refinancing ensures the group is well placed for a range of recovery outcomes.
- In December 2021, we acquired the remaining 50% of Searidge, a leader in digital towers and advanced airport solutions.

Operational highlights

- Covid continued to have a significant impact on our operation. Our priority continued to be the health and wellbeing of our employees while maintaining a safe and resilient service for our customers. We have retained the skills and capacity to safely support the recovery of aviation.
- We maintained our strong safety performance with no risk-bearing airprox[2] attributed to our operation. We carefully monitored and mitigated risks to safety as flight volumes started recovering.
- Following one of the biggest airspace changes undertaken, we removed long-established air routes over Scotland, freeing aircraft to choose a more direct flight path. We also amended Luton Airport arrival routes.
- We presented our business plan for the next five-year price control (NR23: 2023 to 2027) to the Civil Aviation Authority (CAA) for its review and decision later this year. The plan reflected an extensive consultation with stakeholders. It delivers a safe and resilient air traffic service at affordable prices to airspace users while ensuring NERL is able to finance its activities. It provides capacity for flight volumes to grow back above 2019 levels during NR23 while enabling environmental and fuel benefits.
- The Secretary of State for Transport extended NERL's licence notice period from 10 to 15 years.
- We extended our ATC and engineering contract with London Heathrow Airport by five years to 2030. We have also started the transition of Gatwick Airport's contract which we will operate from October 2022.

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[1] A number of explanatory notes are provided on page 159 of this report. Abbreviations used in this report are provided on page 158.

Contents

Our business model

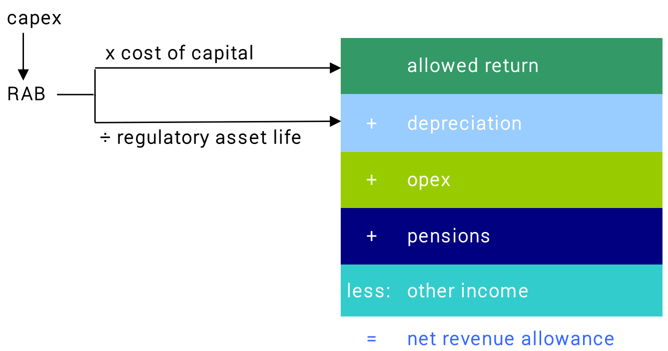
We generate income from Air Traffic Control (ATC) and related services in the UK and overseas, mainly conducted through NERL and NATS Services.

NATS (En Route) plc (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 as amended by the Air Traffic Management and Unmanned Aircraft Act 2021 and is economically and safety regulated by the CAA. Under the regulatory framework, the CAA establishes revenue allowances for a price control period which remunerate efficient investment (capex), operating costs (opex), pensions and an allowed return on the capital invested in the Regulatory Asset Base (RAB) to recover the cost of capital. The CAA has a duty to ensure that it is not unduly difficult for NERL to finance its activities. The CAA is determining a new five-year price control for 2023 to 2027 (NR23).

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

The economic regulatory framework



The CAA's price control framework 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 (NSL)

NSL operates in contestable markets and services UK and international customers. It earns c98% of its revenue in the UK and c76% 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[3] contract that is delivered in partnership with Thales by our Aquila joint venture. Other UK Business includes aeronautical information management, design and data services, digital tower 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. We now own 100% of Searidge Technologies, a Canadian provider of digital tower technology. Our FerroNATS joint venture provides ATC services to airports in Spain. We hold a minority interest in Aireon[4] which provides space-based air traffic surveillance.

Our purpose

Advancing aviation, keeping the skies safe

Our values

We are **safe**	We are **courageous**	We are **one team**	We are **respectful**

Our company in 2040

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

Our strategy to 2040

In the period since the initial outbreak of Covid, the Board assessed the group's strategy and in May 2022 it adopted the outcome of that review. While the company demonstrated its ability to withstand the pandemic, which was the most significant shock ever to its business model, the Board sought to ensure that following Covid the group has a clear strategy for the long term, reflective of the post-Covid world. In completing the review, the Board considered the value the company will bring to its customers, employees, investors and society more generally.

The strategy is designed to drive the company's purpose of Advancing aviation, keeping the skies safe, which is at the heart of why we do what we do and what we are passionate about. The Board also considered the guiding principles underpinning the company's culture and its core values. The review resulted in the Board setting four long term objectives for delivery by 2040:

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

Chairman's statement

Covid

The economic effects of the measures taken by governments to control the Covid-19 pandemic continued to have a significant impact on aviation and our operation. Our licence requires us to provide a service capable of meeting on a continuing basis any reasonable level of demand. While air traffic volumes improved on the prior year, the income we received for this level of flights fell far below the cost of keeping airspace open during the pandemic. Accordingly, our financial focus continued to be on our liquidity and continuing to limit expenditure to what was essential.

Last summer we completed a full debt refinancing which bolstered our financial resilience to the benefit of the aviation sector overall and to ensure we are well placed for a range of recovery outcomes. Operationally, we maintained our focus on protecting our employees while delivering a safe and resilient ATC service. We have taken the actions necessary to support the recovery in aviation by retaining critical skills while also operating cost efficiently.

NR23

We consulted extensively in the year on a new price control (NR23: 2023 to 2027) business plan with airlines, airports, passengers and the CAA. Alongside service quality, our plan focuses on resilience and enables us to progress our technology and airspace transformation programmes.

The CAA will make its decision on our price control in the first quarter of 2023. It is essential that the outcome provides the resources necessary to support the sector's recovery and for investment in the UK's ATC infrastructure. This is alongside recovering the costs for maintaining the service and infrastructure throughout the Covid period, in recognition of the financeability obligations of the CAA and of DfT.

External factors, including Ukraine

Since February the Board has been monitoring the dire situation unfolding in Ukraine and assessing the risks to our business. Air traffic volumes have not yet recovered to pre-pandemic levels. The conflict makes forecasting air traffic volumes in the near term and through NR23 even more challenging. The associated economic consequences will inevitably impact the sector's recovery, potentially prolonging it substantially. In particular, the significant increase in aviation fuel costs will add to already elevated inflationary pressures on air fares, with associated consequences for the demand for air travel which is likely to be affected by the increased cost of living generally.

Cash flow, results and dividends

For a second consecutive year, the cash receipts from our customers failed to cover our daily operating costs let alone the replacement of critical systems. Overall, after the essential investments we continued to make in our infrastructure and the costs of financing our operation, our net cash outflow this year was £124m (2021: net cash outflow £266m).

Total revenue and regulatory allowances of £750m were lower than the prior year (2021: £823m). These have been determined in accordance with applicable accounting standards, in the absence of the CAA determination for 2020 to 2022 (which is due in early 2023). Following Covid, the regulatory mechanism is expected to allow NERL to recover its costs, which were lower in the year and lower than RP3 allowances, allowing airlines to benefit from efficiencies made in response to Covid. The profit for this year of £9m after refinancing costs of £42m, was £47m better than the prior year loss of £38m, which included redundancy costs and asset impairment charges.

The company did not pay a dividend in the year (2021: nil). The Board remains committed to restoring regular dividends once the business and regulatory outlook is more stable.

Strategy

During the period since Covid, the Board has assessed the group's strategy (see page 3), its resilience and considered the opportunities likely to arise post-pandemic. This review, which was completed this year, considered longer-term objectives for the business through to 2040. It recognises the group's role as provider of the nation's critical airspace infrastructure and anticipates: growth in demand from new airspace users, the importance of our talented employees and our role in a sustainable future for aviation.

NERL's licence extension

In September the Secretary of State for Transport extended NERL's licence termination notice period from 10 to 15 years. This is a clear affirmation of NERL's critical role in supporting the aviation sector and its contribution to the UK's prosperity. This was positive news for all our stakeholders.

Environmental sustainability

We are committed to a net zero estate by 2035 with a target aligned with the Science Based Target initiative (SBTi) and during the year we were rated A- by CDP (formerly known as the Carbon Disclosure Project), demonstrating our commitment to environmental stewardship, decarbonisation and best practice. I was pleased that for the second year in a row NATS was included in the Financial Times' list of Europe's Climate Leaders.

Improving fuel efficiency to reduce CO_2 emissions is one of the greatest challenges for the aviation industry. Since early 2020, multiple reports have been published about pathways to decarbonise aviation. These are largely consistent in estimating air traffic management's contribution to decarbonisation at between 4–6% of the overall emissions aviation needs to reduce or offset to achieve net zero by 2050. Free route airspace and, in future, the wider redesign of the airspace network will enhance airspace efficiency, supporting the industry's net zero targets and increase network capacity as traffic volumes grow. There is a significant dependency on airports to agree and deliver their respective changes to lower airspace. Synchronised airspace change of this scale requires the continued commitment of the DfT and the CAA which have sponsored the Airspace Change Organising Group (ACOG), which is under NATS auspices, to coordinate the programme.

Our Board and employees

The membership of the Board remained unchanged since last year's annual report, providing stability as we responded to the challenging environment. The composition, skills and experience of the Board is always kept under review, and over the next year we will need to recruit new members given planned retirements.

The Board has continued to focus on diversity and inclusion, which is explained in more detail on page 32, and maintained its focus on employee wellbeing in response to the pandemic. It has been another very challenging year for our employees and I would like to thank them for their resilience, dedication and commitment in maintaining a safe service for all our customers.

Dr Paul Golby, CBE FREng
Chairman

Chief Executive's review

The aviation sector appears to be at something of an inflection point now with respect to Covid. Air traffic volumes have grown strongly since the start of 2022, albeit with considerable variability from week to week and day by day, and reached close to 90% of pre-pandemic levels during May 2022. While this has presented challenges across the sector, throughout the pandemic we have retained the essential skills to support the recovery in aviation. This was one of our key considerations when assessing our options for cost reductions in response to Covid which were necessary to protect our liquidity. Our focus throughout has been ensuring we could safely support traffic regeneration while continuing to protect our employees. We remain of the view that this was the right decision for us to take.

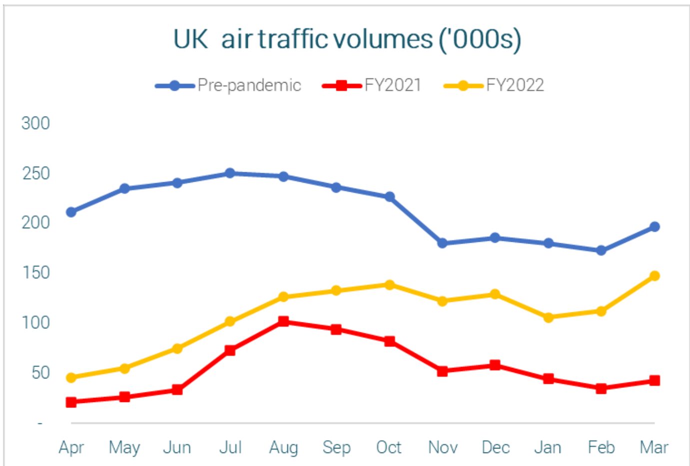
We set three priorities for this financial year to: deliver a safe, efficient and resilient service; secure our long-term finances; and simplify our business to take advantage of opportunities which we expect to arise post-Covid. We have maintained these priorities for this coming year as they remain important and have added a fourth, which is to progress our carbon target zero plan. We are committed to both decarbonising our own estate as well as supporting the aviation sector in meeting its targets.

Air traffic volumes

	2022 ('000s)	2021 ('000s)	Change %
Chargeable Service Units*	6,504	3,389	91.9%
UK flights	1,289	661	95.0%
Oceanic flights	305	164	86.0%

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

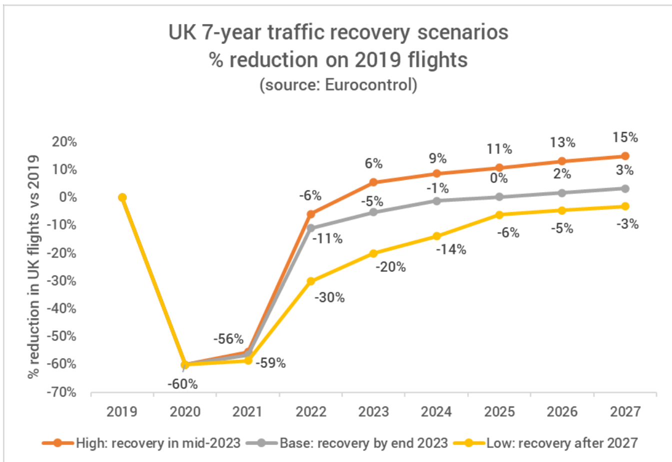
This year we handled 1.29m flights as air traffic volumes recovered to an average of 50% of 2019 volumes (2021: 661,000 or 26%). While undoubtedly positive, this is a relative improvement that needs to be put in context. We estimate that, since travel restrictions to control Covid were first introduced in March 2020 up to 31 March 2022, there have been 3.2 million fewer flights in UK airspace compared with pre-pandemic levels. The loss of revenue this has entailed has required a continuing focus on operating efficiency and liquidity.



During the year, air traffic volumes started to recover from May 2021 with the gradual lifting of domestic and international travel restrictions, reflecting progress with vaccination programmes in the UK and Europe. This growth was not uniform across our network with some airspace sectors and airports much busier than others. The emergence of the Omicron variant later in the year briefly curtailed the recovery but volumes picked up from February 2022.

While recent traffic levels have been encouraging, it remains to be seen whether the rate of recovery will endure through the summer and beyond given the challenging economic environment and geopolitical situation. Both factors make for an uncertain outlook and there is currently no consensus longer-term forecast across the industry.

Understanding the level of demand for our service underpins our operational resourcing, investment plans, service performance and our charges. NERL's NR23 plan was developed as the aviation industry started its recovery from the Covid pandemic and was based on October 2021 forecasts from Eurocontrol, Europe's network manager. Their seven-year recovery projections set out three scenarios which reflected assumptions on the strength of the UK's economic recovery and the ongoing response to Covid and its impact on aviation.



The plan was based on the base traffic forecast, which assumes a recovery to pre-pandemic levels by 2025 and then to historically high levels during the plan period, with additional growth in the years beyond that.

Normally we would have stable trends and reliable estimates of future air traffic forecasts as we develop our price control plans. However, we now have had to offer a business plan covering a broad range of possible scenarios and outcomes. The ATC industry has never faced such a prolonged period of volatility and for this reason we have also planned for a plausible range of scenarios and indicated the trades-offs that would have to be made under each.

In June 2022, Eurocontrol published a new three-year outlook for 2022 to 2024, which projects traffic levels for 2022 at below the base case recovery scenario shown in the graph above but rising above that level in 2023 and 2024. However the implications for air travel demand in the short and medium term remains unclear given cost of living pressures and the potential for higher jet fuel prices to impact air fares. Eurocontrol will provide its next seven-year forecast (covering the NR23 period) in October 2022. Given this uncertainty, it will be critical for the CAA to assess its proposals for NR23 in light of the latest forecast available to ensure prices and service performance outcomes are calibrated as closely as possible to projected traffic levels. We stand ready to assist the CAA with this assessment.

Securing a revised regulatory settlement

The development of NERL's business plan for the NR23 price control was a significant focus this year. It was developed in consultation with airline and airport customers, as well as being informed by passenger research (see page 31 for more information on the Board's engagement with stakeholders in this respect). Customers generally supported the continuation of safety, capacity and environmental metrics and targets while ensuring these are appropriately calibrated and sufficiently stretching for the level of flights forecast. They also supported a margin of resilience in operational resourcing to accommodate the potential for traffic to exceed base case demand. Passengers valued safety, environmental factors and resilience more than cost.

Overall our plan delivers:

- a safe air traffic system under any recovery scenario, which continues to be our top priority;
- an efficient service level, similar to RP2 (2015-2019), underpinned by operational and technical resilience;
- cost effective prices to support industry recovery, including deferring recovery of the 2020 to 2022 revenue shortfall;

- capacity increases to support 2027 traffic growth up to 15% higher than 2019 volumes, which themselves were the highest levels ever experienced;
- enhanced environmental and fuel benefits consistent with achieving UK aviation's target of net zero carbon emissions by 2050 and meeting increased societal expectations of aviation; and
- appropriate financial resilience against a slower recovery or future traffic/economic shocks, essential for maintaining the critical national infrastructure we manage.

In order to achieve these objectives during NR23 we will continue to develop and train the next generation of air traffic controllers to mitigate expected retirements, safely meet projected demand and provide further operational resilience. We will also progress our technology transformation programme, started in RP2 (2015 to 2019), while sustaining our legacy technical equipment, and we will advance airspace modernisation to improve environmental performance and accommodate future traffic growth. We will invest in solutions which support our target of net zero carbon emissions across our estate by 2035.

The CAA is expected to reach its final decision in the first quarter of 2023 on the NR23 price control, as well as its retrospective review of 2020 to 2022 for the impact of Covid. In order to achieve the plan the price control will need to provide the resources to deliver the operational service, technology change and airspace modernisation to meet stakeholder priorities for the future.

Strengthening our UK Airports portfolio

Our airport customers have continued to recognise the support that we have been providing to them during this very challenging period. I was delighted that we were able to extend our strategic partnership agreement with London Heathrow Airport to 2030. We have also started to work on the transition of Gatwick Airport's ATC and engineering service which we will provide from October 2022. We now have the longest order book of contracts with airport customers in recent years and can focus on supporting them with the return of traffic and implementing new technology to support service performance and efficiency.

Employee relations

Alongside the company, our employees have faced exceptional challenges, both professional and personal during this period. The company has experienced its worst ever financial threat and continues to face significant uncertainties from Covid, the rate of traffic regeneration and the geopolitical situation. Meanwhile we are financing the deferral of the recovery of our revenue entitlement in order to support the sector's recovery. Nevertheless, we have done everything we can to support our employees, protecting everyone as much as possible, both in terms of health and wellbeing as well as job security and pay.

While the economic environment has made for difficult conversations and a challenging period for industrial relations, we have sought to recognise everyone's contribution in supporting the company over the past two years. Despite the challenges the company has faced there have been several actions taken to protect employees during the pandemic, including for furloughed staff. At the peak of the pandemic's impact on traffic volumes in summer 2020, we had 2,180 staff actively furloughed, almost all of whom continued to receive 100% of their pay. We also continue to provide attractive benefits, such as the defined benefit pension scheme for which we will contribute 66% of pay from 2023 while its 1,600 employee members generally contribute 6%. We recently offered staff a pay rise from January 2022, together with a lump sum to recognise the impact of current inflationary spikes. While, similar to many companies, challenges inevitably remain we continue to engage and consult in a constructive and positive manner seeking to balance the recognition of the contribution our employees make and the wider challenges facing the aviation sector.

A central priority is to significantly advance our progress toward creating a truly diverse and inclusive business at all levels to ensure that we retain and attract the very best talent. I feel that this year we made some real progress on that journey. We established a diversity and inclusion (D&I) steering group, which I chair, which includes D&I leads from across the business and our employee networks and trade union representatives. This followed the creation of a D&I vision by employees during National Inclusion Week, which we marked for the first time this year with a series of virtual sessions on D&I which engaged people across all areas and levels of the business. This is the first time that, despite the measures we have taken over the years to improve diversity, we have had a forward-looking and, rightly, ambitious D&I vision, which states what type of organisation we want to be. The most valuable aspect though comes from creating an inclusive, safe and enjoyable place to work for all of us. We have started to recruit again, after freezing new hires due to Covid, and we have reviewed our processes to ensure that we attract a broad range of talent enabled by a fair and inclusive process.

We are continuing to develop our operational service resilience as traffic recovers, and this is reflected already in our response to operational training. Our training college, which was closed during Covid, is now undertaking ab initio operational training. We have also continued to extend the sector validations of our air traffic controllers, achieving more new validations than planned. Our S172 statement provides a comprehensive review of the Board and executive engagement with employees in the year.

Our role in a sustainable future

In 2020, the UK aviation industry, including NATS, made a commitment to net zero emissions by 2050 and during consultations on the NR23 plan customers and passengers supported ambitious environmental targets. Our plan aims for a reduction in carbon emissions of 4.4% between 2020 and 2035, in line with independent assessments of the contribution air traffic control can make to overall aviation emissions reduction.

We will achieve this through a range of measures including optimising flight paths to reduce aircraft fuel burn and CO_2 emissions and delivering airspace modernisation. This will sit alongside the benefits of our current environmental programme, which has delivered annual emissions savings of around 1.5 million tonnes of CO_2 each year compared with 2006 levels.

While the greatest CO_2 savings for aviation are expected to be made through new aircraft and engine technology and sustainable fuels, these are still many years away. In the short term, managing our airspace to enable more efficient flying can play a crucial role in mitigating emissions. During the year we implemented free route airspace over Scotland by removing the long-established air routes above 25,000 ft, allowing aircraft the freedom to plan and fly their optimal route. This flexibility has not previously been possible, with our airspace structure requiring aircraft to follow predefined routes. Up to 2,000 flights a day use this crucial part of UK airspace, which supports 80% of transatlantic traffic. This introduction, which is the biggest ever geographical airspace change in the UK, will help reduce airline costs, flight time, fuel burn and save 10,500 tonnes CO_2 emissions annually. We are now targeting free route airspace over Wales and South West England in 2023.

Progress with the wider and more complex airspace modernisation of the South East and London area, which we have planned for NR23, 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.

In spite of the challenges the pandemic has posed, jointly sponsored by London Luton Airport and following extensive public consultation in 2021, we implemented a change to the airport's arrival routes which segregated them from Stansted Airport to reduce complexity and ensure continued safety. This change increases capacity in the Luton and Stansted area in time for summer 2022 traffic. It also supports the resilience of our service at these airports to changing patterns of demand between these airports, which was a focus of the CAA's 2020 Project Palamon report.

Acquiring Searidge Technologies

During the year we acquired full ownership of Searidge, a Canadian digital tower and artificial intelligence company, in which we have held a 50% interest since 2017.

Since our initial investment in Searidge it has established itself as a world leader in the growing digital tower market. Today, it is involved in supporting our work with CAAS (Singapore's civil aviation authority) to deliver Singapore's innovative smart tower, as well as leading on Airport Authority Hong Kong's project to deploy a single digital tower and apron platform at Hong Kong International Airport. Searidge's work supporting us with Heathrow's 'tower in cloud' project is well known, and it has many direct customers in Europe and North America as well. We expect digital towers to become an important part of the future of ATM, and Searidge is pivotal in how we intend to support our customers in this systemised, digitised environment.

Concluding remarks

We clearly still have some way to go before the industry is recovered and while the sector is optimistic for a stronger summer this year than last year, the longer-term outlook for air travel demand remains uncertain due to the current geopolitical landscape, economic situation and continued presence of Covid. There is also the risk that the traffic levels recover unevenly across our network. We have become accustomed to operating with uncertainty over the last two years and have taken steps to ensure that we are more operationally and financially resilient to a range of recovery outcomes across our airspace and airports activities. In 2020 we agreed with the CAA that it was appropriate to defer the start of the next price control until 2023, in the expectation that the operating environment and outlook for air traffic volumes would be more stable and reliable as a basis for the NR23 price control. However significant forecasting uncertainty remains. While our NR23 business plan is for a resilient service which can cope with more variability in outturn traffic from the levels currently forecast, we are looking to the price control to provide the resources and incentives for such an environment.

Martin Rolfe, FRAeS
Chief Executive

Business review

Delivering a safe, secure, efficient and resilient service

- Service performance

Service performance: calendar year	2021 Target	2021 Actual	2020 Target	2020 Actual
C1: avg. en route delay all causes (seconds)	19.2	0.4	15.6	1.2
C2: NATS avg. delay per flight (seconds)	15.0	0.3	12.0	1.0
C3: delay impact (score)[5]	30.0	0.6	24.0	1.0
C4: delay variability (score)[5]	1,800.0	0.0	1,800.0	0.0
C3Di: 3Di metric (score)[6]	25.9-28.6	22.8	26.4 -29.2	23.9

The C1 metric is a Functional Airspace Block (FAB) level target.
C3 target is the C3 Upper target unmodulated to reflect traffic for 2021 and 2020 which was significantly below CAA's price control forecast. Actual scores are stated after modulation.

Our service performance continued to reflect the low volumes of air traffic handled in the year, with negligible average delay per flight attributed to our operation and more fuel efficient flight profiles being achieved. These measures were well within the regulator's target which did not foresee the pandemic. As for the prior year, we have told customers and the regulator that we will not seek to recover our entitlement to a service bonus as performance has been driven largely by low traffic volumes associated with the impact of Covid.

While through the Covid period we have been able to contain average delay per flight at close to zero, as traffic recovers it is inevitable that this will increase. This is reflected in our proposed target for NR23 which is an average delay per flight of 10.8 seconds, consistent with pre-Covid levels of performance.

One of the stand-out events of the year was the 26th UN Climate Change Conference of the Parties (COP26) in November hosted by the UK in Glasgow. This was a highly complex ATC operation, of a level not seen since the London 2012 Olympic Games, and was managed safely and efficiently by our operational and engineering teams. It required months of careful logistical planning including coordination with DfT, Police Scotland, airlines and airports. The high numbers of priority VIP, business jet and helicopter flights were safely managed alongside the normal commercial traffic by Glasgow Airport ATC as well as Prestwick Centre ATC sectors.

- Maintaining operational service resilience

Our priority following Covid has been to protect our employees while maintaining a safe and resilient air traffic control service for our airline and airport customers. Operational employees who continued to work from our two air traffic control centres, and at airports where we provide an ATC service, did so under social distancing rules. As a result we had to suspend our training and simulations capability. The collapse in flight volumes in 2020 also required a careful assessment of our future staffing, which resulted in the suspension of our ab initio training. We also faced the complexity of maintaining air traffic controller validity when combining periods of furlough alongside attendances in a low traffic environment.

Throughout the period since the outbreak of the pandemic, we have ensured that we have maintained the critical operational skills to support the recovery in aviation. The gradual lifting of government travel restrictions, social distancing rules and the start of a recovery in air traffic volumes enabled a phased and carefully managed return to training operational employees last summer and ab initio training in March 2022. At the start of the financial year, in anticipation of a recovery in demand last summer, we implemented a simulation programme for operational employees at our centres to maintain skills on higher levels of traffic. We also provided specific training to Prestwick controllers ahead of the deployment of free route airspace over Scottish airspace and to our terminal controllers at Swanwick for the airspace change for London Luton and Stansted airports.

Notwithstanding the challenges presented by the pandemic, the training programme this year delivered more validations to our en route operation than in the year prior to Covid and has enabled us to maintain the overall rosterable supply of controllers in spite of employee retirements in the period.

- Safety management

The focus of our safety management activities during the year was the mitigation of safety risk in anticipation of the recovery in air traffic volumes as Covid travel restrictions eased and eventually lifted. As reported below, we continued to maintain a safe ATC service during this challenging period.

Since the start of the pandemic we have kept our occupational health and safety guidance under continuous review, to ensure the risks to the operation and our colleagues are carefully managed. While social distancing and other Covid restrictions across our sites have now been lifted, local Covid risk assessments remain in place.

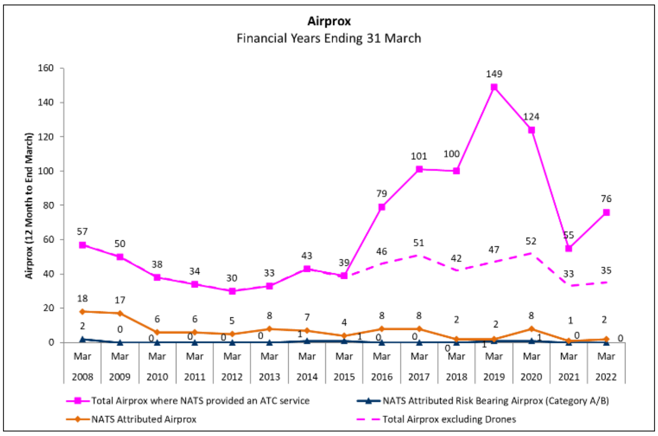
The low volume of air traffic movements for much of the year required continued heightened operational vigilance and situational awareness. We undertook comprehensive assessments of the risks associated with this environment and proactively reviewed the operational effectiveness of mitigating actions. The traffic regeneration board oversaw the safe regeneration of air traffic volumes across the network, with appropriate assurance measures in place to ensure the operation is well prepared.

In line with our top priority on safety, an organisation-wide safety survey was also completed as traffic volumes recover.

- Safety performance

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

Our safety performance is measured using the Risk Analysis Tool (RAT[7], 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.



There were no-risk bearing category A or B airprox attributable to NATS during the financial year (2021: none). There was an increase in the total number of airprox where NATS provided a service during the year accounted for by an increase in Remotely Piloted Aircraft System (RPAS or drone) related events. The total number of airprox in NATS airspace remains well below a pre-pandemic peak when traffic volumes had been at historically high levels.

The RAT point score is measured on a calendar year basis. For 2021 we recorded 444 points (2020: 409). This included four 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. We met all our internal safety targets for the group.

Finally, the overall number of infringements of controlled airspace has recently exceeded the average for 2015 to 2019, although the number of associated losses of separation remains well below the average for this period.

We continue to participate in the CAA Airspace

Infringement Working Group (AIWG) and assist in production of educational material to publicise hotspots and promote Threat & Error Management to general aviation pilots through the Airspace & Safety Initiative website.

Technology transformation

In response to Covid, in the prior year, we paused much of our capital investment portfolio to address the significant liquidity challenge and reduce on-site attendance to protect both our employees and suppliers. Before restarting the programme, we engaged with customers to reassess future needs considering the impact of the pandemic, historical and also ongoing constraints, and we agreed a revised plan that takes account of the challenges we have faced this year in attracting the right technical engineering resources and skills as well as the ability of our suppliers to scale up following Covid.

Following customer feedback and in light of these after-effects of Covid, we have extended the delivery timeframe for new technology to replace ageing systems, increased investment to sustain the resilience of legacy equipment in the interim, and are proposing capital investment of between £110m and £120m per annum (in 2020 prices) in NR23 to reflect our capacity to implement change in this period. Alongside this we will continue to progress airspace modernisation (discussed above). This ensures we can meet our service performance targets, deliver customers' priorities and provide the necessary capacity for future demand.

This financial year we invested £92m (2021: £71m, reflecting the pause). This included £57m for our DP En Route & Voice platforms. These will provide a common technology platform across our two air traffic control centres for our domestic en route services with a new controller working position, flight data processing capability and a new voice communications system. We are now in the final stages of the build phase. During the year we tested the performance of our controller tools operating fully integrated on the core strategic infrastructure, using live operational data feeds. We are now well placed to scale up the infrastructure and complete further testing and assurance in advance of deployment during NR23. This is a highly complex system, with significant challenges and risks to both delivery timescales and cost. It is fundamental to our strategy of replacing ageing legacy assets with modern systems and an enabler for airspace modernisation which is strategically important for us and customers.

Financial review

Results overview

The group reported a profit before tax of £8.7m (2021: £37.8m loss) and an operating cash outflow of £172.5m (2021: £264.5m outflow) as Covid continued to have a significant impact on our financial performance. The principal year on year movements explaining the result are summarised below:

	£m	£m
2021 loss before tax		(37.8)
Revenue and regulatory allowance changes		
Airspace	(65.1)	
Airports	9.0	
International	(9.0)	
Other (net)	(8.1)	
		(73.2)
Operating cost changes		
Salaries and pensions	2.0	
Job retention scheme grant	(31.6)	
Voluntary redundancies	63.3	
Capitalised internal labour	13.6	
Staff costs		47.3
Depreciation and asset impairment	20.8	
Other non-staff costs net	1.6	
		22.4
Goodwill impairment		111.0
Fair value gain on previously held interest in joint venture		4.4
Finance cost changes		
Fair value movements	(40.5)	
Refinancing-related costs	(41.7)	
Other net finance costs	16.8	
		(65.4)
2022 profit before tax		8.7

The improvement in the result mainly reflected:

- in the prior year, costs of staff redundancies (of £65.2m) to reduce the cost base in response to Covid and goodwill impairment (of £111.0m);

the impacts of which were partly offset in this financial year by:

- lower furlough grant income support;
- the cost of refinancing the debt structure to provide additional liquidity for the recovery of aviation; and
- a fair value charge on derivatives, mainly reflecting the market's expectation of higher inflation.

After the tax charge, which is explained below, the group reported a loss of £27.6m (2021: £50.6m loss).

Protecting our liquidity in response to Covid

Despite a recovery in air traffic volumes from the unprecedented low levels of 2021, volumes for the financial year averaged just 50% of pre-pandemic levels. At this level, the income we received was far below the cost we incurred for operating the UK's national airspace infrastructure and resulted in a net cash outflow from our operating activities for the second successive year. While the CAA is undertaking a retrospective reconciliation of our income and costs to establish the shortfall in regulatory allowances we will be able to recover, this recovery will be spread over a five to seven year period from 2023 consistent with affordable charges that support the recovery in traffic levels.

Given this cash shortfall, our focus since the pandemic has been to protect our liquidity and to limit our expenditure to what is essential. This year has also included focus on sustaining the benefits of the significant cost reductions made in the prior year. In particular, we maintained the freeze on new employee recruitment in place since April 2020 until March 2022, when we judged it necessary to restart ab initio training to safeguard the operational skills to meet future demand, and we continued to furlough employees under the government's job retention scheme while balancing our resources to support the sector as travel restrictions eased.

Refinancing

As a further response to the impact of Covid, 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 by 31 March 2031; and £300m of 12.5-year bonds with a bullet repayment at 30 September 2033. The new bank facilities consisted of a £400m three-year revolving credit facility and a £450m two-year bridge facility, the terms for both being extended by a further year in March 2022. This new debt was arranged on a senior unsecured basis, meaning that the project finance style senior Whole Business Securitisation (WBS) secured debt structure that had existed since 2003 was replaced by a debt structure that is more typical of a strong investment grade company such as NERL. 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 on the RP3 price control 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 from 2023, making charges more affordable and aligned with traffic regeneration.

In conjunction with the June 2021 refinancing, we amended the inflation hedging arrangements with new RPI swaps at a notional value of £200m and terminated part of the RPI swap in place since 2003. The combination of the refinancing and the ongoing actions to preserve liquidity has provided the company with long term, suitable, efficiently incurred funding to deal with the impact of Covid and a range of recovery outcomes ahead of a new regulatory price control settlement, and the recovery of the revenue shortfall.

Revenue and regulatory allowances

	2022	2021
	£m	£m
Airspace	593.2	658.3
Airports	113.9	104.9
Defence	21.0	28.2
Other UK business	11.0	11.9
International	10.7	19.7
Total	749.8	823.0

Overall, revenue and regulatory allowances at £749.8m (2021: £823.0m) were £73.2m lower than last year. By service line the significant developments were:

Airspace: £65.1m (9.9%) lower than last year overall. While revenue from contracts with customers and other revenue at £391.2m (2021: £241.1m) improved by £150.1m as a result of the growth in traffic volumes, regulatory allowances of £202.0m (2021: £417.2m) were £215.2m lower mainly reflecting our assessment under accounting guidelines of the outcome of the CAA's retrospective reconciliation. In light of Covid, we agreed the CAA should determine the shortfall in regulatory allowances by reference to actual costs and revenue from flights in the three years 2020 to 2022. The practical effect of this mechanism is to enable NERL to recover its efficient costs for operating the UK's airspace infrastructure notwithstanding the collapse in flights and income to fund this licence obligation. Accordingly, alongside recovering more income from flights handled, NERL's ability to operate its service at lower cost during the financial year is reflected in a reduction in the regulatory allowances required to make up the shortfall. In the prior year, regulatory allowances also included £36.9m to recover higher pension contributions in the Reference Period 2 (RP2) price control than the CAA had forecast.

Revenue from North Atlantic en route services increased, reflecting the recovery in air traffic volumes, with no volume risk sharing mechanism allowed for in the licence.

Airports: revenue was £9.0m (8.6%) higher mainly reflecting the unwinding of price concessions provided to airport operators in the prior year. However, engineering project income was lower as airport operators continued to curtail their asset enhancement programmes in light of Covid.

Defence: at £21.0m was £7.2m lower (25.5%), reflecting the delivery schedule for the Project Marshall asset provision contract, which is expected to complete in 2023.

Other UK business: revenue reduced by £0.9m (7.6%) on lower windfarm mitigation activity.

International: revenue was lower by £9.0m (45.7%) as customers continued to delay their capacity enhancement projects in response to Covid. This was particularly prevalent in Hong Kong where the demand for our supply contract has been curtailed alongside the reduction in traffic volumes there.

Operating costs

Operating costs before goodwill impairment decreased by £69.7m or 9.7%, in large part reflecting staff redundancies net of furlough grant support in the prior year.

	2022	2021
	£m	£m
Staff costs (excl. redundancies and furlough grants)	(440.5)	(456.1)
Staff redundancies	(1.9)	(65.2)
Job retention scheme grant	5.5	37.1
Non-staff costs	(132.9)	(134.6)
Depreciation and amortisation, net of grants	(84.9)	(105.7)
Profit on disposal of assets	0.4	0.4
Other operating income	2.8	2.9
Operating costs before goodwill impairment	(651.5)	(721.2)
Goodwill impairment charge	-	(111.0)
Total operating costs	(651.5)	(832.2)

Staff costs, excluding redundancies and furlough grants, were £15.6m lower at £440.5m (2021: £456.1m). This reflected the benefit of a lower headcount following redundancies in the prior year as well as an increase in labour capitalised following the pause in the prior year of all but essential and sustaining capital investment. The number of employees in post at 31 March 2022 at 4,099 was a reduction of 128 on the prior year.

Non staff costs reduced by £1.7m. This included the write back of expected credit loss provisions made in the prior year when the settlement period for en route charges was extended to support airlines, and lower contract project delivery costs. These were partly offset by higher utility costs and satellite surveillance charges supporting more North Atlantic flights.

Depreciation and amortisation (net of grants) were £20.8m lower at £84.9m (2021: £105.7m) mainly reflecting lower asset impairment charges.

NERL's goodwill was not impaired in 2022, supported by its fair value less cost of disposal represented by the regulatory asset base with a premium of 5%

(2021: 0%). The prior year's result included an impairment charge of £111m which reflected the impact of Covid on the demand for air travel and uncertainties in respect of the timing and extent of traffic returning, the outcome of the CAA's retrospective reconciliation and its NR23 price control determination.

Net finance costs and fair value movements on financial instruments

One-off refinancing costs of £41.7m were associated with the debt refinancing transactions explained above. Excluding these costs, net finance costs of £9.8m (2021: £26.6m) were £16.8m lower than the prior year reflecting the lower cost of new debt.

A fair value charge of £44.5m (2021: £4.0m) this year mainly related to a change in the valuation of RPI swaps reflecting the market's expectation of higher inflation in future. The swaps provide a partial economic hedge for NERL's revenue allowance for financing charges but are not eligible for hedge accounting under IFRS.

Taxation

The tax charge of £36.3m (2021: £12.8m) mainly reflects a charge of £37.6m for deferred tax balances expected to be realised after April 2023 which have now been provided for at 25%, up from 19% previously, following the increase in the main rate of corporation tax from that date.

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 operating costs. The group's tax strategy can be viewed at www.nats.aero.

Regulatory return

NERL's regulatory return for calendar year 2021 was a pre-tax real profit of 0.27% (2020 calendar year: a pre-tax real loss of 2.53%) compared with the expected regulatory return of 3.48% in the CMA's RP3 price control decision. This mainly reflects the regulatory mechanism put in place to deal with Covid, with the CAA undertaking a retrospective reconciliation of cost and revenue over the 2020 to 2022 period to determine the revenue shortfall.

Balance sheet

	2022	2021
	£m	£m
Goodwill	45.7	38.3
Tangible and intangible fixed assets	1,099.7	1,077.6
Right-of-use assets	42.9	47.0
Investments	40.3	39.1
Pension scheme surplus/(deficit)	331.5	(31.5)
Regulatory allowances recoverable	724.6	444.9
Regulatory allowances payable	(169.1)	(139.4)
Cash and cash equivalents	148.0	272.1
Derivatives (net)	(77.0)	(102.5)
Borrowings	(938.9)	(711.0)
Lease liabilities	(58.6)	(63.9)
Deferred tax liability	(242.7)	(118.7)
Other net balances	(94.0)	(142.9)
Net assets	852.4	609.1

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

Overall, net assets increased in the year mainly following the change in the IAS 19 funding position of the defined benefit pension scheme to a surplus of

£331.5m (2021: deficit £31.5m - see below), and the loss after tax for the year.

Capital investment

	2022 £m	2021 £m
SESAR deployment	56.5	51.5
Airspace modernisation	8.1	5.0
Infrastructure	7.1	4.2
Operational systems	18.5	6.9
Other	1.3	3.0
Regulatory capex	91.5	70.6
Military systems	0.3	0.1
Other non-regulatory capex	8.3	8.1
Capital investment	100.1	78.8

The group invested £21.3m more in the year as the capital investment programme was remobilised following a six month pause during the prior year of all but essential and sustaining capital investment. That pause protected liquidity and enabled the scope of plans to be reviewed against the revised priorities of our customers and the regulator.

Searidge Technologies Inc

In December the group paid £4.3m to acquire full ownership of Searidge, previously a 50% joint venture (see note 34 to the accounts). The group's original 50% interest was revalued, resulting in an income statement gain of £4.4m. The transaction also resulted in acquisition goodwill of £7.4m and the recognition of intangible assets of £3.3m representing Searidge's developed technology and contract backlog.

Defined benefit pensions

The group operates a final salary defined benefit pension scheme with 1,591 employee members at 31 March 2022 (2021: 1,653). 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 32 to the financial statements.

a. IAS 19 charge and funding position

The cost of defined benefit pensions at £81.6m (2021: £66.5m) reflected a higher accrual rate of 60.6% (2021: 43.7%) of pensionable pay, reflecting lower real interest rates at the start of the financial year.

IAS 19 pension surplus	£m
At 1 April 2021	(31.5)
Charge to income statement*	(81.6)
Actuarial gains/(losses):	
- on scheme assets	393.3
- on scheme liabilities	(38.6)
Employer contributions*	89.9
At 31 March 2022	331.5
Represented by:	
Scheme assets	5,289.2
Scheme liabilities	(4,957.7)
Surplus	331.5

* including salary sacrifice

At 31 March 2022, the scheme's assets exceeded its liabilities by £331.5m (2021: £31.5m deficit) 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 increased by 20 basis points, reducing liabilities alongside a 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 2020 which reported a funding deficit of £171.9m (equivalent to a funding level of 97%). This is a £98.5m improvement in the funding position since the 2017 valuation. The scheme's actuary also determined that the cost of employee benefits accruing in future was 66.2% of pensionable pay. This is a 24.4 percentage point increase on the 2017 valuation (of 41.8%) and the highest cost we have ever faced. Contributions will reflect this from January 2023, as well as a recovery plan agreed with Trustees which aims to repair the deficit by December 2029. This will require deficit payments of £27.2m from calendar year 2023, increasing annually by 2.37%.

During this financial year the company paid deficit contributions of £26.2m and paid contributions at a rate of 41.7% of pensionable pay under the schedule of contributions agreed following the 2017 valuation.

Net debt, liquidity and cash flows

	Cash and cash equivalents	Borrowings (including lease liabilities)	Net debt
	£m	£m	£m
Balance at 31 March 2021	272.1	(774.9)	(502.8)
Cash flow	(124.3)	(245.5)	(369.8)
Non-cash movements	0.2	22.9	23.1
Balance at 31 March 2022	148.0	(997.5)	(849.5)

At 31 March 2022, the group's net debt was £849.5m (2021: £502.8m). It comprised £747m in bonds and £200m of drawings under bank facilities, less unamortised costs and fees, and £58.6m of lease liabilities recognised under IFRS 16. These were partly offset by £148.0m of cash and cash equivalents.

Net debt increased in the year as the low traffic levels yielded revenue receipts which continued to fall below the level required to finance our operation day to day as well as our capital investment programme. This was in spite of the extensive measures taken to reduce the cost base and preserve liquidity.

Following the refinancing in June 2021, we have secured sufficient liquidity to provide financial resilience for a range of traffic recovery scenarios, as well as an extended period for recovering the shortfall in regulatory allowances owing from 2020 to 2022.

At 30 June 2022 the group had available liquidity of around £780m. Our cash flow forecasts show that the group should be able to operate within the level of its bank facilities and within its financial covenant for a period of at least twelve months from the date of issue of this report including under plausible stress scenarios, where appropriate mitigating actions would also be undertaken.

Alistair Borthwick

Chief Financial Officer

Going concern

The 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 21 the group's objectives, policies and processes for managing its capital and its financial risks and details its financial instruments and hedging activities.

Despite the challenges that Covid continued to pose over the last financial year to aviation and for the demand for air travel and, more recently, the challenging economic and geopolitical environment, as described in the Financial review the group successfully completed a full refinancing in June 2021 with issuance of £750m of unsecured bonds and agreement to a £400m unsecured revolving credit facility and a £450m unsecured bridging facility, the terms for both facilities being extended by one year in March 2022. The refinancing enabled pre-existing secured bonds and secured bank facilities to be repaid. At 31 March 2022, the group had cash of £148.0m and access to undrawn committed bank facilities totalling £650m: the £450m bridging facility expiring in May 2024 and £200m of the revolving credit facility expiring in May 2025. At 30 June 2022, the group had cash and undrawn bank facilities of around £780m.

Management has prepared and the directors have reviewed cash flow forecasts covering a period to September 2023, being at least 12 months from the date of approval of these financial statements. The directors have had regard to reasonably plausible changes in trading performance as well as severe traffic volume scenarios individually and in combination. These reflect the significant estimation uncertainty as to the timing, rate and extent of recovery in air traffic volumes in light of the economic and geopolitical situation, 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 October 2021 pessimistic case (see page 7); a further prolonged wave of Covid and related travel restrictions whereby volumes remain at 20% of pre-pandemic levels for a 12-month period from July 2022, being the most severe traffic scenario; that this Covid scenario results in a 20% loss of airport contract income, in the event of airport closures; that the Covid revenue shortfall is recovered evenly over a 10 year period (compared to a base case assumption of a 75% recovery in NR23 and 25% in NR28). Finally, a combination scenario was also performed of lower air traffic volumes (at 50% of pre-pandemic levels), a recovery of the revenue shortfall evenly over a 10-year period and an inefficiency adjustment applied to the revenue shortfall assumed by the CAA. Under the most severe scenario the group maintains adequate liquidity (of £184m) and headroom (NERL gearing at 71%) to meet its covenant (NERL gearing at 85%), prior to mitigating actions (such as cost savings and deferring investment).

The directors have also considered, through a reverse stress test, the point at which liquidity would be utilised or the financial covenant would be breached before both mitigating action and regard to the financeability duties of the CAA and Secretary of State for Transport. The reverse stress tests considered severe traffic volumes, unplanned expenditure and the recoverability of regulatory allowances. Taking all this into account, the 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 22, and the effectiveness of currently available mitigating actions. In particular, the directors assessed the solvency and liquidity risks arising from further waves of the Covid 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 2025.

This period of assessment reflects the last six 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 30 months of the five-year NR23 price control starting 1 January 2023, which is being 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 rate and extent of recovery in air traffic volumes and its endurance in light of the macroeconomic outlook, 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 ongoing consultation on the redetermination of the new price control which the Board expects will be completed in the first quarter of 2023, after approval of this annual report.

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 Covid-related revenue shortfall and the redetermination of a new five-year price control from 2023, taking into account the general duties of the CAA and the Secretary of State for Transport under the Transport Act 2000 to exercise their functions in the manner they think best calculated to secure that NERL will not find it unduly difficult to finance its licenced activities;
- The term of NERL's bank facilities: the directors have a reasonable expectation that NERL will meet the conditions of its banking covenant and be able to raise funds in the bank or debt capital markets as required;
- Defined benefit pensions: the trustee's formal valuation at 31 December 2020 and the agreed schedule of contributions. The directors consider that NERL's contributions will be recovered through the new price control starting 2023, and future reference periods, including any additional contributions required arising from unforeseen changes in financial market conditions during NR23. This is further supported by the CAA's issuance of a Pension Regulatory Policy Statement in April 2021. 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 appetite and tolerance, internal controls and the progress of 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 the '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 on page 20. Further explanation of the impact of Covid on specific key risks is included in the commentary which follows. The estimation uncertainties arising from Covid are explained in note 3 of the financial statements. A summary of risk management and internal control processes is on page 48.

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

This risk is related to a failure of NATS ATM controls that results in an accident in the air or on the ground which would have significant impact on customers or NATS. The reputational damage could result in the loss of future contracts and a reduction in revenue. The financial loss could also be significant. If notice were given by the Secretary of State requiring NERL to take action as a result of the accident and NERL were unable or failed to comply then ultimately this could result in revocation of NERL's licence.

As a provider of a safety-critical service, safety is the company's highest priority. NATS targets compliance with all targets set out in the regulatory price control. 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.

Traffic regeneration and forecasting has remained a consistent area of focus throughout the Covid pandemic. A NATS wide Regeneration Review Board has met on a fortnightly basis to review the ongoing risks and ensure appropriate activities are in place to mitigate these. A range of training packages were delivered to support the expected increase in traffic, supplemented by an Operations wide safety campaign which raised awareness of potential risks associated with traffic regeneration from across the aviation industry.

Strategy: air travel demand

The demand for air travel can be sensitive to macro-economic and geopolitical conditions, including government travel restrictions to control pandemics and public concern as to the sustainability of aviation. NERL's regulatory allowances are recovered through charges based on the CAA's forecast of air traffic volumes during a price control period. The regulatory framework includes a traffic risk mechanism which enables NERL to recover shortfalls of income through future charges. A general duty on the CAA and Secretary of State to ensure that NERL does not find it unduly difficult to finance its licensed activities provides mitigation against severe traffic shocks, as has been the case with Covid, resulting in a redetermination of the price control. NATS Services contracts for the provision of ATC services to airport operators at fixed prices for a contract term. The financial strength of airport operators is monitored for the impact of reductions in air travel demand.

The conflict in Ukraine has also triggered a review across the business to determine the potential impacts on NATS over the short, medium and longer term, including those upon air travel demand. There has not been a significant impact so far, but the forecast is being closely monitored and recalibrated.

Strategy: regulatory settlement

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

The CAA'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) and seek to allow the recovery of revenue consistent with supporting NERL's financeability. The CAA indicated that this recovery may be over a significantly more extended period than the current two-year lag and should be consistent with affordable charges that support the recovery in traffic levels. The impact of the CAA's assessment will not be known until the first quarter of 2023, 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 employee absences due to the pandemic was mitigated initially by the lower traffic volumes, closely followed by strict social distancing measures, separate rosters and absence tracking measures being 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, employee training, security monitoring and incident management. The risk has elevated since the invasion of Ukraine, which comes on top of a slight increase since Covid due to working from home. This is being managed by increased and focussed vigilance including additional technology security controls and heightening employee awareness of cyber threats. Close working relationships are maintained between 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

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

The impact of Covid on our employees and the group's financial position has required more dialogue with trades unions on a range of challenging issues, including redundancy and redeployment terms and employee pay. We strive for constructive relationships with our trades unions and we remain committed to the partnership approach, and to engaging and consulting in a constructive and positive manner recognising the contribution our employees make and the wider challenges facing the aviation sector.

Transformation: portfolio delivery

The complex deployment of new technology and retirement of legacy systems could affect our ability to maintain service levels during transition and require additional costs to sustain legacy systems and support deployment during this period. 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. We responded to the impact of Covid on the company's liquidity and the likely future capacity requirements of airline customers by suspending all but essential and sustaining capital investment for a six-month period during 2020/21. Before restarting this programme we engaged with customers to reassess future needs considering the impact of the pandemic. A revised capital programme is reflected in our NR23 business plan.

Financial: defined benefit pension scheme

Adverse movements in the value of scheme assets and liabilities arising from factors such as lower investment returns, lower real interest rates and improving life expectancy may increase the size of the funding deficit and result in significant contributions to fund pension benefits. The Trustees completed a formal valuation as at 31 December 2020, which reported a funding deficit of £172m 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: availability of funding and other risks

The main financial risk to the group relates to the availability of funds to meet business needs (including meeting obligations to the pension scheme). In June 2021 NERL completed a full refinancing of its debt structure which ensures it is well placed for a range of air traffic volume regeneration outcomes and taking account of the extended period for recovery of the Covid revenue shortfall.

Other financial risks include default by counterparties to financial transactions, and fluctuations in interest and foreign exchange rates. A detailed description of each of these risks and specific mitigations are set out in note 21 to the financial statements.

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 regarding 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[8] and a slavery and human trafficking statement[9] 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, employees, 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 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:

- Our updated corporate strategy includes a target to operate a carbon negative estate by 2040. This is now one of our four key priorities as a business;
- Developing and monitoring appropriate policies, codes, management systems and targets, including a Responsible Business policy[10] which can be viewed at www.nats.aero, and net zero emission targets;
- Embedding environmental KPIs within our debt finance 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; and
- 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 year has remained challenging 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 which encourages employees to raise safety related matters without fear of reprisal. During the first half of the financial year furlough and homeworking remained for many of our teams. In September 2021, we commenced a controlled reopening of our non-operational locations, maintaining Covid safety protocols (such as hygiene, social distancing and masks) to protect our employees and our operation. We also introduced agile working giving staff more flexibility in their use of office space, while ensuring that the demands of the business were met. Throughout the challenges arising from the Covid pandemic we have maintained a strong focus on employee wellbeing and provided online resources and workshops that combined with our 24-hour peer support team, occupational health service and revised employee assistance programme, has been positively welcomed by employees.

We continue to strengthen our commitment to diversity and inclusion, ensuring our employees feel that they can bring their true selves to work and that our working environment creates a safe space in which our people are respected and valued for their differences. In October 2021 we launched our diversity and inclusion vision; Under the same sky. This vision celebrates the diversity within our organisation and how we are collectively united in our passion to advance aviation. As a commitment to realising this vision, following consultation with our employee networks and ongoing work with Business in the Community we committed this year to the Race at Work Charter.

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.

During the year we were awarded an A- score for environmental performance by CDP (formerly known as the Carbon Disclosure Project) for our financial year 2020/21 disclosure. This score puts NATS in the top 2% of the 13,000 companies around the world which disclosed their data to CDP in 2021. This reflects NATS' commitment to measuring, managing and disclosing environmental performance.

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, through innovative solutions in partnership with our key suppliers and airport/airline customers for mutual benefit. For example, NATS directly supported a number of events and initiatives linked to COP26, including industry-led seminars and panel discussions, as well as a perfect flight demonstrator by British Airways from Heathrow and a trans-Atlantic contrail avoiding flight by Boeing.

We support the commitment by the aviation industry in the UK and Europe to reach net zero by 2050. Our ambition goes further in adopting a carbon negative target for greenhouse gas emissions from running our business by 2040. 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. Despite small improvements since we commenced tracking, we accept that it 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, promote access and ensure fairness in decision making. In the year we relaunched our early careers programme. The recruitment process has focussed heavily on attracting and selecting diverse candidates to ensure 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 has been 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: despite this we recorded our most efficient 3Di score ever for calendar year 2021 which experienced higher traffic than 2020. The challenge we now face is to maintain this during 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 strategic airspace improvements we helped avoid 7,702 tonnes of CO_2 emissions in the year. However, the recovery of traffic volumes from historic low levels in the prior year resulted in a net increase in CO_2 emissions of 22,646 tonnes. Cumulative emission reductions per annum since 2006 have averaged 116,000 tonnes.

We have adopted a 2035 net zero emissions target across each of our GHG emissions sources from running our business, which has been independently validated by the Science Based Target initiative. We have also set a negative emissions target for 2040.

The aggregated total of GHG emissions from our estate has reduced by 37% compared to a 2018/19 baseline, resulting from energy efficiency measures, site consolidation and lower occupancy levels. We 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.

Supporting information

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.

Description [11]	FY 2021/22 (or CY 2021)	FY 2020/21 (or CY 2020)
Service performance and resilience		
3Di (calendar year)	21.5	23.9
Environmental performance ^		
Scope 1 emissions (location-based tonnes CO_2e)	2,708″	3,706″
Scope 1 emissions (market-based tonnes CO_2e)	2″	2
Scope 2 emissions (location-based tonnes CO_2e)	11,774″	12,500″
Scope 2 emissions (market-based tonnes CO_2e)	718″	668
Scope 3 categories 1, 3, 4, 6 and 7 emissions (tonnes CO_2e)	10,754″	6,111″
Total scope 1, 2 and 3 categories 1, 3, 4, 6, 7 (tonnes CO_2e) – location based	25,236″	22,317″
Scope 3 category 11 emissions (tonnes CO_2)	13,920,072″	7,146,000″
Avoided / modelled enabled ATM-related CO_2 reduction in tonnes [12]	-22,646″	37,950″^
Water supply and treatment (m^3)	27,508″	45,091″
Energy consumption (gas + electricity) MWh	66,520″	63,864″
CO_2e intensity metrics		
Total scope 1 + 2 emissions (location-based tonnes CO_2e)	14,482″	16,206″
Total scope 1 + 2 emissions (market-based tonnes CO_2e)	720″	670
Total scope 1 + 2 intensity metric (location-based tonnes CO_2e per £m of revenue)	19.3″	19.7″
Total scope 1 + 2 intensity metric (market-based tonnes CO_2e per £m of revenue)	1.0″	0.8
Net zero metrics		
Percent change in CO_2e against 2018-19 baseline towards net zero 2035 target (scope 1 and 2 emissions) **	-30%″	-22%
Percent reduction of CO_2e against 2018-19 baseline towards net zero 2035 target (scope 3 categories 1, 3, 4, 6, 7) **	-43%″	-69%

^restated due to inclusion of additional information, improvements to modelling accuracy and data quality.
″verified to ISO 14064. Certificates and GHG emission methodologies are outlined in detail in our GHG report, available at: https://www.nats.aero/wp-content/uploads/2022/06/GHGReport2021-22_v1.pdf
** Our net zero target applies to total combined scope 1 and 2 and scope 3 (categories 1, 3, 4, 6, 7) CO_2e location based emissions by 2035, using a 2018-19 baseline.
11, 12 see explanatory notes on page 159.

Our stakeholders	Why are they important to us?	How did 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 & integrated civil military operation with the MOD and support Project Marshall.	We consulted airspace users, airports and the public on their priorities and our plans for our regulated activities for the NR23 price control period. We reflected on their feedback and updated our plans accordingly before submission to the CAA. We discussed with both airspace users and airports our service performance, our charges, our actions to maintain cost discipline and preserve liquidity and our capital investment plans. We also engaged to ensure a coordinated industry re-start after the lifting of travel restrictions. When bidding for airport and other contracts we tendered our cost effective and innovative solutions.
EMPLOYEES	Our ATC service and infrastructure depends on the skill and professionalism of our employees. They make a critical difference to our success, and our investment in them protects and strengthens our safety and business culture. Most of our employees are members of trades unions.	The executive and senior leaders have an open dialogue with trades unions and receive feedback on pay and benefits, including redundancy terms, a safe and healthy working environment, flexible working, talent development and career opportunities, and a diverse and inclusive culture. The CEO and executive communicated regularly to employees via our intranet and to senior leaders in regular virtual meetings. The Board received a monthly report from the CEO which included employee relations and other employee matters. We operate a Just Safety culture, enabling employees to raise safety matters, and we sought feedback on a safety culture survey. We also surveyed employee wellbeing and maintained a whistleblowing facility. Every few years we conduct an employee opinion survey. Further details on the Board's regard to employees in its decision-making are provided below.
REGULATORS	Our regulators ensure we provide our service and develop our infrastructure in accordance with our ATC licence and international safety standards. Ensuring we fulfil our licence obligations and develop the business for the long-term ensures the success of the company for all our stakeholders.	The CAA is consulting stakeholders as our economic regulator on our price control plans for NR23 ahead of determining the prices, safety, service performance and capital investment targets and incentives. We are engaging with them on our plan and will provide feedback on the balance of service targets and incentives, risk mechanisms and financial resources they propose. The CAA's safety regulator oversees the safety integrity of our training, operational processes and technical systems and we receive recommendations on improvements, which we implement to ensure safety standards are met. The CAA approves changes to airspace design over the UK by reference to legal requirements including safety, environment and user need and this year approved the Swanwick Airspace Improvement Programme – Airspace Deployment 6.
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 maintained a regular dialogue with the Department for Transport and the Global Travel Taskforce on the safe and sustainable return of international travel. The government engaged on matters of aviation policy that affected NATS, including travel restrictions relating to Covid, airspace modernisation and an extension of NERL's licence notice period.
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 met shareholders twice during the year and discussed the refinancing proposals, the Board's strategy review and alignment with shareholder interest as well as the ongoing 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, fuel and CO_2 emissions and local air quality. Our ATC service can help mitigate some environmental impacts. Society expects improvements in sustainability, and we are committed to net zero greenhouse gas emissions from our estate by 2035 and being an enabler to aviation's target of net zero by 2050. We are a significant employer where our UK operations are based.	We follow the CAA's guidance on public consultation on airspace use, aircraft movements and environmental impacts. We work with communities affected by flights below 7,000ft at an early stage of any airspace change, to ensure they have a voice in airspace design. Changes mean some communities may be subject to more overflights than previously, while others are no longer overflown. Following consultation, we appraise design options before making our recommendation to the CAA.
LENDERS	Lenders provide debt finance that we repay over time and compensate by way of a commercial return. Access to debt finance is necessary to fund our business activities efficiently.	We meet with lenders at least annually to discuss our performance, business plan and capital investment. Lenders wish to understand the company's financial strength over the long-term and the principal risks it faces. The importance of these relationships was demonstrated by the June 2021 refinancing of NERL's debt structure which secured funding of £1.6bn.
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, risk management and performance measurement. We complete due diligence using industry JOSCAR methodology. We tailor engagement to critical suppliers and undertake Executive reviews, conferences and joint workshops. Our approach is an open and constructive relationship based on fair terms, good performance and high standards of conduct. We are ISO44001 accredited and hold CIPS Platinum standard of assurance.

Having regard to our stakeholders in Board decision-making

Section 172 (1) statement

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

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

How our Board and its committees operate, and the way decisions are reached, including the matters discussed during the year, are set out in the Governance section on pages 34 to 73. Alongside the refinancing discussed in the Financial Review, set out below are explanations of how the directors have had regard to section 172(1) in respect of employee matters and the NR23 consultation, which have been key strategic considerations in the year.

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

Since the outbreak of Covid the safety and wellbeing of employees has been the Board's priority. NATS has 4,099 employees and 157 contract staff. It is fundamentally a people-based organisation which relies on highly trained professionals to deliver a safe, resilient service to customers and the public day to day. The Board's Safety committee oversees occupational health and employee wellbeing, in addition to the safe provision of air traffic services and security, enabling the Board to engage with, and have regard to, employee matters. Further detail on employee matters is provided within the Responsible business statement on page 27.

Protecting employees and contract staff, and the operation: the Board's focus has been on keeping colleagues safe and providing regular communication, whether from senior leadership or through other channels, on the actions being taken. During restrictions, access to sites and critical operational facilities was limited to essential employees with others home working, and with social distancing measures implemented in line with government guidance.

Engaging with employees: CEO, CFO and HR director engagement with employees on the ongoing impacts of Covid, the need for cost discipline, staff furloughing, pay and redundancy and redeployment terms. Trades unions disputed the terms of redundancy and redeployment, presented pay claims and were concerned with the certification of operational employees in light of low traffic levels. Progress is being made on redundancy and redeployment terms and pay. Certifications of operational staff were maintained through training and simulations of traffic recovery scenarios.

Diversity and Inclusion (D&I): D&I has been a Board focus with progress made in the year explained in the Chief Executive's review on page 9. We also updated our Respect at Work policy following an equality audit by Stonewall which received a Bronze Award at first submission, a path to improve on, and feedback from our employee networks. We also signed up to the Business in the Community (BITC) Race at Work Charter, a commitment to equality of opportunity in the workplace. This includes publishing our Ethnicity Pay Gap, which while not yet a legal requirement is the first step in measuring our performance. We felt it an important step to take proactively, recognising its importance to our future employees and to attracting the very best talent. Finally we are working with Fantasy Wings to help recruit more people from ethnic minorities into aviation.

Our latest gender pay report shows an improvement which reflects the large amount of work that has been done to improve our pay gap results including a focus on women at NATS as part of the early careers campaign.

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

Planning for recovery: this included consultation on new ways of working, such as more agile use of the NATS estate and measures to prepare for the recovery in air traffic volumes. The Board monitored plans to accommodate employees returning safely to offices and as well as ways of working in future.

The Board's regard to stakeholders in the development of the NR23 business plan

The Board established a sub-committee to oversee the development of NERL's business plan for the NR23 price control. Its members were Paul Golby, Martin Rolfe, Alistair Borthwick, Harry Bush, Mike Campbell and Richard Keys who met five times during the financial year, as well as in May 2022. They were briefed on the CAA's guidance to NERL on the development of its plan and provided input to the company's process for engaging stakeholders. The committee reviewed NERL's business plan and the feedback received from stakeholders during the consultation and considered the changes made to reflect this, alongside the interests of the company's members as a whole and other stakeholders.

Customer engagement: led by the CEO, CFO, Operations Director and Technical Services Director

May to June 2021 - in preparation for the main customer consultation, two meetings were held with airlines and one with airports to determine their priorities for NR23 to inform our initial plan.

October to December 2021 – seven consultation meetings with airlines and one with airports on the outline plan, as well as a range of options. These meetings were attended by 26 organisations with observers from the CAA and NATS' trades unions. The meetings were co-chaired by an airline representative and a NERL appointee.

Virtual exhibition – alongside the consultation, relevant material, videos and infographics as well as minutes of meetings, actions and responses were provided in a virtual exhibition website.

Main areas of customer feedback reported to Board members and reflected in our plan submission to the CAA:

- traffic forecasts: customers favoured use of an independent forecast;
- service performance: broad support for continuation of safety, capacity and environmental targets. Airlines requested evidence of calibration and stretch;
- operational resourcing: support for a margin of resilience to accommodate faster traffic growth than base case projections. We discussed the challenges high case demand would present given actions to respond to Covid. Customers supported improvements in training capability;
- capital investment: customers are well informed of our plans through separate service and investment plan reviews. No material feedback on scope, milestone and cost. Discussions centred on the RP2 price control costs, decommissioning legacy systems and benefits. Customers wished to see longer term plans presented at service and investment reviews;
- determined costs: customers were positive about efficiencies made in response to Covid but wanted more detail on cost elements, which we reflected in the final plan;
- price profiling: airlines did not support charges to recover the Covid revenue shortfall preferring the UK government to bear this cost. There was no consensus on price profiling. Our plan proposes a flat charge in real terms as a middle ground.
- regulatory mechanisms: customers sought further detail on proposals to increase NERL's protection from traffic volume risk, including introducing a mechanism for North Atlantic traffic.

Passenger engagement: based on market research

For the first time in a price control determination, we sought feedback from the travelling public to inform our NR23 business plan. Passenger research was developed in consultation with customers, the CAA and the CAA consumer panel. We supplemented our annual market research surveys on issues affecting UK ATC with independent market research on insights relevant to our NR23 business plan. Safety was the priority for passengers, which matches our primary objective, and with a preference for satellite-based surveillance over the North Atlantic. Their next highest priorities were minimising the environmental impact of aviation by delivering efficient flight paths, a resilient operation which reduces risk of disruption and a punctual service. Cost was the lowest priority, balancing a small incremental ticket price in favour of a safe, resilient and efficient service.

Overall, there was clear alignment between airlines, airports and passengers on safety as a priority. However priorities diverged in a few specific areas, which has required us to take a balanced view in our plan.

The Strategic report was approved by the Board of directors on 30 June 2022 and signed by order of the Board by:

Richard Churchill-Coleman, Secretary