Highlights

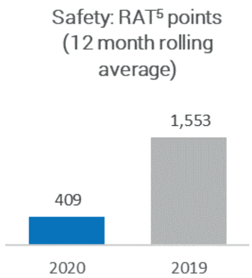
Financial highlights (year ended 31 March)

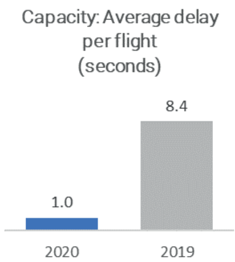
£m (unless specified)	2021	2020	Change (%)
Revenue and regulatory allowances	823.0	892.1	-7.7%
(Loss)/profit before tax	(37.8)	25.3	-
Cash (used in)/generated from operations	(264.5)	217.1	-
Capital expenditure	78.8	158.5	-50.3%
Net debt[a]	502.8	170.7	+194.6%
Gearing[b] (%)	49.6%	29.0%	+71.0%
Dividends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

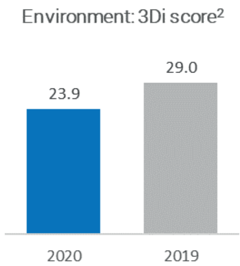
Notes: [a] includes advances of en route charges and excludes derivative financial instruments; [b] ratio of NERL's net debt (as defined by its licence) to regulatory assets[1]

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

Operational highlights







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

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

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

Contents

Who we are

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

Our purpose

Advancing aviation, keeping the skies safe.

Our strategic objectives (revised following Covid)

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

Our values

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

Our business model

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

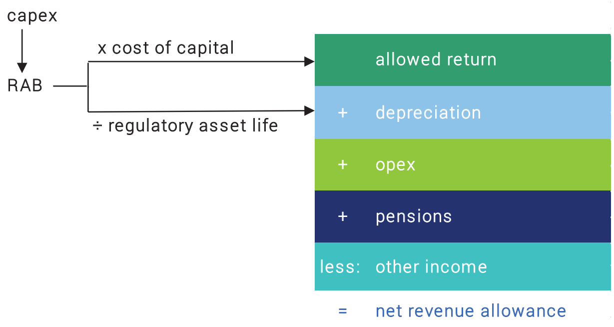
NERL

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

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

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

Figure 1: The economic regulatory framework



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

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

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

NATS Services

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

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

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

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

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

Chairman's statement

Covid

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

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

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

Regulatory framework

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

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

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

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

Gatwick Airport contract award

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

Dividends

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

Palamon

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

Environmental sustainability

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

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

Our Board and employees

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

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

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

Dr Paul Golby, CBE FREng

Chairman

Chief Executive's review

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

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

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

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

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

Our workforce

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

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

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

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

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

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

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

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

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

Impact of Covid

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

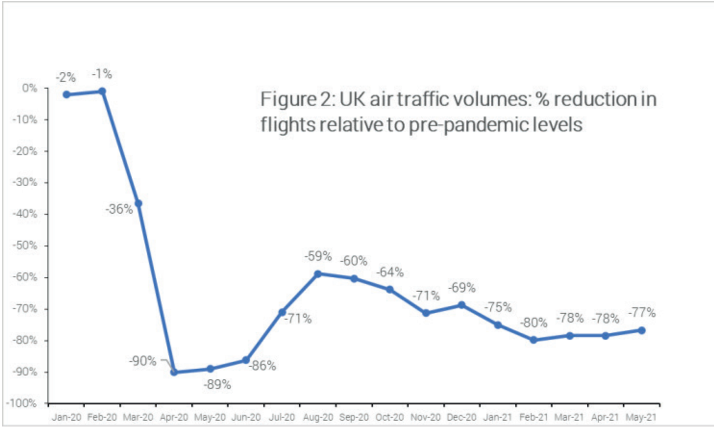


Figure 2: UK air traffic volumes: % reduction in flights relative to pre-pandemic levels

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

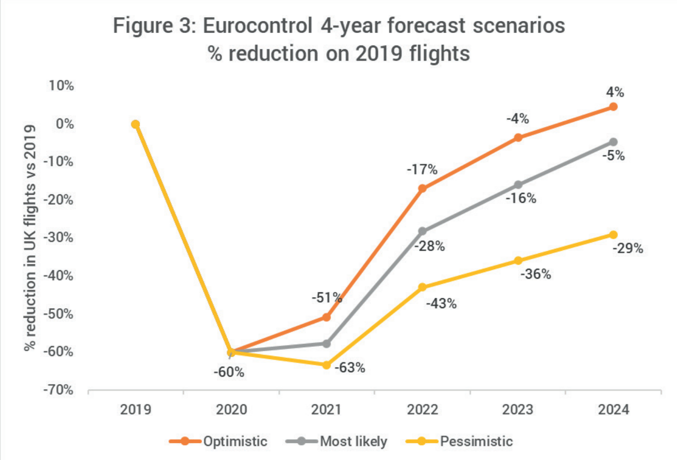
The reduction in flight volumes resulted in much lower receipts from en route charges prompting us to take rapid action to preserve liquidity by reducing costs and pausing capital investment, except for critical sustainment activity, for a six-month period.

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

Preparing for a recovery in air travel

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

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



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

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

London City Airport goes digital

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

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

Our role in a sustainable future

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

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

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

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

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

Palamon

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

Concluding remarks

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

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

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

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

Martin Rolfe, FRAeS

Chief Executive

Business review

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

- Air traffic volumes

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

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

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

- Service performance

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

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

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

- Safety management

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

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

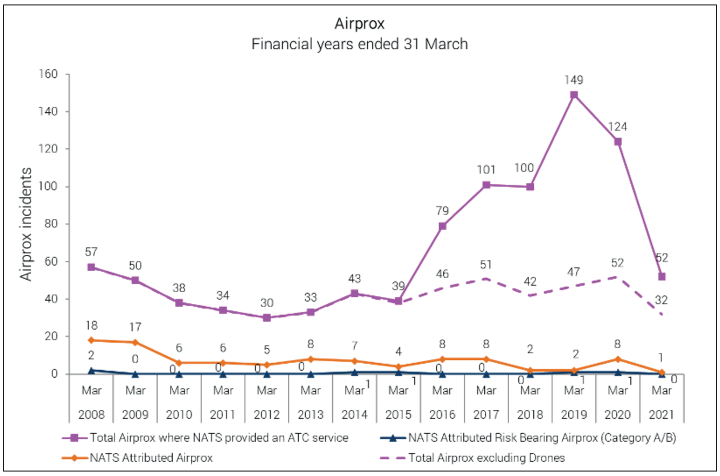
- **Safety performance**

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

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

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

There were no risk-bearing Category A or B airprox attributable to NATS during the financial year (2020: one Category B). Also, there was a reduction in the total number of airprox in NATS airspace during the year.



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

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

Economic regulation

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

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

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

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

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

Airspace modernisation

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

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

Financial review

Results overview

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

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

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

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

Protecting our liquidity in response to Covid

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

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

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

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

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

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

Refinancing

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

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

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

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

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

Regulatory return

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

New accounting policy

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

Revenue and regulatory allowances

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

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

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

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

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

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

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

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

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

Operating costs

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

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

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

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

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

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

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

Goodwill impairment

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

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

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

Net finance costs and fair value movements on financial instruments

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

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

Joint ventures, associates and other investments

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

Taxation

The tax charge of £12.8m (2020: £26.6m) is based on a loss before tax of £37.8m which included the goodwill impairment charge which is not tax deductible. The effective rate of tax, excluding goodwill, is 17.5% (2020: 35.8%) which is lower than the headline rate of 19% and includes an additional deduction for patent box income. The effective rate in 2020 reflected the deferred tax impact of the change from 17% to 19% in the rate of corporation tax. Deferred tax has been provided at the prevailing rate of corporation tax of 19%, which is the legislated rate assumed to apply when the liability is settled or the asset realised. The Spring Budget 2021 proposed that from April 2023 the main rate of corporation tax will increase to 25% however the legislation was not substantively enacted at the balance sheet date. Finance Bill 2021 was substantively enacted in May 2021 and accordingly deferred tax balances will be provided for at a rate of 25% in financial year 2021/22 for amounts expected to unwind after April 2023. This change in rate is estimated to result in a charge to the income statement in 2021/22 of £41 m.

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

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

Balance sheet

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

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

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

Capital investment

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

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

Defined benefit pensions

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

a. IAS 19 charge and funding position

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

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

* including salary sacrifice

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

b. Trustee valuation and funding obligations

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

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

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

Net debt and cash flows

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

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

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

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

Alistair Borthwick

Chief Financial Officer

Going concern

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

At 31 March 2021, the group had cash of £272.1m and access to undrawn committed bank facilities of £385m until July 2022. In June 2021 the group completed a refinancing of its debt structure following the issuance in May 2021 of £750m of unsecured bonds and agreement on £850m of new unsecured bank facilities which enabled existing secured bonds and secured bank facilities to be repaid (including the undrawn portion of the committed bank facilities at the balance sheet date of £385m). As a result of this refinancing the previous set of financial covenants was replaced by a single, point in time net debt/RAB ratio at 85%. Of the new unsecured bank facilities, £450m expire in May 2023 and £400m in May 2024, with the latter having options for extension subject to agreement with banks up to May 2026. At 30 June 2021, the group had cash and undrawn bank facilities of around £1,005m.

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

The severe traffic volume scenarios considered were: Eurocontrol's May 2021 pessimistic case (see figure 3, page 8); a slower recovery scenario, whereby volumes remain at 20% of pre-pandemic levels for financial year 2021/22; a prolonged gradual 10-year recovery to pre-pandemic levels; and a scenario with no air traffic volumes for a 12-month period from July 2021 followed from July 2022 by the same rate of growth assumed in NATS base case projections from July 2021, being the most severe traffic scenario. The impact of lower air traffic volumes was also assumed to result in a 20% loss of airport contract income, in the event of airport closures. A separate scenario for the impact of more adverse financial market conditions on cash contributions to the defined benefit scheme was assessed. Finally, a combination scenario of lower air traffic volumes and higher pension contributions was also performed. Under the most severe scenario the group maintains adequate liquidity and headroom to meet its covenant, prior to mitigating actions.

The directors have also considered, through a reverse stress test, the point at which the financial covenant would be breached. Taking all this into account, the group's cash flow forecasts, reflecting reasonably plausible downside scenarios, show that the group and company should be able to operate within the level of its available bank facilities and within its financial covenant for the foreseeable future. Accordingly, the directors have formed the judgement that, taking into account the financial resources available, the range of reasonably plausible future traffic volume scenarios and potential mitigating actions that could be taken, together with the duties of the CAA and Secretary of State for Transport referred to in the Viability statement, the group and company have adequate resources to continue to operate for a period of at least twelve months from the date of approval of the financial statements, and have therefore adopted the going concern basis in the preparation of the financial statements.

Viability statement

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

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

Specific consideration has been given to:

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

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

Principal risks and uncertainties

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

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

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

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

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

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

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

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

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

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

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

Strategy: regulatory settlement

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

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

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

Operational: business continuity

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

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

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

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

Operational: systems security

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

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

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

Operational: employee relations

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

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

Transformation: portfolio delivery

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

Financial: defined benefit pension scheme

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

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

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

Financial: other risks

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

Other matters: Brexit

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

Responsible business

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

Scope of non-financial information statement

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

Governance

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

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

Strategy

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

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

We maintain a range of certified ISO (or equivalent) management systems, which are externally assessed by DNV GL, including ISO 31000 (risk management) and ISO 14001 (environment management).

The Audit Committee oversees all verification and assurance activity.

a. Employee policies and outcome

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

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

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

b. Environment policies and outcome

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

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

We support a new commitment by the aviation industry in the UK and Europe to reach net zero by 2050. Our ambition goes further in adopting a 2035 net zero target for greenhouse gas emissions linked to running our business. We are also working across the industry, including with the Airspace Change Organising Group (ACOG) to set out a plan for airspace modernisation which will help reduce the industry's CO_2 emissions over a similar timeframe, while we wait for changes to fleet and fuels to take effect in future. Concerns about sustainability, particularly climate change, have increasingly been driving societal and political action. The Covid crisis has further intensified pressure on the industry to increase its ambition and advance its plans to decarbonise. Improving the sustainability of our business is key to achieving this and it can also reduce costs as we consume fewer resources and work in more efficient ways.

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

Risk management

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

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

Metrics and targets

a. Employee matters

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

b. Environment

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

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

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

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

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

Supporting information

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

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

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

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

Having regard to our stakeholders in Board decision-making

Section 172 (1) statement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Richard Churchill Coleman, Secretary