Annual Report and Accounts 2023

Strategic report

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)

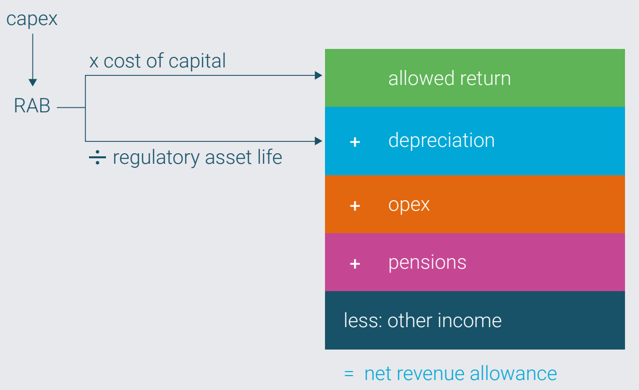
NERL is our core business and is the sole provider of ATC services for aircraft flying en route in UK airspace and the eastern part of the North Atlantic. It operates under a licence granted under the Transport Act 2000 as amended by the Air Traffic Management and Unmanned Aircraft Act 2021 and is economically and safety regulated by the CAA.

For the three years (2020 to 2022) impacted by Covid, including this financial year, the CAA's approach to economic regulation is a retrospective reconciliation that will determine the shortfall between NERL's flight income and its efficient costs, which it will allow to be recovered. The CAA is also determining a new five-year price control for 2023 to 2027 (NR23) for decision later this summer.

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 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 allowances, 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 currently earns c99% of its revenue in the UK and c81% from UK Airports.

The UK Airports service currently provides ATC to 14 major UK airports as well as engineering support and airport optimisation services. NSL provides ATC and related engineering services to the UK MOD mainly through the Project Marshall[5] 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 have offices in Delhi, Dubai, Hong Kong and Singapore.

Our strategy to 2040

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

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

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

Chairman's statement

Supporting the safe return of traffic

We exist to ensure the skies are a safe and efficient environment for aviation. Our priority from the start of the year was to support the safe return of air traffic as Covid travel restrictions were lifted. This was achieved by ensuring we retained the skills, capability and capacity during Covid so that we would not impair the recovery of aviation post-pandemic and by careful planning and preparation. The Board has been pleased with the company's safety performance, which has been consistently good throughout the year. Our customers have acknowledged this, as indicated by the strong scores they gave for our safety and operational performance in a recent customer survey.

We continue to proactively work with airlines, airports and the European network manager on plans for this coming summer, ensuring the UK continues to play a successful part in the efficient and effective recovery of air traffic.

NR23

In October 2022, the CAA published its initial proposals for NERL's next five-year price control (NR23: January 2023 to December 2027) as well as its retrospective reconciliation for calendar years 2020 to 2022. The latter covers the recovery of the shortfall between flight income and costs for the Covid period, over an extended 10-year period, which is much longer than the past.

We responded to the CAA's consultation on those initial proposals alongside other industry stakeholders in December 2022. According to the CAA's latest timelines, we expect a final decision on our price control and the retrospective reconciliation by summer 2023. It is essential that this provides the resources necessary to support the sector's recovery and for sustainable investment in the UK's ATC infrastructure, together with appropriate recovery of the costs incurred to maintain the service and infrastructure during the Covid period.

Although we do not have the benefit of the CAA's final decision yet, we are continuing to consult with our airline and airport customers on our service delivery performance and the evolution of our capital investment programme.

Results, funding and dividends

Our obligation is to keep airspace open and to provide a continuous ATC service, irrespective of the level of flight volumes. This was the case through the Covid pandemic when flight volumes collapsed. We expect the CAA's decision to enable us to recover the necessary costs of providing that service, and to recognise that the actions we took ensured these were efficient in those extraordinary circumstances. It is on this basis that the shortfall between our flight income and costs has been reported in our results and financial position since the start of the Covid pandemic. However, to support more affordable charges for customers, both the NR23 plan we submitted and the CAA's Initial Proposals propose that we recover this amount over an extended ten-year period, rather than the two years specified in our current licence. That has meant that through the Covid period and beyond, we have to finance the significant cash outflows that were required to maintain our ATC service and the continuing investment in critical infrastructure, while ensuring we are resilient to a range of traffic recovery outcomes and able to fulfil our plans for NR23. To do this, in March 2023, we issued a further £145m of bonds to replace one of our short-term bank facilities. This completed the refinancing plan which was initiated as part of our response to the Covid pandemic.

We are reporting a £180.2m increase in revenue and regulatory allowances to £930.0m (2022: £749.8m). However, in spite of the positive recovery in traffic in the year, the operating cash flows we generated are still below pre-pandemic levels. Following the CAA's Initial Proposals, our revenue and regulatory allowances include our assessment of the income shortfall during the Covid period until December 2022, which we expect will only be fully recovered in cash after 10 years. This is contributing to lower cash generation than we would otherwise expect. Our assessment of the income shortfall and revenue charged since January 2023, in line with the initial proposals of the NR23 price control, contribute to an improvement in profit before tax to £148.5m (2022: £8.7m), alongside the materially lower finance costs as a result of refinancing (on account of which one-off costs of £41.7m were incurred in the prior period).

The Board did not recommend the payment of a dividend during the year in order to conserve cash and improve liquidity. The Board however remains mindful of the importance of returns to shareholders together with the support received from them during the Covid period. Now that the sector and wider global recovery from Covid appears stable, the opportunity to restore regular dividends will be assessed once the CAA's final decisions on the NR23 price control, including the recovery of the Covid income shortfall, are received and considered.

Chairman's statement

Strategy

In May 2022, the Board endorsed the Executive's strategy and long-term objectives to 2040. Since then, the Board has received regular updates on the progress being made to embed these into business plans and the targets for monitoring performance.

Corporate social responsibility

The Board strongly supports the group's sustainability, diversity and inclusion strategies. Our sustainability focus is on two fronts: firstly achieving a net zero estate by 2035 (with reduction targets validated by the Science Based Target initiative (SBTi)) and becoming carbon negative by 2040, and secondly contributing to the aviation sector's net zero 2050 target. On the latter, we have made good progress this year in enabling more fuel-efficient flight profiles through the implementation of free route airspace. In NR23, we are seeking to redesign the airspace network to maintain capacity to support traffic growth as well as the industry's net zero targets. There is a significant dependency on airports to agree and deliver their respective changes to lower airspace to achieve this. 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), under the auspices of NATS, to coordinate this unprecedented programme of change.

The Board has been encouraged by the company's approach to developing a diverse and inclusive place to work and supports the target of a 50:50 gender split for all external recruitment. Our people play an essential role in everything we do. We want our employees to feel valued and able to fulfil their potential in a workplace where their contribution is recognised and rewarded. Success is critical for attracting future talent and achieving our ambition to be a Top 25 employer.

Our Board

There were several changes to our Board during the year. Richard Keys and Iain McNicoll CB CBE stepped down, each having served for nine years as non-executive directors appointed by the Crown shareholder. I would like to express my sincere thanks to them for their very significant contribution over this period in chairing the Audit and Safety Review committees respectively. Hugh McConnellogue also resigned from the Board.

Greg Bagwell CB CBE and David Smith were appointed as non-executive directors by the Crown shareholder in October. Bart Prudon was also appointed to replace Hugh McConnellogue as a representative of The Airline Group in March 2023. I was pleased to welcome them and anticipate their mix of very relevant experience will add positively to the Board.

Kathryn Leahy resigned from the Board in June 2023 and is leaving her role at Heathrow Airport in October to join the NATS Executive team as Chief Operations Officer. I wish her well in her new role.

Our people

I am grateful to all our employees for their continued dedication and commitment in maintaining a safe service for all our customers as the sector recovers from the after-effects of Covid.

Paul Golby

Dr Paul Golby, CBE FREng
Chairman

Chief Executive's review

A safe but at times turbulent recovery

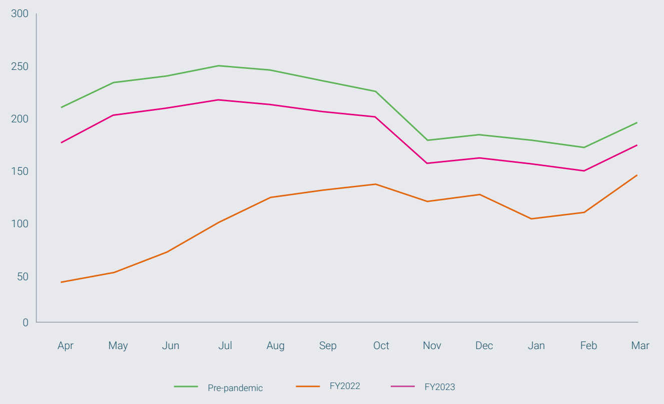
It was a welcome relief to see air traffic volumes recover strongly last summer following the lifting of Covid travel restrictions in March 2022. Over the course of the year, we handled 2.24m flights in the year or 87% of pre-pandemic levels (2022: 1.29m flights). It became clear early last summer that pent-up demand after two years of lockdowns would buoy the industry's recovery, despite inflationary pressures and geopolitical risks.

Our overriding priority, unsurprisingly, was to ensure that we enabled a safe recovery of air traffic. We had made a conscious decision during the pandemic to retain the essential skills to support the recovery, not least because it takes up to three years to train an air traffic controller. In addition, before restrictions lifted, we had supported operational employees with simulation programmes to maintain skills on higher levels of traffic. This meant we were able to ramp our operation back up very quickly and safely support the level of demand. This was achieved in spite of one of the most challenging operational environments we have seen.

The aviation sector in the UK and much of Europe continued to contend with the after-effects of the pandemic - labour shortages and the struggle to rebuild operational capacity to keep pace with consumer demand. This presented us with a number of operational challenges in the first half of the year.

We plan our operational resourcing tactically according to the level of demand we anticipate and based on published flight schedules. As airlines and airports responded to the strength of consumer demand for travel last summer, traffic growth was not uniform across the airspace network and the daily flight schedule was much more volatile than expected. In peak periods and at certain times of day, volumes often exceeded 90% of pre-pandemic levels. Certain sectors of airspace were unexpectedly busier than others, varying materially from filed schedules, and at times our resources could not match unplanned hourly variations in those airline schedules. To ensure a safe service we consequently had to regulate traffic flows, resulting in some air traffic delay. The level of traffic volatility abated from mid-summer 2022, as airlines aligned their schedules with their abilities to meet demand alongside Heathrow and Gatwick airports' capacity restrictions to manage airline demand at their operations. With a more orderly network subsequently, our service performance improved to levels consistent with or better than 2019 and remained at a low level through the second half of the year.

UK air traffic volumes ('000s)



Outlook for air traffic volumes

Demand for air travel is generally linked to the strength of the economy. The challenging economic environment and cost of living pressures on consumers, alongside upward pressures on airline ticket prices from higher jet fuel costs remain headwinds for growth over the next few years.

UK 7-year traffic forecast (volume of flights)

Eurocontrol, Europe's network manager, recently published its March 2023 seven-year forecast together with a high and low case range which reflect assumptions on the strength of the UK's economy, to which air travel demand is generally linked. Its base case scenario assumes a contraction in UK GDP in 2023 and then for modest growth. Eurocontrol is projecting a continuation of the recovery in air traffic volumes we have seen this year with expectations of a return to pre-pandemic levels in 2025. However, this is followed by growth of just 1% per annum reflecting challenges such as inflation, pressure on oil prices and environmental concerns. In the low case, flight volume growth stagnates from 2024 onwards. In its high case, Eurocontrol project recovery in 2024, with average growth of 5% per annum thereafter.

Chief Executive's review

Outlook for air traffic volumes (continued)

Given the degree of uncertainty in the outlook, we will be looking to the CAA to ensure that its traffic forecast for NERL's NR23 price control reflects the most up to date developments, including on the macro economy when making its final decision. This is vital to ensure that resourcing and service performance outcomes are appropriately calibrated to projected traffic levels.

Regulatory developments

In the previous financial year, we consulted customers and submitted to the CAA a plan for the five-year NR23 period (2023-2027) which delivers a safe air traffic system under any recovery scenario, an efficient service performance level underpinned by operational and technical resilience and at cost effective prices to support the recovery of the aviation sector. The plan accommodates capacity increases to support 2027 traffic growth of up to 15% higher than 2019 volumes, 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 the financial resilience against a possible slower recovery, which is essential for maintaining the critical national infrastructure we manage.

In October 2022, the CAA published its initial proposals for NERL's next price control as well as its views on the recovery of the income shortfall during Covid (years 2020 to 2022). In many ways, the CAA's initial proposals recognise the challenges that the company faced during Covid. While there are differences and issues to resolve across many elements of what has been proposed, many of these remain within the normal bounds of the regulatory discourse. However, we were concerned about the CAA's approach to pension costs and inflation, where we believe the balance has skewed well away from regulatory best practice and which present us with some fundamental challenges. These risk undermining much of the effort we made in mitigating the impact of Covid by placing new, unmanageable and unexpected burdens on the company. We are in no doubt that these would both significantly impede the delivery of our primary role, as well as run counter to the CAA's stated objectives for consumers. If left unaddressed, these cuts are of such severity that they would make our plan unworkable.

We currently expect the CAA's final decision later this summer. To achieve our plan's objectives we will require the appropriate resources and risk mitigations from the CAA's price control decisions to enable us to continue to develop and train the next generation of air traffic controllers to meet projected demand safely and provide further operational resilience, and to progress our technology transformation programme while sustaining our legacy technical equipment and advancing airspace modernisation to improve environmental performance and accommodate future traffic growth.

Employee relations

The impacts of Covid and the uncertain economic environment made for a challenging period for industrial relations. However, engagement and effort by both the company and trades unions enabled us to work through some difficult situations and come to agreements on pay settlements, which recognised the contribution our employees continue to make, cost of living pressures and the wider challenges facing the aviation sector as it recovers from Covid.

Engagement with trades union colleagues is constructive as we work through areas of importance to both of us, including resourcing through NR23.

We reduced our workforce during Covid and since the start of the financial year have been hiring again across targeted areas of the business though, like many companies, we are finding recruitment challenging in key areas. The pandemic accelerated trends in remote working and career flexibility and, alongside employers' demand for well qualified employees, these are making for a competitive labour market, particularly in relation to the engineering skills we require.

During Covid, we retained our skilled air traffic controllers to support the recovery but we were unable to train new controllers due to the risk of spreading the virus within our operation as well as effective training in a live environment being unfeasible with such low flight volumes. In addition to providing the tactical service day to day, outside of the summer peak, we rely on operational staff to train new controllers and to support the development of new technology and changes to the airspace network. While we have sufficient resources today to meet our regulatory commitments, we are now training more new recruits than ever before to meet all of our operational and training needs in future, as the pipeline of newly trained controllers and less certain rates of staff retirements work through the system. We are striving to manage this with a key factor being the NR23 settlement providing an adequate financial envelope, robust to changes in inflation, and sufficient flexibility to respond to changing levels of traffic.

We are clear that building an inclusive culture and making the most of the talent in a diverse workforce are essential if we aspire to be a top 25 company in the UK to work for. Our employee networks continue to expand and propose positive changes that continue to make our workplace an ever more fair, equitable and enjoyable place for everyone. We joined National Inclusion Week again this year, building on the success of our first participation in the prior year. Alongside relevant experts, employee network representatives and senior leaders, Executive colleagues and I hosted a number of live panel discussions and presentations. These covered a range of topics including diversity in recruitment, inclusive processes, and the barriers to disability inclusion. Additionally, we heard from key partners on their approaches to equality, diversity and inclusion. While this is an annual event our focus is not just on the week itself, but on how it can be an extension of our everyday commitment to inclusion across the company for the long-term.

Chief Executive's review

Employee relations (continued)

For the first time in four years, we asked our employees how they feel about working at NATS. The survey was conducted by Best Companies, employee engagement specialists, which enables our internal progress to be benchmarked and measured against their accreditation standards. Overall, 62% of employees responded. Based on their feedback, Best Companies rated us as a one-star organisation, one which is very good to work for. This is very encouraging and a high standard that we must maintain and improve on if we are to meet our long-term strategic objective.

With the help of colleagues from across the business, we will use the feedback from the survey to shape and deliver improvement plans particularly in areas of leadership, personal growth and giving something back. We will measure our progress through future surveys and through our ability to attract and retain talent.

Our role in a sustainable future

We are committed to a net zero estate by 2035 and last summer our greenhouse gas emissions (GHG) reduction targets were independently validated by the SBTi (see page 29) as consistent with meeting the goals of the Paris Agreement, limiting the global temperature rise to 1.5°C. Our strategic objective is for our estate to be carbon negative by 2040.

In 2020, the UK aviation industry, including NATS, made a commitment to net zero emissions by 2050 and we are working with our customers, partners and suppliers to support this. Our plan for NR23 set an ambitious target to reduce carbon emissions from flights under our air traffic control by 4.4% between 2020 and 2035. This is in line with independent assessments of the contribution air traffic control can make to overall aviation emissions reduction, through measures such as optimising flight paths and airspace changes. This is represented in our plan by a sustainable reduction in the 3Di score in the face of traffic growth, which is enabled by airspace modernisation, the biggest contribution we can make to reducing the carbon footprint of flying.

Our airspace modernisation plan is a major component of the UK's overall Airspace Modernisation Strategy that will systemise UK terminal airspace, enhance the way we manage flows of traffic and deliver Free Route Airspace for flights in upper airspace (FRA enables pilots to choose their most direct flight path). The Airspace Change Organising Group (ACOG), which though under NATS' auspices is independent of NERL, leads the coordination of this programme. Synchronised airspace change on this scale requires the commitment of all industry stakeholders, the Department for Transport and the CAA.

As part of our ongoing focus on airspace, in March we modernised the airspace route network above 7,000 feet over South West England and Wales. This was one of the biggest and most complex changes we have made to UK airspace and includes some of the busiest air intersections for international flights. The change introduced a systemised route network from 7,000 feet to 24,500 feet as well as FRA above 24,500 feet, which should deliver an annual saving of over 12,000 tonnes of CO_2 emissions in UK airspace. FRA over Scotland was implemented in the prior year and is now aligned with Northern Europe, which will enable cross-border free routing in future as well as flexible and more efficient flight planning.

We also coordinated with Maastricht air traffic control on changes to airspace in the Humber region, which optimises flight trajectories across the North Sea and will enable annual savings of up to 18,000 tonnes of CO_2 across the UK and European network. Finally, we made changes to London City departure routes, enabling annual savings of 3,300 tonnes of CO_2.

Aside from changes to airspace structures, our tools such as Arrival Manager and Intelligent Approach have the potential to support lower emissions.

As operator of the UK's critical airspace infrastructure, we are also acting to ensure that our infrastructure is more resilient to extreme weather events such as storms and extremes of temperature, which have had impacts in the last two years, including as recently as last summer, but without leading to service disruption. This includes building higher tolerance levels into the specification of new assets, scenario testing the resilience of airport and en route surveillance systems and enhancing protection of our assets and service during extreme events.

Commercial developments

In October 2022, we regained the provision of air traffic control and engineering services at Gatwick Airport, the UK's second busiest airport, following a smooth transition from the previous provider. We are delighted to be working with the airport again. Our immediate focus has been on improving service resilience, which is necessary to support the airport with its business ambitions. An important first step was a plan to train and recruit new and experienced controllers which is well underway.

We recently contracted with Heathrow Airport for the delivery of the various equipment and systems required to support a new Virtual Contingency Control Tower (VCF), which is to act as a back-up to the existing airport control tower. This represents a major investment for Heathrow Airport and will provide resilience and help protect the nation's aviation infrastructure.

Other commercial contract successes in the period included a six-year extension of the contract to provide range air traffic control services to the MOD at Aberporth, West Freugh and the Outer Hebrides. Air traffic controllers ensure that fast jets and military drones operate in a safe and controlled environment.

Chief Executive's review

Commercial developments (continued)

We also successfully deployed our Intelligent Approach system at Toronto Pearson International and at Amsterdam Airport Schiphol. This provides additional tactical capacity across these multi-runway airports and helps reduce delays, fuel burn and CO_2 emissions, particularly in high wind conditions.

Expanding our international presence, our Indian subsidiary opened an office in Delhi in October 2022, establishing a new team there to support the growth in aviation that the country is experiencing. We look forward to building on our already strong local reputation in the country, and thereby continuing to expand our international presence beyond our existing activities across the Middle East and Asia Pacific.

We remain cognisant of the complexity and the increasing pace of development of new technologies in our marketplace. It demonstrates the importance of working with key partners that are aligned to our strategic intent. Our existing investments in Aireon and Searidge Technologies form the foundation to our partnership aspirations and we continue to develop the technology-led offerings available from these investments while simultaneously investigating future venture possibilities with other key industry stakeholders.

Conversely, after more than a decade, we have concluded that market factors indicated that the time was right to sell our stake in FerroNATS, our air traffic control towers partnership in Spain. We are proud to leave a thriving, well-established and independent operation.

Linking directly to our strategic objective of delivering services for all airspace users, we are playing an active role in the development of electronic and autonomous flight technologies under the government's "Future Flight Challenge" programme. One project aims to demonstrate the feasibility of a UK Advanced Air Mobility ecosystem using Electric Vertical Take-Off & Landing (eVTOL) aircraft; the other is to trial what will be the UK's first distribution network to use drones to transport essential medical supplies and clinical samples throughout Scotland. We will be developing solutions to address the airspace integration challenge – how to integrate safely new types of aircraft with those already there to create a sustainable, modernised, and integrated airspace that is fit for the future. This is an important commercial opportunity for the UK and we have a key role to play as the network operator. It is essential that the operating model set up enables this industry to develop and does not overly constrain it with regulation.

Executive team changes

Both Juliet Kennedy (Operations Director) and Rob Watkins (Technical Services Director) will be retiring during the next few months after many years of service with the company. They have both made fantastic contributions to NATS and I am very grateful for all they have achieved.

After a rigorous recruitment process, I am delighted that Kathryn Leahy, currently Director Team Heathrow and a former NATS Board member, will succeed Juliet in the role of Chief Operations Officer and that Kuldeep Gharatya, currently Head of Engineering, Major Projects Directorate at Transport for London, succeeds Rob. Both Kathryn and Kuldeep bring excellent experience and track records that will benefit NATS enormously. They are both committed to the objectives we have set and will bring their own determination and energy to seeing us succeed with our 2040 strategy.

Concluding remarks

Later this summer, after publication of this report, we expect the CAA to make its final decision on the NR23 price control. Our immediate focus is on ensuring that we continue to play our part in working with the rest of the aviation sector to deliver a safe and smooth summer 2023 for the travelling public. We have prepared together for this to ensure a more coordinated management of the demand for air travel.

Martin Rolfe, FRAeS
Chief Executive

Business review

Delivering a safe, secure, efficient and resilient service

Service performance

Service performance: calendar year	2022		2021	
	Target	**Actual**	Target	Actual
C1: avg. en route delay all causes (seconds)	**19.2**	**14.9**	19.2	0.4
C2: NATS avg. delay per flight (seconds)	**15.0**	**10.2**	15.0	0.3
C3: delay impact (score)[6]	**2.0**	**21.8**	30.0	0.6
C4: delay variability (score)[6]	**1,800.0**	**343.7**	1,800.0	0.0
C3Di: 3Di metric (score)	**25.9-28.6**	**26.0**	25.9-28.6	22.8

C3 target is the C3 Upper modulated target, reflecting that the actual traffic for 2022 was significantly lower than the CAA's price control forecast (2021 C3 target reflects the unmodulated target). Actual scores are stated after modulation.

Our service performance was affected by the sector's response to pent-up demand last summer and the volatility of daily flight schedules, for reasons explained earlier in this report. Average delay per flight for the 2022 calendar year was 10.2 seconds (CY2021: 0.3 seconds, reflecting unprecedented low flight volumes), which was within the regulator's allowance. For the financial year, we accounted for an average delay per flight of 10.0 seconds which continues to represent a disproportionately low share of European air traffic delay.

As required by our licence, we asked customers for their feedback on: our safety performance, our UK en route and Oceanic service, sustainability and customer engagement. 33 airlines representing 68% of our flight volumes responded to our survey. Overall, we received an average delivery score of 89.3% for the provision of our core services. This was an improvement on a similar survey in 2021, despite the growth in air traffic and a more volatile daily flight schedule across the network last summer. Unsurprisingly, safety was the most important requirement our customers have, with sustainability now ranking second.

Safety management

The priorities of our safety management activities during the year were the mitigation of safety risk as air traffic volumes recovered after Covid travel restrictions lifted and ensuring that our air traffic Safety Management System aligns with existing and future business needs, remains compliant with the ever-changing regulatory framework and delivers continual improvement.

During Covid, the low volume of air traffic movements 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. In anticipation of the lifting of travel restrictions, the specially constituted Traffic Regeneration Board oversaw the safe regeneration of air traffic volumes across the network, with appropriate assurance measures in place to ensure the operation was well prepared. As reported below, we maintained a safe ATC service throughout the year and through the operationally challenging summer 2022 period.

Our Safety Management Manual (SMM) was subject to audit by the CAA's safety regulator (SARG: the Safety & Airspace Regulation Group), the first since Covid. SARG undertook a comprehensive review of compliance monitoring, safety risk management, safety assurance, safety policy and safety promotion. SARG noted seven minor findings, including a small number of late investigations and some process misalignments which are being resolved. Overall, SARG concluded that the SMM was well managed and controlled.

Having a strong Safety Culture is at the core of what we do. NATS works continuously to build and develop our Safety Culture, encouraging all employees to raise issues and learn lessons at every turn. We have recently completed our regular safety culture survey with an 83% response rate, demonstrating our whole organisation commitment to maintain a strong operational safety as well as broader health and safety practices. Our survey results show that we have a strong foundation while identifying areas that we can continue to improve. Alongside ensuring operational staff preparedness for the recovery in traffic volumes, we continue to focus strongly on employee wellbeing and performance.

Business review

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 measure 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 (2022: none). Although the total number of airprox in NATS airspace remained well below the pre-pandemic peak when traffic volumes had been at historically high levels, there was an increase on the number reported in the prior year due to Remotely Piloted Aircraft System (RPAS or drone) related events. Recognising this, we are actively investigating ways to measure better the risks associated with encounters between crewed and uncrewed aircraft near airports, as well as collaborating with stakeholders to improve safety and influence UK drone policy. In 2021, we brought together the UK's leading commercial 'beyond visual line of sight' (BVLOS) RPAS operators, government and public body operations such as the MOD, police, Network Rail and Maritime & Coastguard Agency to facilitate collaborative development and understanding of the integration of these relatively new airspace users into current and future airspace structures.

The RAT point score is measured on a calendar year basis. For 2022, we recorded a total of 622 points (2021: 444), which is in line with our expectation following the increase in traffic volumes. The RAT events included one severity A and three severity B events against our target of less than 10 for both combined. For each of the events, a thorough investigation was performed and corrective actions have been taken. We met all of our internal safety performance targets for 2022.

Our specific additional safety priorities for NR23 include supporting the ongoing traffic recovery and investments in technology enhancements that will improve safety and help mitigate the effect of increasing traffic, such as electronic flight strips and airspace modernisation. In addition, we expect an increase in BVLOS drones and the emergence of other new airspace users during NR23, which will provide new challenges to UK airspace and to our operation. This will require that we review our procedures to manage airspace to integrate new airspace users safely into current systems. We have made provision in our plan to ensure the continued safety of conventional crewed aircraft as new airspace users increase.

Business review

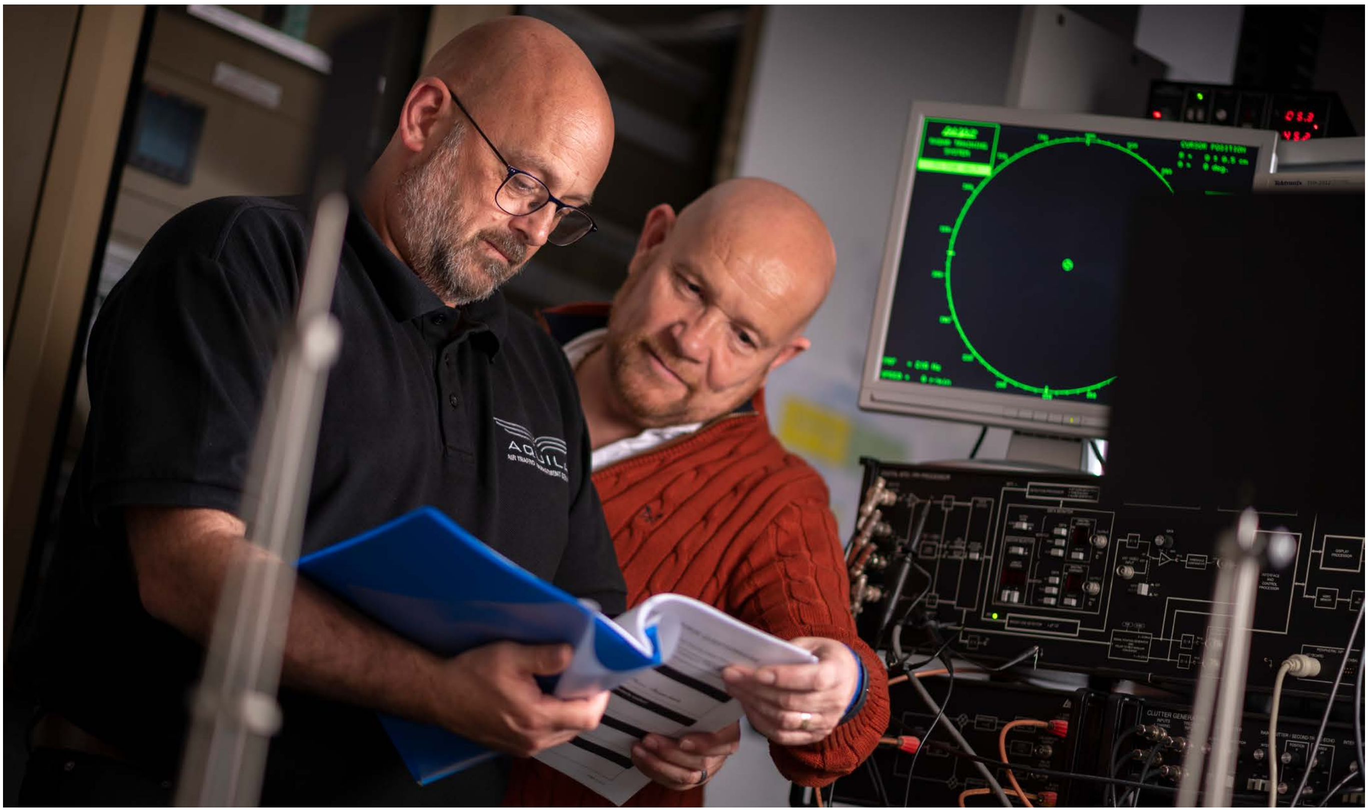
Technology transformation

The aims of our technology transformation are to introduce a common air traffic management platform for our centres on modern, resilient technology that will enable us to move away from ageing systems, deliver new capabilities into our operation and enable increasing volumes of traffic to be safely handled. Much of our new infrastructure is complete. We have designed, built and installed modern offsite data centres, high resilience networks and connectivity. All of the new applications are in the final stages of their build and integration phases and we are starting the critical step of testing and validation before we begin training and transition into live operation. We started to test our technology through live operational shadowing last year and we have successfully trialled our new voice systems. Our plans are to deploy those applications into live operation through a series of deployments over the next few years.

We have responded to a number of challenges in this period and consulted customers on our revised approach to adapt our plans for delivering our DP En Route and Voice platforms. Although the pandemic appears to be behind us, we have continued to deal with some of its after-effects. In particular, and for the reasons noted above, we have found it harder to recruit some of the key engineering skills we now require which, as well as supply chain challenges, have made scaling back up after the pause during the early stages of the pandemic more challenging. We have also learned a great deal from starting to use and integrate our new technology.

Our revised plan aims to de-risk the technical challenges by decoupling complex parts of the programme, allowing each to progress independently, while achieving customer benefits as early as possible. We are targeting the deployment of a new fallback voice system for the area control centre at Swanwick in summer 2023, which replaces legacy equipment and improves service resilience. In 2024, we are planning to deliver new controller tools and workstations onto our existing infrastructure platform at our Prestwick centre. Finally, we will subsequently complete the delivery of the new infrastructure platform and related applications.

We are continuing to invest in sustaining our existing assets during this transition period, such as modernising our surveillance system and supporting airspace changes like FRA across the Southwest, and cyber resilience.



Financial review

Results overview

	£m	£m
2022 profit before tax		**8.7**
Revenue and regulatory allowance changes		
Airspace	161.5	
Airports	18.7	
Defence	(5.4)	
Other (net)	5.4	
		180.2
Operating cost changes		
Salaries and pensions	(28.9)	
Employee share scheme	(9.8)	
Job retention scheme grant	(5.5)	
Capitalised internal labour	(4.8)	
Staff costs		**(49.0)**
Other non-staff costs net	(33.7)	
Depreciation and asset impairment	(18.8)	
		(52.5)
Goodwill impairment		**(2.9)**
Gain on re-measurement of previously held interest in joint venture		**(4.4)**
Finance cost changes		
Fair value movements	17.4	
Refinancing-related costs	40.9	
Other net finance costs	10.1	
		68.4
2023 profit before tax		**148.5**

The group reported a profit before tax of £148.5m (2022: £8.7m). This improvement mainly reflected:

- higher airspace revenue and regulatory allowances under the CAA's regulatory framework;
- costs of £41.7m in the prior year for refinancing the debt structure; and
- a lower fair value charge, mainly for derivatives reflecting the market's expectation of inflation.

These factors were partly offset by:

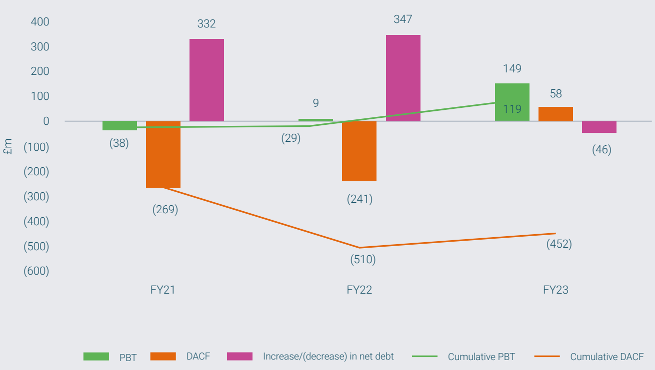
- higher staff and non-staff costs as the business scaled up to support the recovery in air traffic; and
- a full year's depreciation of the technical infrastructure deployed in 2022.

The principal year-on-year movements explaining the result are summarised above.

After the tax charge, which is explained below, the group reported a profit of £116.2m (2022: £27.6m loss).

Putting profit, cash flows and financial position in context

Financial performance: three financial years ended 31 March



With stability returning to the aviation sector, the worst effects of Covid now appear to be behind us. However, as we expected and in line with what we have planned for, the impact of Covid on our financial position, notably our working capital in particular, will endure for another decade.

Our result this year reflects the start of the sector's recovery after the Covid pandemic but, as with the results of the last two years, it is not yet supported by the equivalent level of cash flow generation as the income shortfall we experienced is expected to be recovered over an extended 10-year period. Accordingly, we continue to utilise significantly increased, but manageable, levels of debt to support the recovery of the sector and deliver the NR23 plan. The path of net debt over time will be determined by the recovery of the Covid income shortfall, reintroduction of an appropriate dividend strategy and investments to support our business growth strategy.

The chart above and subsequent paragraphs consider our profit before tax (PBT), our debt-adjusted cash flows[2] (DACF) and net debt over the last three years.

Financial review

- The profit includes an assessment of the Covid income shortfall expected to be recovered over a 10-year period

Our profit before tax in each of the three years included our assessment of the regulatory allowances the CAA will provide to reflect the shortfall between the income we received from the flights we handled and the efficient costs we incurred in the period. While the final value of this compensation will only be confirmed later this summer by the CAA's final decision on their retrospective reconciliation of income and costs, the CAA's initial proposal for a regulatory allowance of £681m for the three-year period highlights the scale of the income and cash receipts shortfall. As we proposed, the CAA have indicated that they agree we should recover the amount over an extended 10-year period to 2032 through our charges to users, starting from January 2023.

- The net cash inflow in 2023 reflects improved income receipts as air traffic volumes started to recover

The scale of the shortfall in income receipts, particularly in 2021 and 2022, is also borne out by our debt-adjusted cash flows in this period. These represent the cash flows from our operations, our investing activities and our debt service costs but exclude the cash flows relating to our financing capital structure such as bond issues and bank loan repayments. A reconciliation of the debt-adjusted cash flows to the overall change in cash balances in each year is set out on page 181. Across the two years of 2021 and 2022, the group incurred debt-adjusted cash outflows of £510m, which reflected the income we lost when Covid travel restrictions significantly curtailed air travel and chargeable flight volumes. During the 2023 financial year, the recovery in flights volumes enabled a debt-adjusted cash inflow of £58m as income receipts exceeded our operating costs, capital investment and debt service costs. We expect our cash receipts to improve as traffic levels continue to recover towards pre-pandemic levels, and as we start to recover the income shortfall.

- The debt structure supports the recovery of the Covid income shortfall over a 10-year period, as well as delivery of the NR23 plan

Recognising the extended recovery period, and alongside the actions we took to reduce our cost base and temporarily pause our capital investment, we refinanced our business at a level which is robust to the potential for a slower recovery in air traffic volumes and enables us to deliver our NR23 plan. In June 2021, we refinanced (see below) to increase our available liquidity and enable repayment of more expensive legacy borrowings and in March 2023 we completed our refinancing.

During the three-year period, the shortfall in income relative to our outgoings meant that our net debt increased by £633m to £804m. Net debt did begin to reduce during 2023 as our cash receipts improved as traffic volumes recovered.

Refinancing

In the prior year, NERL secured £1.6bn of funding by issuing £750m of unsecured bonds and agreement of £850m of new unsecured bank facilities. The latter included a temporary £450m bridging facility providing the flexibility to assess the long-term efficient funding requirement following the CAA's price control review and when the outlook for air traffic volumes was more stable.

With the publication of the CAA's Initial Proposals in the year and following the sustained recovery in air traffic, we completed our refinancing with the issue of a further £145m of unsecured fixed rate bonds and removal of the bridging facility. The bonds were issued by way of a tap of the 1.75% £300m 2033 bonds and issued at a discount reflective of the prevailing market conditions, raising net proceeds of £104m.

This realignment of the term and structure of our debt better matches our expected cash flows to 2033 and provides efficient and stable funding over the extended period for recovering the Covid income shortfall and to deliver the NR23 plan.

Revenue and regulatory allowances

	2023 £m	2022 £m
Airspace	**754.7**	593.2
Airports	**132.6**	113.9
Defence	**15.6**	21.0
Other UK business	**14.5**	11.0
International	**12.6**	10.7
Total	**930.0**	749.8

Overall, revenue and regulatory allowances at £930.0m (2022: £749.8m) were £180.2m higher than last year. By service line, the significant developments were:

Airspace: £161.5m (27.2%) higher than last year. Revenue from contracts with customers and other revenue at £713.7m (2022: £391.2m), improved by £322.5m following the growth in air traffic volumes in the year. Regulatory allowances of £41.0m (2022: £202.0m) reflect the shortfall between the income we earned for the flights we actually handled and the costs we incurred to do so. This is the basis of CAA's retrospective reconciliation, which will ensure NERL is able to recover efficiently incurred costs for operating and maintaining the UK's airspace infrastructure through the Covid period. Our assessment of regulatory allowances had regard to the CAA's initial proposals.

Revenue for the North Atlantic en route ATC service increased by £17.0m to £43.7m (2022: £26.7m) reflecting the 59% increase in flights to 483,802 (2022: 304,643 flights).

Airports: revenue was £18.7m (16.4%) higher for the year. This mainly reflected growth in engineering project income as airport operators restarted their asset enhancement programmes, which had been paused during Covid. The return of Gatwick Airport to our airport ATC contract portfolio in October 2022 and indexation uplifts of other airport contracts also contributed to the revenue increase.

Financial review

Defence: at £15.6m was £5.4m lower (25.7%), reflecting the delivery schedule for the Project Marshall asset provision contract, which is expected to complete in 2024.

Other UK business: revenue increased by £3.5m (31.8%) with new contracts from developers to mitigate the impact of their proposed windfarms on ATC radar data.

International: revenue was £1.9m higher (17.8%) mainly reflecting a full year's performance from Searidge Technologies, which became a group subsidiary in December 2021.

Operating costs

Operating costs increased by £104.4m or 16.0% as we scaled up our activities following Covid to support the recovery in air travel.

	2023 £m	2022 £m
Staff costs	**(485.9)**	(436.9)
Non-staff costs	**(166.4)**	(132.9)
Depreciation and amortisation, net of grants	**(103.7)**	(84.9)
(Loss)/profit on disposal of assets	**(0.2)**	0.4
Other operating income	**3.2**	2.8
Operating costs before goodwill impairment	**(753.0)**	(651.5)
Goodwill impairment charge	**(2.9)**	-
Total operating costs	**(755.9)**	(651.5)

Staff costs were £49.0m higher at £485.9m (2022: £436.9m). This included a pay award, operational overtime to support last summer's traffic recovery and additional headcount as we lifted the freeze on recruiting trainee air traffic controllers, as well as engineers, to support the technology transformation programme. Less internal labour was capitalised during the year while we revised our planned approach to deliver customer benefits as early as possible (see Technology transformation). The cost of employee shares increased in the year following an independent valuation. These factors were partly offset by lower defined benefit pension costs, explained below.

The number of employees in post at 31 March 2023 at 4,323 was an increase of 224 on the prior year.

Non-staff costs increased by £33.5m to £166.4m (2022: £132.9m). This included the costs of delivering the engineering projects, satellite surveillance charges supporting more North Atlantic flights, data hosting charges relating to the technical infrastructure and higher utility costs reflecting market energy prices. Prior year costs were also net of a larger write-back by £4.6m in expected credit loss provisions.

Depreciation and amortisation (net of grants) increased by £18.8m to £103.7m (2022: £84.9m), following a full year's charge for the technical infrastructure deployed in November 2021 and a higher asset impairment charge.

Goodwill arising on the acquisition of Searidge was impaired by £2.6m (2022: £nil) following a review of its latest business plan and outlook.

Net finance costs and fair value movements on financial instruments

In the prior year, one-off refinancing costs of £41.7m were incurred for NERL's debt refinancing transaction. Excluding these costs, net finance costs of £1.8m (2022: £9.8m) were £8.0m lower than the prior year, mainly reflecting the discount rate effect on the regulatory allowance relating to the Covid income shortfall to be recovered in NR23 and NR28.

A fair value charge of £27.1m (2022: £44.5m) was recognised this year. This included a lower charge for the change in market valuation of RPI swaps, reflecting the market's expectation of lower long-term inflation. This was partly offset by an increase in the fair value charge in relation to the group's equity investment in Aireon[8], based on projections of slower revenue growth.

Taxation

The tax charge of £32.3m (2022: £36.3m) represents an effective rate of tax of 21.8%. This is higher than the headline rate of 19%, mainly due to the impact of deferred tax balances expected to be realised after April 2023, when the headline rate increases to 25%.

The tax charge consists of a current tax charge of £12.1m and a net deferred tax charge of £20.2m. The deferred tax charge arises mainly from the deferred tax liabilities on capital expenditure, the defined benefit pension surplus and the use of the previous year's tax losses.

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. Our Country-by-country reporting (CbCr) table is set out within the explanatory notes on page 183.

The group also pays other taxes such as employer's national insurance contributions (£46.5m), business rates (£5.3m) and the apprenticeship levy (£1.8m), 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 2022 was a pre-tax real profit of 2.34% (2021 calendar year: 0.27%) compared with the expected regulatory return of 3.48% in the CMA's RP3 price control decision. This mainly reflects our assessment of the outcome of 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.

Financial review

Balance sheet

	2023 £m	2022 £m
Goodwill	**42.7**	45.7
Tangible and intangible fixed assets	**1,114.5**	1,099.7
Right-of-use assets	**37.7**	42.9
Investments	**29.7**	40.3
Pension scheme surplus	**58.7**	341.9
Regulatory allowances recoverable	**731.2**	724.6
Regulatory allowances payable	**(141.6)**	(169.1)
Cash and cash equivalents	**160.2**	148.0
Derivatives (net)	**(80.1)**	(77.0)
Borrowings	**(911.4)**	(938.9)
Lease liabilities	**(52.4)**	(58.6)
Deferred tax liability	**(197.9)**	(245.2)
Other net balances	**(42.6)**	(94.0)
Net assets	**748.7**	860.3

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 reduced in the year, following a reduction in the IAS 19 funding surplus of the defined benefit pension scheme to £58.7m (2022: £341.9m - see below), partly offset by the profit after tax for the year.

Capital investment

	2023 £m	2022 £m
SESAR deployment	**47.9**	56.5
Airspace modernisation	**7.8**	8.1
Infrastructure	**9.8**	7.1
Operational systems	**29.5**	18.5
Other	**7.7**	1.3
Regulatory capex	**102.7**	91.5
Military systems	**-**	0.3
Other non-regulatory capex	**11.0**	8.3
Capital investment	**113.7**	100.1

The group invested £13.6m more in the year as the capital investment programme continued to remobilise. It had been paused during the Covid pandemic to protect liquidity and to enable plans to be reviewed against the revised priorities of our customers and the regulator.

Defined benefit pensions

The group operates a final salary defined benefit pension scheme with 1,550 employee members at 31 March 2023 (2022: 1,591). The scheme was closed to new entrants in 2009 and a defined contribution scheme was put in place which now has 2,108 members (2022: 1,821) - the costs of this scheme increased by £5.1m in the year reflecting the growth in members. 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 £69.9m (2022: £81.6m) reflected a lower accrual rate of 44.9% (2022: 60.6%) of pensionable pay, as a result of higher real interest rates at the start of the financial year relative to those at the start of the prior year.

IAS 19 pension surplus	**£m**
At 1 April 2022 (restated, see note 2)	341.9
Charge to income statement*	(69.9)
Actuarial gains/(losses):	
- on scheme assets	(1,849.1)
- on scheme liabilities	1,546.2
Employer contributions*	89.6
At 31 March 2023	**58.7**
Represented by:	
Scheme assets	3,544.7
Scheme liabilities	(3,486.0)
Surplus	**58.7**

*including salary sacrifice

At 31 March 2023, the scheme's assets exceeded its liabilities by £58.7m (2022: £341.9m) as measured under International Accounting Standards (IAS 19) using best estimate assumptions.

There have been significant movements in both the gross value of pension scheme liabilities and the fair value of the scheme's assets over the last year, which reflect the large movements in bond yields and high current levels of inflation.

Financial review

Defined benefit pensions (continued)

The real yield on AA corporate bonds used to value RPI-linked pension obligations increased by 240 basis points over the 12-month period. This had the effect of reducing the value of pension liabilities. Partly offsetting this, experience losses of £240m reflected the impact of actual inflation on pensioner and deferred member liabilities. Overall, the scheme's pension liabilities (under IAS 19) reduced by £1,471.7m over the year.

The fair value of the scheme's assets reduced by £1,754.9m, with significant reductions in the value of fixed income investments in particular, reflecting broader interest rate increases and the impact of inflation on returns.

The scheme's liability driven investment (LDI) portfolio was managed appropriately through the events that occurred in the gilt market in September 2022. Subsequently, to further enhance resilience, the company and trustees adjusted the level of collateral to withstand further increases in real interest rates and the growth portfolio to provide liquidity for the LDI portfolio, while continuing to meet the scheme's expected return objective.

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 their last formal valuation at 31 December 2020, which reported a funding deficit of £171.9m (equivalent to a funding level of 97%). The scheme's actuary also determined that the cost of employee benefits accruing in future should be 66.2% of pensionable pay. Contributions have reflected this rate since January 2023, as well as a recovery plan agreed with Trustees, which aims to repair the deficit by December 2029. This will require deficit payments of £27.2m during calendar year 2023, increasing annually by 2.37%.

Under the schedule of contributions agreed following the 2020 valuation, during the financial year the company paid deficit contributions of £24.5m and normal contributions at a rate of 41.7% of pensionable pay until December 2022 and then at 66.2%.

The Trustees will undertake their next formal valuation as at 31 December 2023.

Net debt, liquidity and cash flows

	Cash and cash equivalents £m	Borrowings (including lease liabilities) £m	Net debt £m
Balance at 31 March 2022	148.0	(997.5)	(849.5)
Cash flow	12.0	38.1	50.1
Non-cash movements	0.2	(4.4)	(4.2)
Balance at 31 March 2023	**160.2**	**(963.8)**	**(803.6)**

At 31 March 2023, the group's net debt was £803.6m (2022: £849.5m). It comprised £852.5m in bonds and £65.0m of drawings under bank facilities, less unamortised costs and fees, and £52.4m of lease liabilities recognised under IFRS 16. These were partly offset by £160.2m of cash and cash equivalents.

As noted above, net debt reduced during the year as cash receipts improved with the recovery in traffic volumes. For the first year since the onset of the Covid pandemic, this cash generation provided operating cash flows which funded capital investment and debt service costs.

At 29 June 2023, the group had available liquidity of around £491m. 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 and viability statements

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.

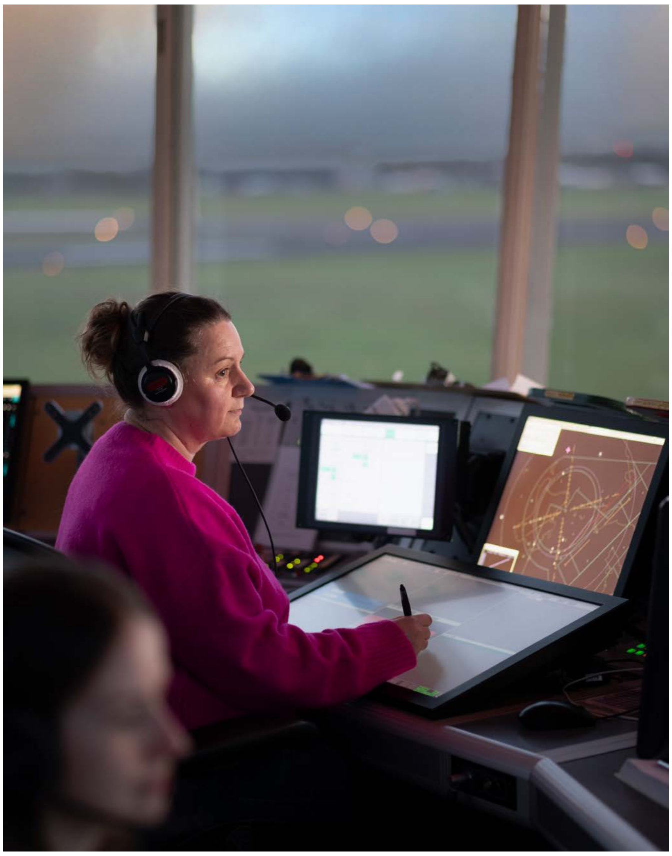
As explained in the Financial Review, during the year the group raised £104m (net of costs) from the issue of a £145m unsecured bond and cancelled its £450m unsecured bridging facility. At 31 March 2023, the group had access to liquidity of £495m comprising cash of £160.2m and undrawn committed bank facilities of £335.0m. At 29 June 2023, the group had access to cash and undrawn bank facilities of around £491m.

When considering the appropriateness of the going concern basis of preparation of the financial statements, the directors have reviewed the cash flow forecasts prepared by management covering a period to 30 June 2024, being at least 12 months from the date of approval of these financial statements. The directors have had regard to reasonably plausible changes in trading performance as well as severe traffic volume scenarios individually and in combination and the principal risks discussed on pages 24 to 26.

The severe traffic volume scenarios modelled were: an up to 65% reduction in air traffic volumes for a 12-month period, as a proxy for a traffic shock such as a further wave of Covid and related travel restrictions, being the most severe traffic scenario; Eurocontrol's March 2023 pessimistic case (see page 10), which assumed a slower recovery in air traffic volumes in light of the continuing challenging economic and geopolitical situation; a 15% loss of airport contract income, in the event of airport closures; adverse impacts of higher than planned inflation of our operating costs and capital expenditure programme; and higher cash outflows simulating the risk of unremunerated committed costs following the NR23 price control decision. Finally, a combination scenario was also performed of lower air traffic volumes and higher operating costs. Under the most severe scenario, the group maintains adequate liquidity (of £234m) and headroom (NERL gearing at 58%) to meet its debt covenant (NERL gearing at 85%), prior to mitigating actions (such as other cost saving measures and deferring capital investment).

The directors have also considered, through a reverse stress test, the point at which liquidity would be utilised or the financial covenant would be breached before both mitigating action and regard to the financeability duties of the CAA and Secretary of State for Transport. The reverse stress tests considered 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.



Going concern and viability 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 pages 24 to 26, and the effectiveness of currently available mitigating actions.

In particular, the directors assessed the solvency and liquidity risks arising from a traffic shock (such as that caused by Covid) 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 2026.

The Board considers that there is greater certainty around forecasting assumptions over a three-year period than a longer period, taking into account the rate and extent of recovery in air traffic volumes and its endurance in light of the macroeconomic outlook and the CAA's ongoing consultation on the redetermination of the new price control for NR23, which the Board expects will be completed during the summer of 2023, after approval of this annual report.

Specific consideration has been given to:

> The risk of a traffic shock: the consequences for the group's en route and airport ATC income of a severe reduction in air traffic volumes, such as a further wave of the Covid 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 2394) 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

Enterprise risk framework

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 on a monthly basis which address changes in risk, risk appetite and tolerance, internal controls and the progress of actions associated with NATS' risks.

The Board takes the management of risk very seriously, paying particular attention to key risk areas. Regular reviews are also carried out by the Audit, Safety and Transformation Review Committees in accordance with their remits, as reported in later sections.

Taking into account the work of the Committees, the Board formally reviews emerging and principal risks on a six-monthly basis. Safety risks remain a priority for the business and as such are considered at every Board meeting in addition to the regular six-month review.

Our principal risks

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

The list below is not intended to be exhaustive and reflects the Board's assessment as at the date of this report. The risks outlined are the most important risks facing the company in seeking to achieve its objectives. The 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 are reflected in and have been considered in assessing viability and going concern on pages 22 to 23. A summary of risk management and internal control processes is on page 54.

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. The group maintains an explicit Safety Management System (SMS), which includes investigations and reviews of operational safety performance and individual incidents to identify and respond to contributors to safety risk. The effectiveness of the Safety Management System is overseen by the Executive-level NATS Safety Steering Group and the Board-level Safety Review Committee.

This year, preparing for traffic recovery following the Covid pandemic has been a key area of focus, particularly over the summer months. A NATS wide Regeneration Review Board met on a fortnightly basis to review the ongoing risks and ensure appropriate activities were 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.

Strategy: general economy (including inflation), geopolitical issues and uncertainty of air travel demand

The demand for air travel can be sensitive to macro-economic and geopolitical conditions. Factors including government travel restrictions in response to Covid, the conflict in the Ukraine, persistent inflation and the cost of living crisis and public concern as to the sustainability of aviation have led to greater uncertainty within demand forecasting.

NERL's regulatory allowances are recovered through charges based on the CAA's forecast of air traffic volumes and inflation during a price control period. The regulatory framework includes a traffic risk mechanism which enables NERL to recover shortfalls of income through future charges, as well as an adjustment for inflation. 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 are at fixed underlying prices for a contract term, with annual uplifts for inflation (which is capped for some contracts). The financial strength of airport operators is monitored for the impact of reductions in air travel demand.

Principal risks and uncertainties

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 CMA's review of the CAA's RP3 price control decision was overtaken by the financial impact of Covid on the aviation sector. For this reason, the CAA was required to reset the price control from the start of 2023 through the NR23 price control decision. This decision will also reconcile costs and revenues for the period between January 2020 and December 2022 on the basis of estimates of efficient costs and seek to allow the recovery of revenue consistent with supporting NERL's financeability.

As outlined on page 11, the CAA has not yet reached a final NR23 price control decision, and therefore the potential impact remains unknown.

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.

Strategy: sustainable aviation

NATS is committed to becoming carbon negative by 2040, and supporting our customers, partners, and suppliers to achieve a net zero aviation industry by 2050. Our climate targets have been independently validated by the Science Based Targets initiative (SBTi) and awarded 'Business Ambition' status – the highest ambition possible.

There are a range of potential physical and transitional impacts to the group from climate change, and these are outlined, along with how we managed these risks in our risk management system, within our Task force for Climate Related Financial Disclosures (TCFD) section on page 30.

Operational: business continuity and resilience

A catastrophic event, many of which are outside of our control such as adverse weather, another pandemic or terrorist attack, has the potential to disrupt ATC operations and our ability to resume a safe service to an acceptable performance level within a pre-defined period. A resilience plan, setting out NERL's approach to resilience and how we meet our service obligations to our customers, is required to be submitted every two years to the CAA by NERL's licence. The framework underpinning the disclosures in the resilience plan has been expanded to cover all 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 programme assesses, documents and tests resilience capability in order to mitigate the impact of such disruptions to customers.

Operational: systems security

A malicious cyber attack could affect the integrity, availability, confidentiality 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. A cyber attack on a non-operationally critical part of the business could be reputationally damaging and result in extensive management effort. NATS seeks to mitigate the risk through robust security controls, including physical security, security vetting, identity and access management and security patching, employee training, security monitoring and incident management. The threat of disruptive attacks (such as denial of service) on critical infrastructure elevated since the invasion of Ukraine. The threat of ransomware remains high. 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 and the National Protective Service Authority to monitor threats and minimise the risk of a damaging cyber attack.

Operational: recovery from pandemic restrictions

The aviation sector experienced challenges, particularly in summer 2022, in restoring staffing levels and capacity to meet air travel demand. There is a risk that if the demand for air travel significantly exceeds the capacity of airlines and airports that the sector experiences similar challenges again.

During Covid, we retained our skilled air traffic controllers to support the recovery but we were unable to train new controllers due to the risk of spreading the virus within our operation, as well as training in a live environment being unfeasible with such low flight volumes. As a result, there is a risk that during NR23 we may not have adequate resource to meet all of our operational and training needs, as the pipeline of newly trained controllers and less certain rates of staff retirements work through the system. The Operational Resourcing and Training Board and portfolio governance continues to focus on these risks and ensuring we can respond to changing demand, including implementing actions to make our training programme more efficient so that new controllers can validate more quickly.

Principal risks and uncertainties

Operational: employee relations

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

The impact of Covid, high inflation and the cost of living crisis on our employees and the group's financial position has required more dialogue with trades unions on a range of challenging issues, including employee pay, as it has done across the UK economy. We strive for constructive relationships with our trades unions, and these relationships have enabled us to agree three-year pay deals for grades negotiated by PCS and Prospect. 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 are agreed with the CAA. If we are found to have been demonstrably inefficient or wasteful in expenditure on capital assets, the CAA may reduce recovery of such expenditure under the regulatory regime. We maintain programme governance and risk management processes overseen by the Executive, the Transformation Review Committee and the Board. We have adopted industry best practice, by using a Portfolio, Programme and Project approach. 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. Trustees will undertake their next formal valuation as at 31 December 2023.

The scheme was closed to new entrants in 2009, pensionable pay rises are negotiated with our trades unions on the basis of affordability and are also capped through an agreement, and future service benefits are linked to the Consumer Prices Index. NATS regularly reviews the scheme's funding position and is consulted by Trustees on the design of risk reduction strategies. Also, subject to regulatory review, NERL is able to recover increases in contributions from changes in unforeseen financial market conditions. 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 instigated a full refinancing of its debt structure in response to Covid. This was completed in March 2023 with a further £145m of bonds to replace one of its bank facilities. These actions ensure it is well placed for a range of air traffic recovery outcomes and taking account of the extended period for settlement of the Covid income 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 statement

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 and ethnicity pay report[9] and a slavery and human trafficking statement[10] are published on our website.

Governance

The NATS Board is responsible for non-financial policy and performance. The Board has reviewed how it has applied the principles of the UK Corporate Governance Code 2018 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 corporate strategy includes a target to operate a carbon negative estate by 2040 and to be a Top 25 company to work for;
- Developing and monitoring appropriate policies, codes, management systems and targets, including a Responsible business policy[11] which can be viewed at www.nats.aero, and net zero emission targets;
- 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;
- Supporting a range of employee networks (ethnic and cultural minority, disability, faith, LGBTQ+, women's and young professionals) to promote a diverse and inclusive culture;
- 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

Our people make a critical difference to our success. Their skills and professionalism are at the heart of what we do. Our investment in them protects and strengthens our safety and business culture. We operate a strong Safety culture which encourages employees to raise safety related matters.

We are committed to promoting diversity and inclusion, to ensure 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. Our Diversity and Inclusion Steering Group has set new goals to drive meaningful action towards creating an inclusive culture. These targets will monitor the proportion of women, people from minority backgrounds and those with disabilities across our recruitment, talent and succession plans. Our continued experience of low staff turnover, which itself is a separate positive, does impact our hiring rate and acts to limit the rate of progress we hope to make.

b. Environment policies and outcome

Our sustainability strategy encompasses initiatives to reduce greenhouse gas (GHG) emissions and resource use, energy efficiency, sustainable procurement, climate change resilience, pollution and biodiversity protection 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 Organisation, to ensure a coordinated approach to managing our shared environmental impacts.

During the year we were awarded a 'B' rating for our environmental stewardship by CDP (formerly known as the Carbon Disclosure Project) for our 2022 financial year disclosure. While this exceeds the average score of 'C' for companies within our benchmarked industrial support services sector, our aim is to achieve and maintain a leadership score of at least 'A-' to reflect our commitment to measuring, managing and disclosing our environmental impacts.

For the third year running we were recognised as one of Europe's Climate Leaders, in the 2022 listing compiled by the Financial Times and Statista. This report names just 400 European companies that have achieved the greatest reduction in their Scope 1 and 2 (market-based) GHG emissions between 2015 and 2020.

Responsible business statement

Strategy (continued)

We seek to reduce the impact of our operation on CO_2 emissions, noise and other environmental impacts as much as possible, through how we run our business. We undertake this by the design and management of air traffic, developing innovative solutions in partnership with our key suppliers and airport and airline customers for mutual benefit. As an example, we supported a number of industry groups and initiatives to improve sustainability performance, including trials to avoid contrail induced cirrus (non-CO_2 impacts). We co-chair and participate in European and global groups to set standards and produce guidelines for ANSPs to reduce their environment impact and engage with customers on future tools and airspace changes. We have been successful in our bid to support the Single European Sky ATM Research project investigating contrail avoidance trials over the North Atlantic.

We are also working across the industry, including the Airspace Change Organising Group (ACOG) to set out a plan for airspace modernisation to reduce the industry's CO_2 emissions, while we wait for changes to fleet and fuels to take effect in future.

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 net zero target for greenhouse gas emissions from running our business by 2035 and to be a carbon negative company by 2040.

We have implemented an environmental management system across our UK operations, externally certified to the international standard ISO 14001 at 22 of our sites, to identify and manage risks and opportunities, ensure legal compliance and continual improvement of our environmental performance.

Concerns about sustainability, particularly climate change, have increasingly been driving societal and political action, with intensified pressure on the industry to increase its ambition and advance its plans to decarbonise. Through the year we have supported the UK Sustainable Aviation coalition in updating its decarbonisation roadmap, setting out how aviation can achieve net zero. 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.

Finally, we are deploying new technology that supports the government's goal to accelerate the development of 50GW of renewable energy from wind power. With our partner, Indra, we deployed the Lowther Hill radar which enables windfarms to be operated safely without interfering with radar signals used for air traffic control.

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. This year, for the first time, we published a combined pay gap report for both gender and ethnicity, to provide a broader picture and enable a consistent approach to tackling disparities. We continued to see small improvements in median gender pay this year. We recognise it takes time to create sustainable change, but we can see examples of our positive change, such as an increase in women in our upper pay quartile, a higher percentage of ethnic minority joiners than leavers and a diverse intake in this year's early careers programme.

We are developing a diverse and inclusive place to work and targeting a 50:50 gender split for external recruitment (while also supporting diversity along LGBTQ+, race and ethnicity and disability lines). 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. For the 2022 calendar year, we achieved a 3Di score of 26.0 against a par value target set by the CAA of 27.3.

Responsible business statement

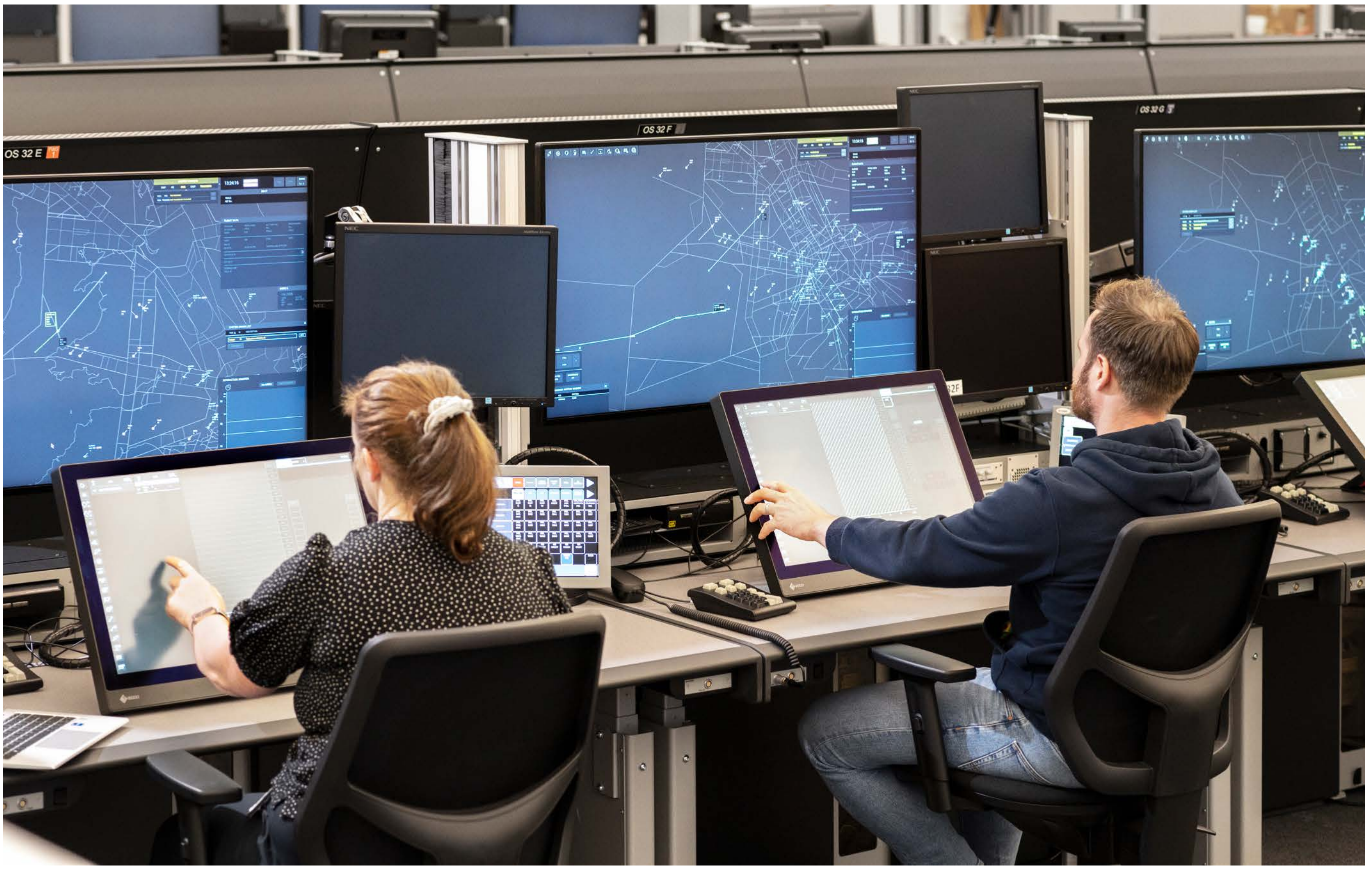
Metrics and targets (continued)

As a result of strategic airspace improvements we enabled reductions of 56,317 tonnes of CO_2 emissions in the year. This was achieved from initiatives in both domestic and Oceanic airspace to improve aircraft flight profiles to reduce fuel burn. We estimate that the redesign of the airspace network above 7,000ft over Southwest England and Wales and Free Route Airspace will enable emission reductions of 12,000t CO_2 per annum. Also, assessments of the impact of space-based satellite navigation in Oceanic airspace have demonstrated emission reductions of over 77,000t CO_2 per annum. Overall, cumulative emission reductions per annum since 2006 have averaged 111,000 tonnes.

We have established a near-term science-based target to reduce the emissions from running our business by 41% by 31 March 2026 against a 2019 baseline, which the Science Based Targets initiative (SBTi) has validated and awarded NATS 'Business Ambition' status – the highest achievement possible. This demonstrates NATS emissions targets exceed requirements to help prevent the most damaging effects of climate change, and consistent with the goals of the Paris Agreement. Annual sustainability linked finance targets align with our science-based target reduction profile, with the aim this year to achieve a 24% reduction in scope 1, 2 and limited scope 3 emissions (categories 1,3,4,6,7) against 2019 levels.

The aggregated total of GHG emissions from our estate has reduced by 39% compared to a 2019 baseline, resulting from energy efficiency and emissions reduction measures, site consolidation and lower occupancy levels. This included within the last year the installation of adiabatic dry air coolers at our Swanwick site, numerous LED lighting upgrades, uninterrupted power supply changes and new heating, ventilation and cooling systems deployed at sites across the UK. Projects to install large scale photovoltaic arrays at Swanwick and Prestwick continue to be developed, and within the year a further 15 sites have been added for consideration. We also commissioned the installation of 100 electric vehicle charging points across our main sites to support lower transportation emissions. We procure 99% of our electricity from green electricity and 100% of NATS direct gas procurement is low carbon biogas.

We continue to work closely with the Department for Transport, the CAA, airport operators and the wider industry to minimise the impact of aircraft noise on communities.



Task force on Climate-related Financial Disclosures progress

While every sector and industry could experience financial impacts from climate-related risks and opportunities, the TCFD identified the aviation sector as potentially one which is more affected by climate change on the ground and in the air as well as from the transition to a low-carbon economy.

As the provider of the UK's critical national airspace infrastructure, we are preparing for climate change trends from warmer, wetter winters and hotter drier summers alongside an increase in frequency and intensity of extreme weather events, as well as sea level rise and storm surges. We also understand the contribution that air traffic control can make to overall aviation emissions reduction through measures including optimising flight paths to reduce aircraft fuel burn and CO_2 emissions and delivering airspace modernisation.

This year we are making a number of voluntary disclosures broadly aligned with TCFD ahead of full compliance in our 2024 annual report.

Governance

1) Describe the Board's oversight of climate-related risks and opportunities

2) Describe management's role in assessing and managing climate-related risks and opportunities

Our Board is responsible for our climate-related strategy and has oversight of climate-related risks and opportunities impacting the group (risk governance is explained on page 24). Following its strategy review in the year, the business has an objective to be carbon negative by 2040, which goes further than the previous target to achieve net zero emissions across our estate by 2035, and deliver our part of the aviation industry's 2050 plans to decarbonise its operations.

The Board delegates responsibility to various committees (see pages 51 to 78). During the year, the remit of its committees was reviewed to ensure alignment with climate change risks and opportunities and monitoring progress against decarbonisation targets.

Our Board members bring a variety of skills and experience, from their own qualifications as well as other external Board appointments. These include an understanding of ESG and climate change matters.

The CEO has overall accountability for the group's decarbonisation target and for ensuring business resilience to climate change.
The Board receives periodic updates on matters discussed at the Environmental Strategy Steering Group (ESSG), including progress against the company's near-term 1.5°C aligned science-based target, our sustainable-finance linked targets and commitments to achieve net zero by 2035 (see Metrics and targets). These updates enable the Board to understand the drivers of emissions performance and to assess investments and resources to achieve net zero as well as actions for mitigating climate risks.

The ESSG is the executive committee that ensures environmental policy objectives are being appropriately delivered. Its scope covers environmental impacts from airspace users of our air traffic control service and our estate-based impacts from delivering our business, as well as climate-related risks and opportunities faced by the group. The ESSG meets bi-monthly.

The ESSG is chaired by the Safety and Sustainability Director with other Executive members being the CFO, Operations Director, Technical Services Director and the Communications Director. Other members include the Director of Sustainability, the Director of En Route Operations and the Director of Supply Chain and Facilities Management.

The ESSG sets the direction and focus of the Decarbonisation Implementation Steering Group whose primary objective is to manage our net zero[14] and carbon negative deliverables. These goals include overseeing ATM activities that contribute to reducing aviation emissions such as more fuel-efficient flight profiles and airspace change as well as activities which reduce scope 1 and 2 emissions from NATS estate and selected scope 3 emissions.

Task force on Climate-related Financial Disclosures progress

Strategy

3) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term

4) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

5) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Since the introduction of the adaptation reporting power for DEFRA under the Climate Change Act 2008 we have produced two reports for DEFRA on the progress we are making in identifying and assessing climate-related risks and opportunities. The latest of our periodic reports was published in 2021 and set out the main priority physical and transition climate change risks and opportunities. This report is available on www.nats.aero.

In assessing physical climate risks (see table on page 33), we adopted a bottom-up approach that applied desktop GIS using the most recent UK Climate Projections (UKCP18) covering the locations of 236 assets across the UK and Gibraltar, which represented the critical air traffic control and engineering assets providing services for civil and military customers. A high emission reasonable worst-case scenario (RCP 8.5 ~ >4°C global warming) was used to assess the impacts on airspace and on NATS estate and its assets over a long-term horizon of 2050-2100. A medium case (RCP 4.5) was also applied to NATS estate and assets. The analysis was supplemented with details of past extreme weather events (such as Storm Ciara and Storm Dennis in February 2020).

In recent years we have experienced weather extremes which we have been able to mitigate with limited operational service disruption. For example: high winds from Storm Dennis in 2020 caused damage to a surface movement radar at Stansted Airport; Storm Arwen in 2021 resulting in the loss of communications and surveillance from a radar following a generator failure; and in summer 2022 cooling systems failed at Swanwick due to extreme heat. Aside from impacts to assets and our service, the safety of our employees is a priority during such events. These events reflect our exposure to short-term (1-2 year) physical risks and provide a baseline for post event reviews of our resilience and asset maintenance, spares management and replacement decisions. We mitigate the risk to our infrastructure and operational service through a planned and preventive maintenance regime and using a weather watch process when extreme events are forecast by the Met Office following which we proactively protect our assets and operational service. Alongside system resilience, asset design and restoration management minimises engineering related delay impacting our operational service. Long-term planning of service, system and asset replacements are informed by asset health reviews, historic performance data and ongoing supportability. Design criteria for replacements utilise industry best practice standards, climate projections and expected future capacity requirements to ensure resilience.

To date we have considered the risks of transition (see table on page 34) to a low carbon economy on a qualitative top-down basis. Some of these are direct impacts such as access to renewable electricity while others are indirect for example arising from policies which seek to reduce the demand for air travel or public perception of the impact of aviation emissions on climate change. There are opportunities, particularly market-based ones, for NATS to consider and pursue which may partially offset some of the increased costs from transition impacts.

Our priorities for 2024 are to assess physical risks over medium timescales (to 2030) using the UKCP18 data above and to develop a higher resolution analysis to identify the vulnerabilities of specific assets over short, medium and long-term timescales. We also plan to conduct fine resolution flood risk modelling under different climate scenarios for key sites. For transition risks, we propose to consider the implications under both an orderly and disorderly transition to a low carbon economy. The outputs from this further analysis will enable climate risks and opportunities to be embedded into our business planning and investment decision processes. This insight will also enhance our understanding of likelihood and financial impact. We are also looking to include carbon metrics and pricing in our investment decisions to support delivery of emissions reduction targets. As well as preparing for the impacts of climate change on our business, we are committed to transitioning to a business model that is consistent with the objectives of the Paris Agreement and this is reflected in our strategic objective of reducing our Scope 1, 2 and selected Scope 3 emissions to net zero by 2035 (which has been independently validated by the Science Based Targets initiative) and being carbon negative by 2040.

Our strategy also meets the UK government's Jet Zero strategy to achieve net zero aviation emissions by 2050 and broader international aviation commitments. Our plan for NR23 set an ambitious target to improve the efficiency of flights under our air traffic control by 4.4% between 2020 and 2035. This is represented by a sustainable reduction in the 3Di score in the face of traffic growth, which is enabled by airspace modernisation as the biggest contribution we can make to reducing the carbon footprint of flying.

Our initial view of the principal physical and transition risks and opportunities are described in the table below.

Task force on Climate-related Financial Disclosures progress

Risk management

6) Describe the organisation's processes for identifying and assessing climate-related risks

7) Describe the organisation's processes for managing climate-related risks

8) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

Sustainability and climate change is a principal risk to our business and is fully embedded within our overall Enterprise Risk Management framework (ERM). The process for identifying, assessing, and managing climate-related risks is the same as for all other risks, as described on page 24.

Our targets validated by SBTi

To reduce absolute scope 1, 2 and 3 GHG emissions by 41% by 31 March 2026 against a 2019 financial year baseline.

Note: scope 3 emissions covers purchased goods and services, fuel and energy related activities, upstream transportation and distribution, business travel and employee commuting.

To commit that 50% of our suppliers by spend, covering capital goods, will have science-based targets by 31 March 2026.

The ERM sets out the categories of risk we face which, alongside the work we are doing to assess site level physical risks, forms a tool for business areas to identify the risks they face, assess each risk based on the potential impact and the probability of occurrence and compare that to the risk appetite and tolerance statements agreed by the Board. Three specific categories relate to sustainability and climate change:

a. **Physical impacts of climate change:** Risks to our assets and operations arising from global warming, including the impact of extreme weather events.

b. **Transitional impacts of climate change:** Risks associated with the transition to a low carbon economy, including changes in regulation and consumer behaviour.

c. **Decarbonising aviation:** Transition risks associated with our carbon negative ambitions and our ability to support decarbonisation across the sector.

The specific risks identified in our framework currently are summarised in the table below, and the most material of these are escalated to the Executive team, and included in Audit Committee and Board oversight of risk management as appropriate.

Metrics and targets

9) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process

10) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks

11) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Our metrics and targets allow us to measure our impact on the environment and monitor our performance towards meeting our strategic objectives. The key metrics relating to our GHG emissions are set out on page 35.

Our target for this financial year was to have reduced our estate GHG emissions by 24% against the 2019 baseline, and we have achieved 39% (2022: target 18%, achieved 37%).

Further detail on our decarbonisation plan and report on the year's performance is detailed within the Responsible business section and NATS Greenhouse Gas report on www.nats.aero.

As we develop our understanding of the physical and transition climate risks we will develop metrics and targets that provide the information the business and our stakeholders need to effectively monitor our performance and demonstrate our progress.

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.

Task force on Climate-related Financial Disclosures progress

Risk or opportunity	Time horizon	Potential impact	How it is managed
Physical risks			
Flooding at en route centres and airports where NATS provides a service	Medium and long-term	Restricted access to sites and damage to equipment impacting operational service	Ongoing analysis of flood risk for key sites. Longer-term maintenance to improve drainage capacity and build flood defences
Storms (precipitation and lightning) at remote sites	Short, medium and long-term	Costs of damage to communications, radar and navigation assets and disruption to operational service	Planned remedial action, geographical separation of assets, layers of redundancy and back-up for critical systems
Wind speed and gusts at remote sites	Short, medium and long-term	Cost of damage to or loss of a radar. Simultaneous loss of multiple assets leading to reduced operational service	
Summer extreme temperature at en route centres, airports and affecting infrastructure assets	Short, medium and long-term	Damage to cooling systems and equipment components leading to reduced operational service	
Thunderstorms and clear air turbulence	Short, medium and long-term	Disruption to ATC service performance, air traffic delay and aircraft re-routing	Operational regulations to limit capacity and ensure safe service provision
Physical opportunity			
Supporting customers with the specification and installation of airport engineering equipment	Medium and long-term	Additional revenue from engineering project services	Ongoing assessment of physical risks to customer sites

Task force on Climate-related Financial Disclosures progress

Risk or opportunity	Time horizon	Potential impact	How it is managed
Transition risks			
Policy measures seeking to constrain air travel demand such as air passenger duty, aviation fuel taxes and carbon charging	Medium and long-term	Lower air traffic volumes and revenue than assumed by the price control	Traffic volume risk sharing mitigates revenue losses ahead of a new price control
Public perception of the aviation sector's impact on climate change	Medium and long-term	Loss of revenue as consumers reduce air travel or opt for lower carbon transport, employee retention risk and recruitment of new talent	
Public opposition to airspace modernisation (e.g. for changing noise patterns)	Short and medium-term	Reduction and/or delays in ATC contribution to aviation emission reductions	Extensive consultation with the public, industry and regulator
Supply-demand of renewable energy and reliance on electricity grid (power and heat)	Short, medium and long-term	Access to clean energy alternatives drives higher cost of energy and risk of grid power outages	Energy avoidance and conservation measures, photovoltaic arrays at main sites reducing scope 2 emissions and minimising exposure to electricity price fluctuations, supply prioritisation
Supply-demand of carbon sequestering and offsetting	Medium and long-term	Potential increase in cost to achieve net zero and carbon negative strategic objectives	Taking early actions in service of meeting decarbonisation targets. Stakeholder engagement on regulatory framework
Transition opportunity			
NATS ATC solutions offer resilience and support emission reductions	Short, medium and long-term	Increased revenue from tools which improve landing rates in strong headwinds (eTBS), reduce airborne holding (XMAN) or climate impacts to airport infrastructure (digital towers)	Targeted commercial activities

The time horizons we have used to assess climate-related risks and opportunities are short: one to two years, medium: to 2030 and long-term: from 2030 to 2050.

Task force on Climate-related Financial Disclosures progress

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.

Environmental performance and greenhouse gas emissions

Description[12]	**FY 2022/23 (or CY 2022)**	FY 2021/22 (or CY 2021)
Service performance and resilience		
3Di (calendar year)	**26.0**	22.8
Environmental performance^		
Scope 1 emissions (location-based tonnes CO_2e)	**2,895”**	2,708”
Scope 1 emissions (market-based tonnes CO_2e)	**2”**	2”
Scope 2 emissions (location-based tonnes CO_2e)	**10,587”**	11,774”
Scope 2 emissions (market-based tonnes CO_2e)	**114”**	718”
Scope 3 categories 1, 3, 4, 6 and 7 emissions (tonnes CO_2e)	**11,287”**	10,754”
Total scope 1, 2 and 3 categories 1, 3, 4, 6, 7 (tonnes CO_2e) – location based	**24,769”**	25,236”
Scope 3 category 11 emissions (tonnes CO_2)	**23,365,760”**	13,920,072”
Avoided / modelled enabled ATM-related CO_2 reductions in tonnes[13]	**56,317”**	7,972”
Water supply and treatment (m^3)	**34,142”**	27,508”
Energy consumption (gas + electricity) MWh	**64,243”**	66,520”
Transportation: owned and leased vehicle fuel consumption (as reported within scope 1) KWh	**528,895**	Not measured
Transportation: business travel (scope 3) from employee-owned vehicles and hire cars KWh	**1,066,645**	Not measured
CO_2e intensity metrics		
Total scope 1 + 2 emissions (location-based tonnes CO_2e)	**13,482”**	14,482”
Total scope 1 + 2 emissions (market-based tonnes CO_2e)	**116”**	720”
Total scope 1 + 2 intensity metric (location-based tonnes CO_2e per £m of revenue)	**14.4”**	19.3”
Total scope 1 + 2 intensity metric (market-based tonnes CO_2e per £m of revenue)	**0.1”**	1.0”
Net zero metrics towards validated science-based target		
Percent reduction of CO_2e against 2018-19 baseline (scope 1, 2 and 3 categories 1, 3, 4, 6, 7)**	**Target: -24% Actual: -39%”**	Target: -18% Actual: -39%”
Percent change in CO_2e against 2018-19 baseline (scope 1 and 2 emissions)**	**-35%”**	-30%”
Percent reduction of CO_2e against 2018-19 baseline (scope 3 categories 1, 3, 4, 6, 7)**	**-43%”**	-45%”

^restated due to inclusion of additional information, improvements to modelling accuracy and data quality.
”verified to ISO 14064. Certificates, GHG emission methodologies and boundaries are outlined in detail in our GHG report, available at www.nats.aero/environment/library
** Our near-term 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 2025/26, using a 2018-19 baseline. Scope 3 categories 1, 3, 4, 6, 7 describe GHG emissions covering purchased goods and services, fuel and energy related activities, upstream transportation and distribution, business travel and employee commuting (including homeworking).

Engaging with our stakeholders

Our stakeholders	Why are they important to us?	How 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 consult airspace users, airports and the public on their priorities and our plans for our regulated activities for each price control period. We reflect on their feedback and update our plans accordingly before review by the CAA. We discuss with both airspace users and airports our service performance, our charges, cost efficiency and our capital investment plans. When bidding for airport and other contracts we tender our cost effective and innovative solutions. In anticipation of the lifting of Covid travel restrictions last year we engaged to ensure a coordinated industry re-start. Following the industry's challenge in meeting pent-up demand last year, we discussed preparations for summer 2023 across Europe with Eurocontrol (the network manager), customers and other key stakeholders.
Employees	Our ATC service and infrastructure depends on the skill and professionalism of our employees. They make a critical difference to our success, and our investment in them protects and strengthens our safety and business culture. Most of our employees are members of trades unions.	The Executive and senior leaders have an open dialogue with trades unions and receive feedback on pay and benefits, a safe and healthy working environment, flexible working, talent development and career opportunities, and a diverse and inclusive culture. The CEO and executive communicate regularly to employees via our intranet and to senior leaders in regular virtual meetings. The Board receives a monthly report from the CEO which includes employee relations, diversity and inclusion and other employee matters. The Board collectively seeks opportunities to engage with groups of employees during the year. We operate a Just Safety culture, enabling employees to raise safety matters, and we seek feedback on a safety culture survey. We also survey employee wellbeing and maintain a whistleblowing facility. This year we conducted an employee opinion survey (b-Heard), as a baseline for our strategic objective to be a top 25 company to work for by 2040. Further details on the Board's regard to employees in its decision-making is provided below.
Regulators	Our regulators ensure we provide our service and develop our infrastructure in accordance with our ATC licence and international safety standards. Ensuring we fulfil our licence obligations and develop the business for the long-term ensures the success of the company for all our stakeholders.	As economic regulator, the CAA is consulting stakeholders on our plan for NR23 ahead of determining the charges, safety, service performance and capital investment targets and incentives. We are engaging with them on our plan and provided feedback to their initial proposals 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. This year the CAA approved changes in the Humber region and to airspace above 7,000 feet over Southwest England and Wales.
Government	The government sets UK Aviation Strategy which provides a long-term vision for the industry and a framework for future ATC provision.	The CEO maintains a regular dialogue with the Department for Transport. The government engages on aviation policy that affects NATS, including the recovery in air travel after Covid restrictions were lifted and preparations for summer 2023.
Shareholders	Our shareholders provide equity investment which finances our activities and enables us to invest in our ATC service and infrastructure, for which they expect a return. An employee share trust owns 5% of the company which enables employees to share in the company's long-term success.	The Board Chair, CEO and CFO met informally with shareholders and discussed the Board's strategy review and alignment with shareholder interest, the recovery in air travel demand and the NR23 price control. The Strategic Partnership Agreement enables shareholders to appoint representatives to the Board. Shareholders wish to see remuneration policies which drive executive management to deliver strong sustainable performance aligned with the interests of key stakeholders.

Engaging with our stakeholders

Our stakeholders	Why are they important to us?	How we engage and have regard to their views in our decisions?
Communities and environment	Local communities around airports expect the aviation sector to pay attention to aircraft noise, fuel and CO_2 emissions and local air quality. Our ATC service can help mitigate some environmental impacts. Society expects improvements in sustainability, and we are committed to net zero greenhouse gas emissions from our estate by 2035, being carbon negative by 2040 and being an enabler to aviation's target of net zero by 2050. We are a significant employer where our UK operations are based.	We follow the CAA's guidance on public consultation on airspace use, aircraft movements and environmental impacts. We work with communities affected by flights below 7,000ft at an early stage of any airspace change, to ensure they have a voice in airspace design. Changes mean some communities may be subject to more overflights than previously, while others are no longer overflown. Following consultation, we appraise design options before making our recommendation to the CAA.
Lenders	Lenders provide debt finance that we repay over time and compensate by way of a commercial return. Access to debt finance is necessary to fund our business activities efficiently.	We meet lenders at least annually to discuss our performance, business plan and capital investment. Lenders wish to understand the company's financial strength over the long-term and the principal risks it faces. The importance of these relationships was demonstrated by NERL's June 2021 refinancing which secured funding of £1.6bn and the further £145m bond issued in March 2023.
Suppliers	Our suppliers provide goods and services to maintain and develop our operation. Working closely with them minimises risk and combines our expertise to develop innovative ATC solutions. We engage with them on ESG matters.	Our supply chain management approach involves regular and ongoing engagement with suppliers for procurement, risk management and performance measurement. We complete due diligence using industry JOSCAR methodology. We tailor engagement to critical suppliers and undertake Executive reviews, conferences and joint workshops. Our approach is an open and constructive relationship based on fair terms, good performance and high standards of conduct. We are ISO 44001 accredited and hold CIPS Platinum standard of assurance.

S172 statement

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 (see Engaging with our stakeholders). Inevitably it is not always possible to achieve outcomes which meet the desires of all stakeholders.

How our Board and its committees operate, and the way decisions are reached, including the matters discussed during the year, are set out in the Governance section on pages 40 to 78.

Set out below are explanations of how the directors have had regard to section 172 (1) in respect of employee matters and in reaching their key decisions in the year.

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

NATS has 4,323 employees and 119 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.

Engaging with employees: we sought feedback through an engagement survey (b-Heard) that will be the baseline for our strategic objective to be a Top 25 UK company to work for. Employees want to see more opportunity for personal growth, stronger leadership and more support for local communities. We are currently holding focus groups to shape our response. Through the year, the CEO, CFO and members of the Executive team engaged with employees on the group's strategy, the uncertain economic environment, business developments and pay. Positive engagement and effort by both the company and trades unions enabled agreement on a pay settlement which recognised the contribution employees make and the wider challenges facing the aviation sector.

Health and wellbeing: while UK Covid restrictions were lifted in March 2022, the Board maintained its focus on the safety and wellbeing of all colleagues. Occupational health professionals continued to monitor internal Covid cases for the Board and provide advice; regular wellbeing surveys gauged employee mental health; and communication of comprehensive internal and external support mechanisms continued. While meeting the needs of the business remains the priority, agile working principles were introduced which provide employees with more freedom to work where, when and how they choose, with a positive impact on employee engagement and performance. The year's safety survey included questions on wider health and safety considerations.

Diversity and Inclusion (D&I): D&I continued to be a Board focus in the year with progress made in the year explained in the Chief Executive's review. This year we became a member of Inclusive Companies and signed the Equal Skies Charter as a commitment to equality and the disabled community, respectively. In April 2022, we published our first 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. We continue to work with Fantasy Wings to recruit more people from ethnic minorities into aviation and participated in National Inclusion week, which is now a fixture in the calendar. We also established a Faith network, introduced a domestic abuse policy and enabled employees to reassign religious festivals. Our latest gender and ethnicity pay report shows some improvement which reflects the focus of effort including a focus on gender and ethnic diversity in our recruitment processes and early careers campaign.

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

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

Strategy review (see page 7) and annual business plan alignment: adopted by the Board in the year, the group's long-term direction is defined by the purpose, vision, values, strategy and four objectives for 2040 developed with regard to the value the company will bring to its members, employees as well as other key stakeholders and wider society. In March 2023 the Board approved the group's budget for 2024 and its three-year business plan, aligned to the strategy.

NR23 price control (see page 11): the Board's sub-committee oversaw the response to the CAA's initial proposals for NR23. Its members were Paul Golby, Martin Rolfe, Alistair Borthwick, Harry Bush, Mike Campbell and Richard Keys (and subsequently David Smith following Richard's retirement from the Board), who met regularly during the financial year. They were briefed on the CAA's initial proposals and input to the company's response to the challenges presented by the proposals and its balance of operational and financial resources, airspace user demand and service performance delivery, airspace change and technology implementation having regard to the interests of members, employees, airspace users, passengers and wider society.

S172 statement

Summer 2022 traffic regeneration (see page 10): The Board's priority was the safe regeneration of traffic last summer. In 2020, supported by airspace users and other key stakeholders, the group committed that it would not impair the recovery of aviation post pandemic and took the decision in the best interests of the wider industry to retain capacity and critical skills. Simulation training for operational employees ensured skills were maintained for higher traffic levels. These measures enabled a safe regeneration in the interests of employees, airspace users, airports and passengers.

Gatwick airport contract (see page 12): the Board's initial decisions focussed on the safe and smooth transition of the contract from the incumbent. Subsequently, the Board's concern has been integrating new employees, addressing the inherited shortfall in operational resources, maintaining service resilience and planning for summer 2023 with the customer.

Refinancing (see page 18): the Board completed NERL's refinancing to mitigate refinancing risk in NR23 in the interests of members and wider stakeholders by tapping existing bondholders after considering alternative approaches and assessing liquidity requirements in light of CAA's NR23 initial proposals and traffic scenarios.

De-risking technology transformation (see page 16): responding to challenges faced since Covid and following consultation with airspace users and key suppliers, the Board agreed a revised plan for delivering DP En Route and Voice platforms to deliver customer benefit as early as possible.

The Strategic report was approved by the Board of directors on 29 June 2023 and signed by order of the Board by:

Richard Churchill-Coleman
Secretary