NATS

Advancing aviation, keeping the skies safe.

NATS (En Route) plc financial year ended 31 March 2022

Contents

Highlights from the year

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- We handled 1.29m flights (2021: 0.66m)
- Due to the impact of Covid, we reported a loss of £5.1m (2021: loss of £34.2m)
- We delivered a strong safety and operating performance
- We deployed the biggest ever airspace change in the UK
- We submitted our business plan for NR23
- Our licence notice period was extended from 10 to 15 years

2021/22 traffic vs pre-pandemic levels

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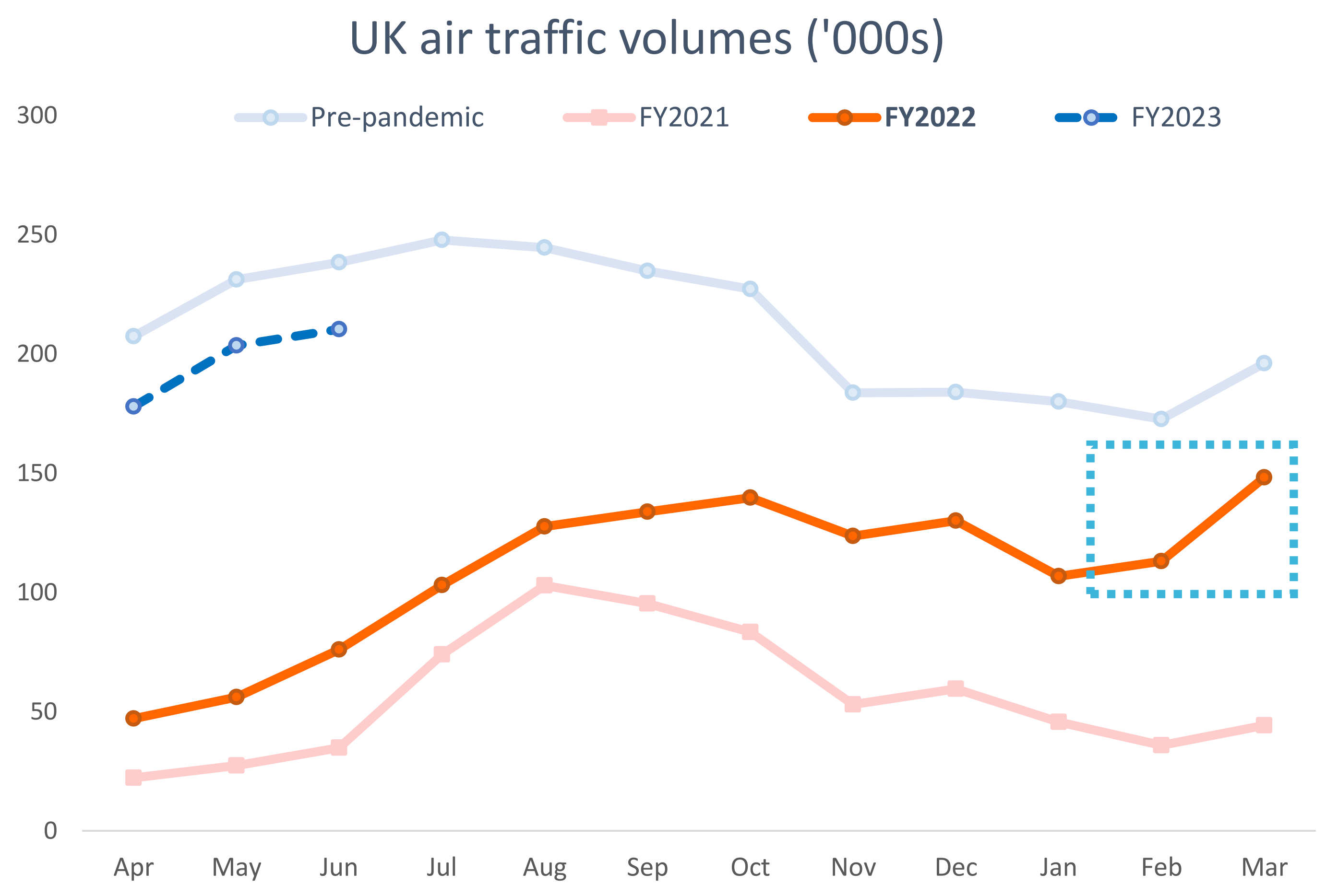
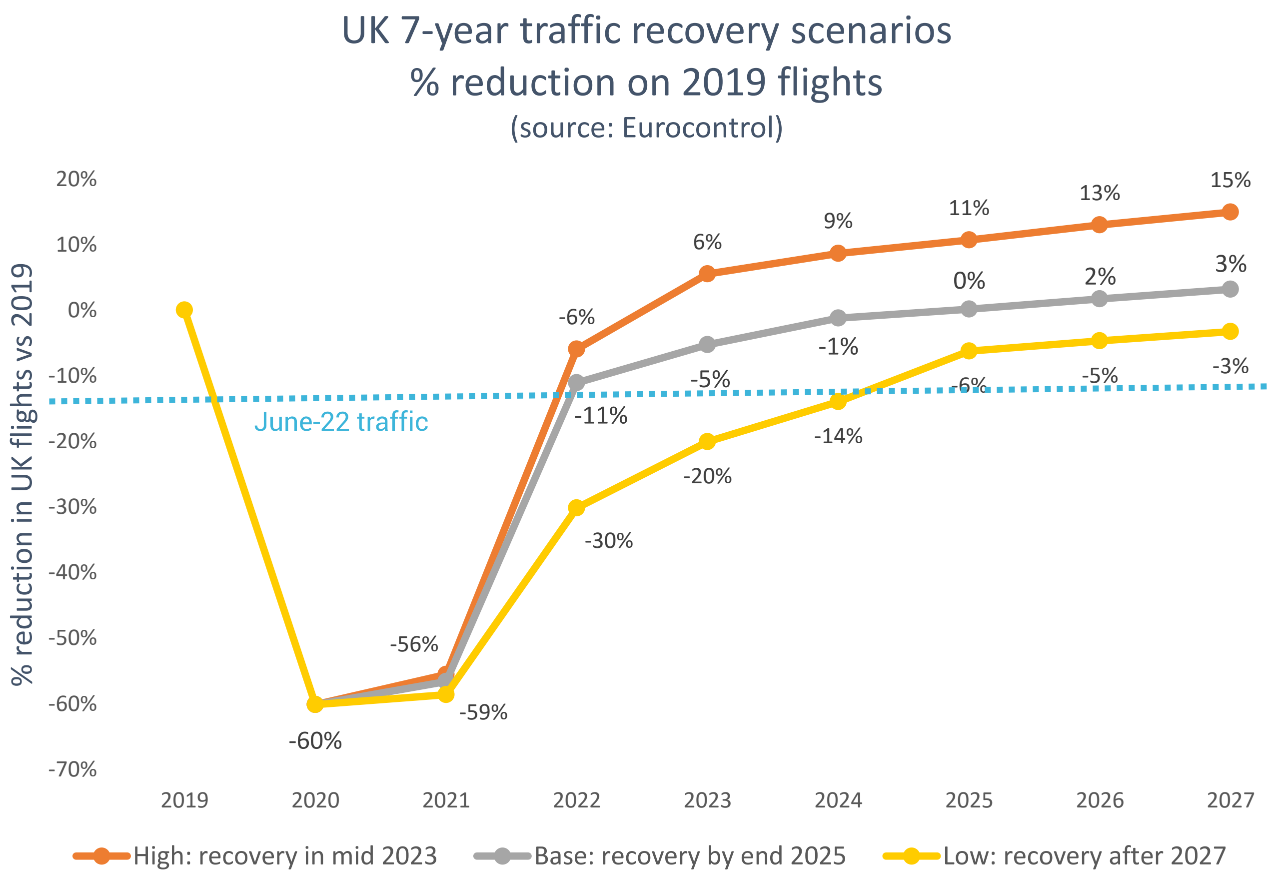


- Recovery across the year to ~50% of pre-pandemic volumes though recent traffic levels encouraging
- Growth is not uniform and outlook beyond the summer 2022 remains uncertain
- Continued focus on operating efficiency and liquidity

Industry and traffic outlook

- Early stages of sector recovery. Broad range of plausible recovery scenarios
- Rapid rise in demand this summer despite cost-of-living pressures
- Geopolitical situation and macroeconomic outlook contribute to forecasting difficulty
- NR23 plan based on (Oct 2021) base Eurocontrol forecast (as shown in chart), with full recovery to pre-pandemic levels by 2025



Deliver a safe, efficient and reliable service every day

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Maintaining operational service resilience

- Throughout the period, we have ensured that we have maintained the critical operational skills to support the recovery in aviation
- The training programme this year delivered more controller validations to our en route operation than in the prior year

No risk-bearing airprox (cat A or B) attributed to our operation (2021: none)

- Safety management activity focusing on mitigating risk in anticipation of the recovery in air traffic volumes
- We met all our internal safety targets, and there were no risk-bearing category A or B airprox attributable to NERL

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Average en route delay per flight was 0.3 seconds for calendar year 2021.
(2020 calendar year: 1.0s)

- Service performance continued to reflect the low traffic volumes handled in the year
- We contained average delay per flight at close to zero, compared to a target of 15 seconds, but as traffic recovers inevitably this will increase

3Di score was 21.5 for calendar year 2021 (2020: 23.9). The modulated score was 22.8

- Our 3Di score, that measures the efficiency of flight paths, was also better than the target range of 25.9 – 28.6
- We will not seek to recover our entitlement to a service bonus, as performance has been assisted by the very low traffic levels

Delivering a sustainable future - airspace

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2050

2050

Part of an industry commitment to decarbonise aviation in the UK by 2050

Air traffic management related CO_2

CO_2

Enabled annual savings of 7.7kt of CO_2 through changes to airspace, but higher traffic this year resulted in increased emissions totalling (22.6)kt

- In 2020, the UK aviation industry, including NATS, made a commitment to net zero emissions by 2050
- During consultations on the NR23 plan customers and passengers supported ambitious environmental targets
- We will achieve this through a range of measures including optimising flight paths to reduce aircraft fuel burn and CO_2 emissions and delivering airspace modernisation
- This will sit alongside the benefits of our current environmental programme, which has delivered annual emissions savings of around 1.5 million tonnes of CO_2 each year compared with 2006 levels

Delivering a sustainable future – our operations

2035 Net Zero

100%

Committed to net zero emissions from running our business by 2035 with interim milestones in 2026 and 2030

Estate CO_2

Corporate CO_2e emissions were ahead of target achieving -37% against a 2018/19 baseline

96%

Purchased renewable electricity for 96% of our operations and low CO_2e emission gas for 100% of our needs

- We are committed to a net zero estate by 2035 with a target aligned with the Science Based Target initiative (SBTi)
- The aggregated total of GHG emissions from our estate has reduced by 37% compared to a 2018/19 baseline, resulting from energy efficiency measures, site consolidation and lower occupancy levels
- We obtain 96% of our electricity consumption from green electricity and 100% of our gas is low carbon biogas

A- grade from CDP

Awarded an A- grade from CDP, graded in the top 2% of companies disclosing data in 2021

Capital investment highlights

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SESAR deployment

- Development of new controller tools on a common technology platform across our two air traffic control centres
- £57m invested in DP En Route and Voice platforms this year
- Following customer feedback, we have extended the delivery timeframe for new technology

Airspace Change

- First UK deployment of Free Route Airspace across Scottish airspace
- Will help reduce airline costs, flight time, fuel burn and save 12,000 tonnes CO_2 emissions annually
- Changes also made to airspace above Stansted and Luton

Resilience

- Increased investment to sustain the resilience of current systems as Covid has extended the delivery timeframe for the new technology

Regulatory capex, £m	2022	2021
SESAR deployment	57	52
Airspace modernisation	8	5
Infrastructure	7	4
Operational systems	19	7
Other	1	3
Total	**92**	**71**

Financial highlights

£m	2022	2021	Change
Revenue	416	270	146
Regulatory allowances	202	417	(215)
Total revenue and regulatory allowances	618	687	(69)
(Loss)/profit before tax	(5)	(34)	29
Cash (used)/generated by operations	(185)	(258)	73
Capital expenditure	95	74	21
Net debt	943	599	344
Gearing *	60.1%	49.6%	10.5%
Dividends	nil	nil	-

- Results reflect continuing impact of Covid
- Reduced loss reflects non-recurring actions taken last year, offset by lower furlough income and cost of refinancing
- Gearing remains well within the financial covenant level of 85%, and below the cap in NERL's licence of 65%

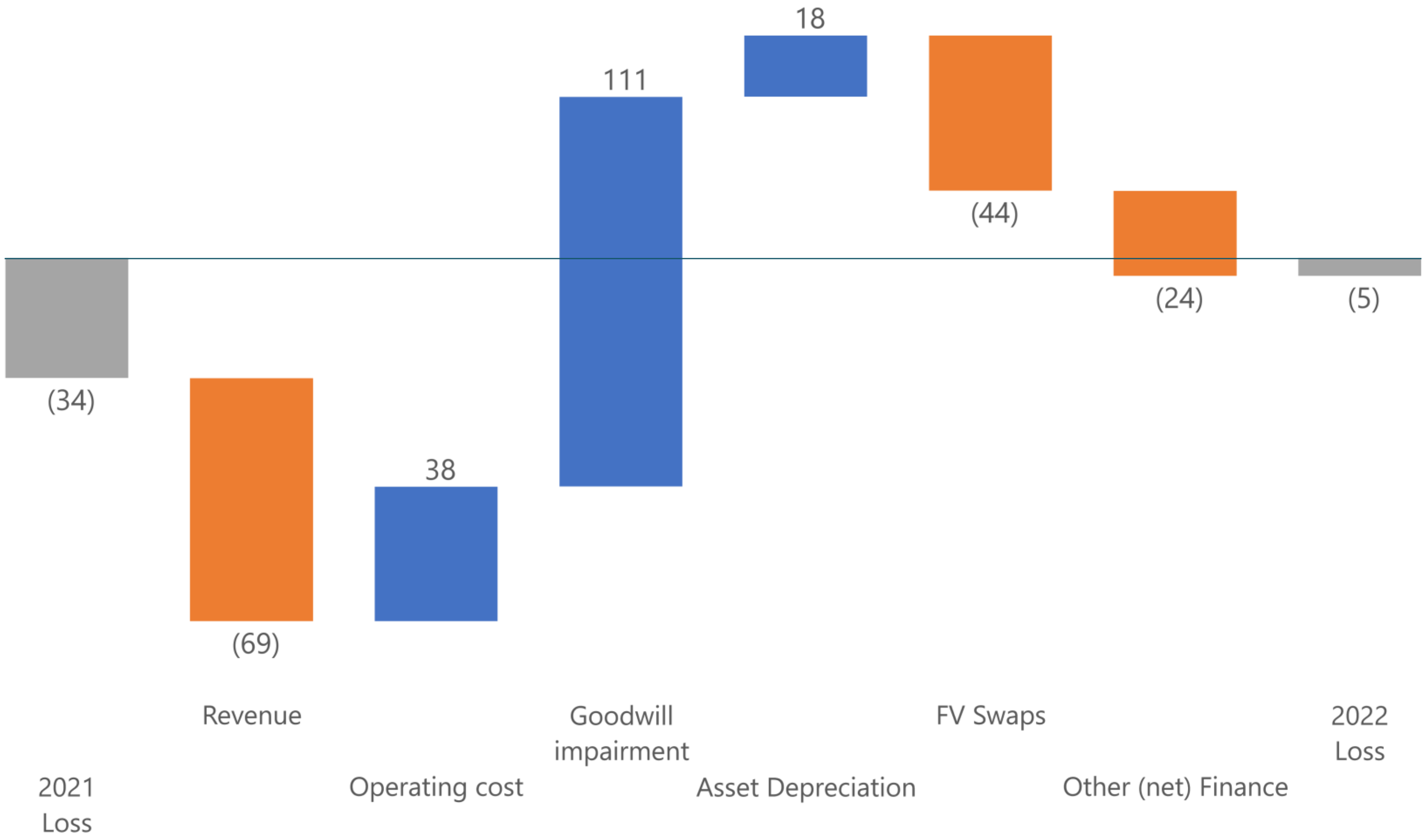
* ratio of net debt (as defined by CAA licence) to regulatory asset base

Revenue and regulatory allowances (£m)

- Reduction in UK airspace revenue reflects assessment of the effect of lower costs on the outcome of the CAA's retrospective reconciliation
- Oceanic revenue is not subject to traffic risk sharing

	2022	2021	Change
UK en route/London Approach revenue	315	163	152
Regulatory allowances under-recovered	202	417	(215)
	517	580	(64)

Loss before tax (£m)



- Opex benefit driven by £55m redundancy costs in prior year, offset by lower furlough income
- Fair value charge on swaps reflects market's expectation of higher inflation
- Net finance costs include £42m refinancing costs

Cash flow

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£m	2022	2021	Change
Net cash used in operating activities	(185)	(258)	73
Net cash outflow from investing activities	(109)	(36)	(73)
	(294)	(294)	-
Net cash inflow from financing activities	173	15	158
Decrease in cash and cash equivalents	**(121)**	**(279)**	**158**
Cash and cash equivalents at 31 March	**51**	**172**	**(121)**

- Net outflows from operating activities remain, but higher traffic leads to a £73m improvement
- Net outflows from investing increased by £73m, due to higher capex and a transfer from short term investments last year
- Operating and investing activities were funded by increased borrowings (net of financing costs) and a £121m reduction in cash and cash equivalents

Balance sheet

£m	2022	2021
Goodwill	38	38
Tangible and intangible fixed assets	1,079	1,060
Right-of-use assets	39	43
Regulatory allowances recoverable	**725**	445
Pension scheme surplus/(deficit)	**249**	(24)
Deferred tax liability	**(224)**	(122)
Regulatory allowances payable	(169)	(139)
Derivative financial instruments	(77)	(103)
^Cash and short term deposits	51	172
^Borrowings	(939)	(711)
^Lease liabilities	(55)	(60)
Other net balances	(116)	(159)
Net assets	**601**	**440**

- Regulatory allowances recoverable reflects the shortfall in revenue arising from Covid
- Pension surplus arose from an increase in real yield on AA corporate bonds by 20 bps, alongside a rise in asset values
- Deferred tax expected to be realised after April 2023 have been provided for at 25%, up from 19%

^components of net debt; net debt in 2022: £(943m) (2021: £(599m))

Funding overview

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Description	Size	Rate	Tenor	Maturity	Amortisation
1.75% 2033 bonds	£300m	Fixed	12.5yrs	Sep-33	Bullet
1.375% 2031 bonds	£450m	Fixed	10yrs (~7yrs WAL)	Mar-31	Sculpted amortisation
Revolving Facility Agreement (RFA)	£400m	Floating	4yrs	May-25	Bullet
Bridge Facility	£450m	Floating	3yrs	May-24	Bullet
Total Funding	**£1,600m**				

Instrument	Notional	Tenor	Maturity	Amortisation
RPI Swap	£200m	10yrs	Mar-31	Bullet
RPI Swap	£40m	23yrs	Mar-26	Amortising
Total Swaps	**£240m**			

- £1.6billion of unsecured funding raised in 2021 along with new inflation swaps
- RFA drawn by £200m at 31 Mar 22
- Terms for both the RFA and Bridge Facility were extended by one year
- Bridge Facility provides short-term liquidity ahead of NERL's assessment of CAA proposals for NR23

NR23 price control

- We consulted extensively in the year on a new price control (NR23: 2023 to 2027) business plan with airlines, airports, passengers and the CAA

- The plan delivers:

  - ✓ A safe air traffic system for any recover scenario
  - ✓ An efficient service level, similar to RP2
  - ✓ Cost effective prices to support industry recovery
  - ✓ Capacity to support 2027 traffic 15% higher than 2019
  - ✓ Enhanced environmental and fuel benefits
  - ✓ Appropriate financial resilience in a slower recovery

- The CAA is expected to reach its final decision in Q1 2023 on the NR23 price control, as well as its retrospective review of the 2020-22 cost reconciliation

£2-£3
underlying cost per passenger

2.5m
average flights per year

0
NERL attributable Cat A/B airprox

< 10.8
seconds NERL attributable delay per flight

1m
tonnes CO_2 on target reduction (4.4%) by 2035

570m
investment in NR23

CAA Next Steps	Revised Timing
Initial Proposals	Late Sept / early Oct 2022
Final Decision	End Q1 2023
Licence Notice	Q2 2023

Funnel process to identify strategic themes

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Megatrends

Scenario Planning

- Traffic Predictability (air routes)
- European integration / international cooperation
- Pace of ANSP Reform
- Traffic Volume Growth
- Regulatory Intervention
- ANSP Autonomy
- Stakeholder power base
- Automation
- New Airspace Uses
- ATC delivery base

Weak Signals

- Customers facing strategic challenges
- Airspace/airport closures
- New air vehicles
- Attacks on aviation
- Automation's acceptance in society
- Substitutes to air travel
- ATM from anywhere
- PEST impacts demand
- Environment: aviation='toxic'
- Environment: growth capped
- NATS unable to attract/retain talent

Strategic Themes

Collaboration	Performance	Financial			Positioning	Innovation	Our Organisation
Environment	Services	Technology	Safety	People	Markets	Customers	Regulation	ATM Landscape

Vision | Objectives | Goals | Strategies

NATS strategy to 2040 - our purpose & values

Advancing aviation, keeping the skies safe

SAFETY — We are **safe**

Safety is and will continue to be, our core value.

Our commitment to the safety of our people, operations and positive safety culture remains consistent, unwavering and permeates everything that we do as we address an evolving working environment and the challenges brought about by the expansion of types of airspace users and the introduction of new technologies. We are safe.

COURAGE — We are **courageous**

We have the courage to think differently, to speak up and create a positive working environment in pursuit of our goals and to strive for better. Our courage develops excellence in our people and in our practices.

It also advances our products, our services and provides us with safe, sustainable & efficient solutions that we are proud of. We are courageous.

ONE TEAM — We are **one team**

We accomplish more together. We share knowledge and collaborate, both within functions and across divisions so our successes are shared across the business.

We put team goals ahead of personal ones, trust each other to deliver on commitments and support each other to develop the capabilities of the company. We are one team.

RESPECT — We are **respectful**

We value everyone regardless of background. We treat each other, customers, partners and suppliers with dignity and professionalism. We acknowledge the value each of us brings, our differences, and our contributions.

We also respect the world in which we operate, always acting responsibly and hold ourselves to the highest standards. We are respectful.

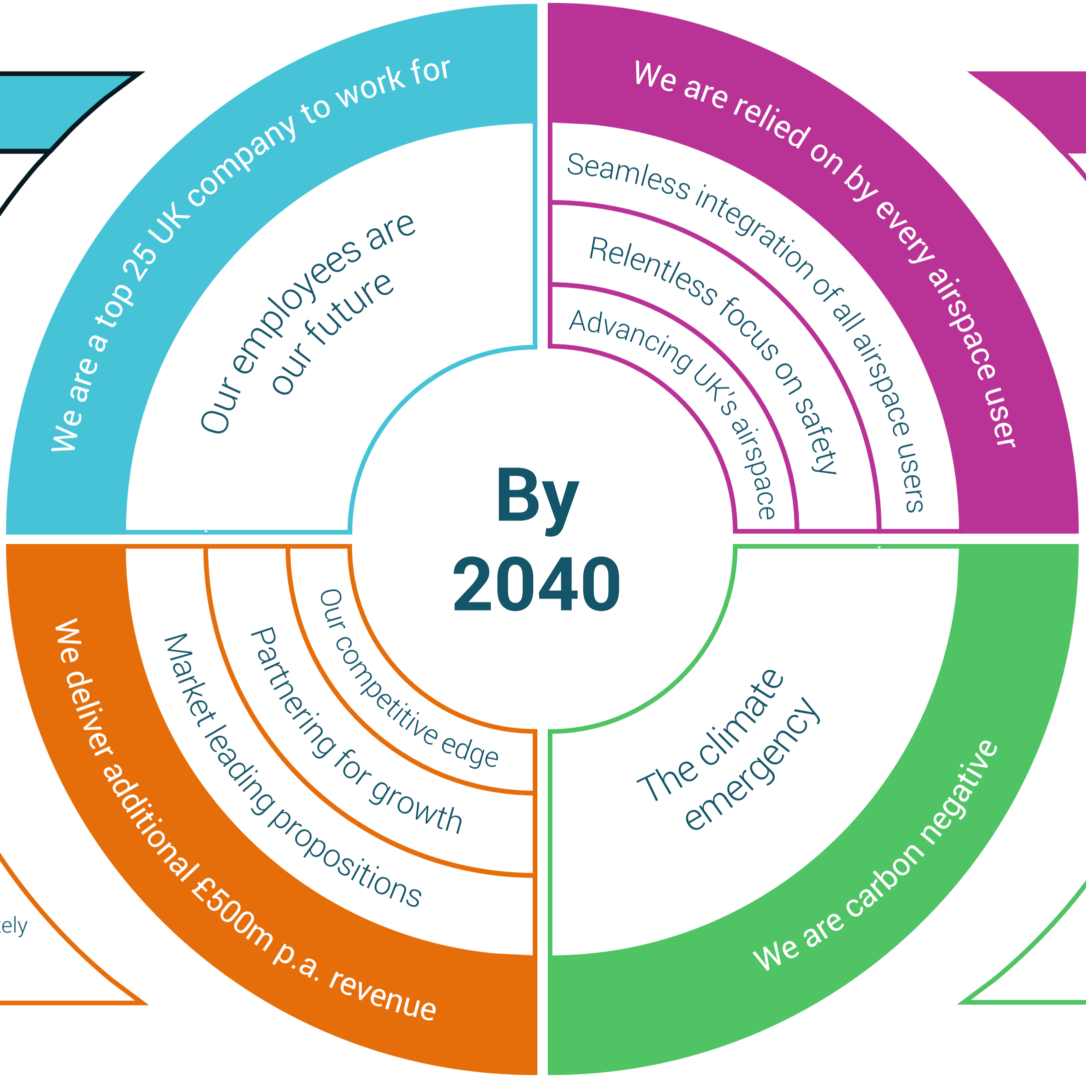
NATS strategy to 2040 - strategic objectives

NATS

Top 25 Company

Our employees have an attitude of innovation and continuous improvement, which through technology and automation ensures we are seen as the leading provider of advanced services, products and solutions in our marketplace.

Our employees have fulfilling careers, achieving outstanding results for themselves our company, whilst maintaining balance with personal commitments and desires.



Serving All Airspace Users

We are relentless in our pursuit of safety, for all airspace users, whoever they are now and whoever they may be in the future.

We constantly evolve our global propositions, delivering an unparalleled customer experience.

We are entrusted to maintain and develop airspace as critical national infrastructure, the efficient use of which is essential to aviation's ability to contribute to UK economic growth.

Business Growth

We provide a broad set of propositions to all airspace users and across diverse markets, with greater emphasis on generating long term revenues.

We work with a set of carefully selected partners to develop and deliver new business solutions both in the UK and internationally. The rapid evolution of our business environment means that relationships are absolutely key to the success of the business.

Carbon Negative

We have minimised our direct environmental impact and are carbon negative across our estate.

Additionally, we are supporting the reduction of aviation's impact on the environment thereby ensuring aviation's crucial role in the UK's economy.

We prioritise working with our customers and partners to find more sustainable solutions, including providing efficient routings to minimise the emissions of air traffic in our airspace.

NATS strategy to 2040

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Our company in 2040

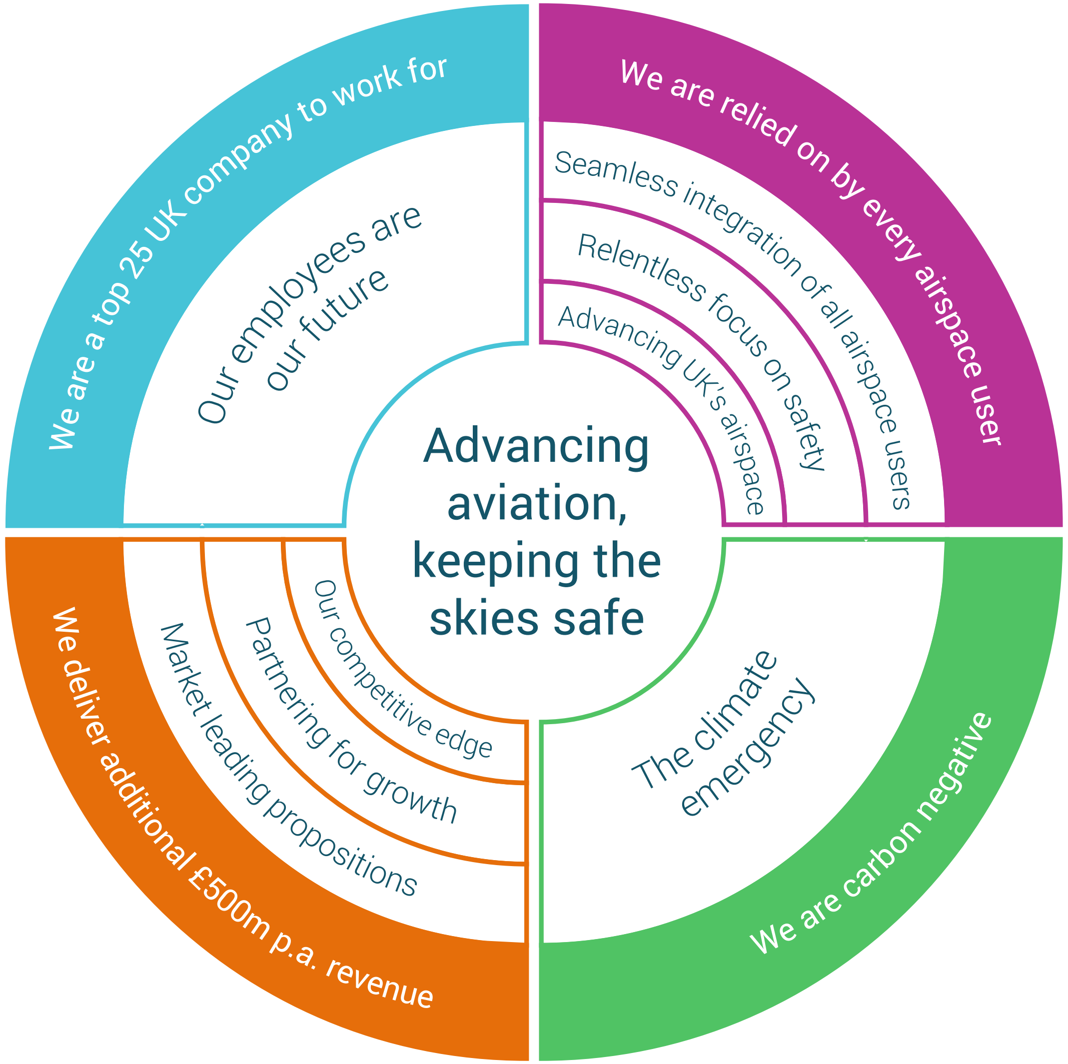
Passionate about aviation, we step forward and seize the opportunities across our evolving industry. Our talented team creates and operates sustainable solutions for all airspace users. Advanced products and services using the latest data, technology and automation result in the skies being safe, efficient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

We are **safe**

We are **courageous**

We are **one team**

We are **respectful**



Concluding remarks

- Sector is optimistic for a stronger summer this year than last year
- Longer-term outlook for air travel remains uncertain due to geopolitics, economic situation & Covid
- Risk that the traffic levels recover unevenly across our network
- We are now more operationally and financially resilient to a range of recovery outcomes
- Our NR23 business plan is for a resilient service which can cope with more variability in traffic
- We are looking to the CAA to provide the resources and incentives for such an environment


Q&A

Appendices

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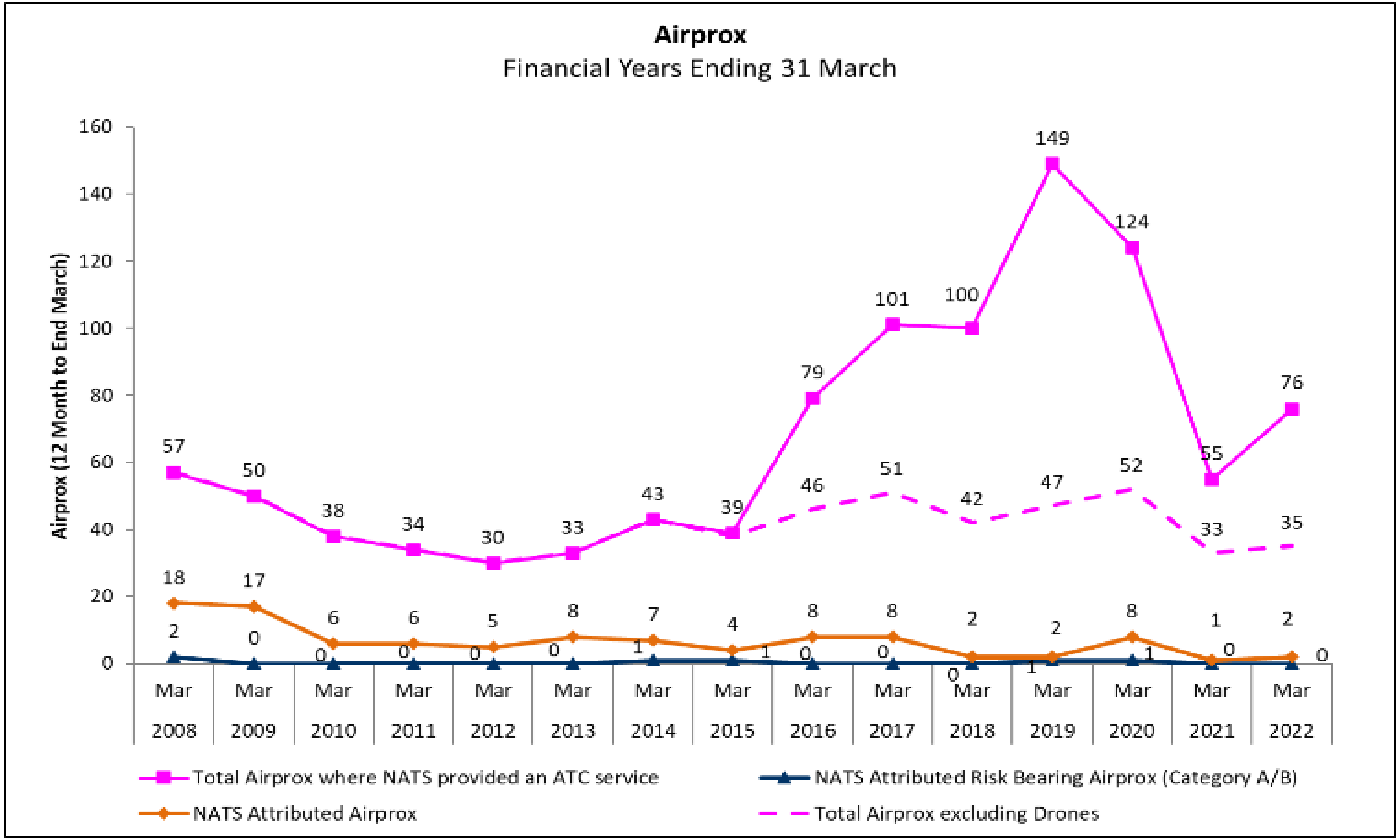

Delivering a sustainable future

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Description	FY 2021/22 (or CY 2021)	FY 2020/2021 (or CY 2020)
Service performance and resilience		
3Di, regulatory environmental metric (calendar year) (0-100, where 0 represents a perfect score)	21.5	23.9
Environmental performance		
Scope 1 emissions (location-based tonnes CO_2e)	2,708	3,706
Scope 1 emissions (market-based tonnes CO_2e)	2	2
Scope 2 emissions (location-based tonnes CO_2e)	11,774	12,500
Scope 2 emissions (market-based tonnes CO_2e)	718	668
Scope 3 categories 1, 3, 4, 6, 7 (tonnes CO_2e)	10,754	6,111
Total scope 1, 2 and 3 categories 1, 3, 4, 6, 7 (tonnes CO_2e) – location based	25,236	22,317
Scope 3 category 11 emissions (tonnes CO_2e)	13,920,072	7,146,000
Avoided /modelled enabled ATM-related CO_2 reduction in tonnes	-22,646	37,950
Water supply and treatment (m^3)	27,508	45,091
Energy consumption (gas + electricity) MWh	66,520	63,864
CO_2e intensity metrics		
Total scope 1 + 2 emissions (location-based tonnes CO_2e)	14,482	16,206
Total scope 1 + 2 emissions (market-based tonnes CO_2e)	720	670
Total scope 1 + 2 intensity metric (location-based tonnes CO_2e per £m of revenue)	19.3	19.7
Total scope 1 + 2 intensity metric (market-based tonnes CO_2e per £m of revenue)	1.0	0.8
Net zero metrics		
% change in CO_2e against 2018-19 baseline towards net zero 2035 target (scope 1 and 2 emissions)	-30%	-22%
% reduction of CO_2e against 2018-19 baseline towards net zero 2035 target (scope 3, categories 1, 3, 4, 6, 7)	-43%	-69%


End