Strategic Report

Annual Report and Accounts 2024

Our business model

Our business model

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

We have a broad range of stakeholders (see page 35) and understanding their needs today and in the future shapes our strategic objectives (see page 7). We also have an important role in supporting aviation to meet its decarbonisation objectives, which we discuss on page 30.

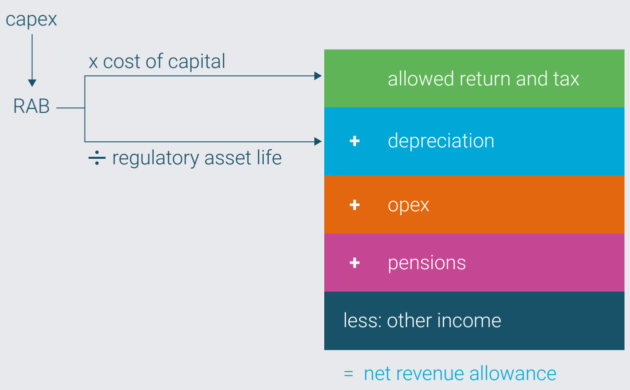
NATS (En Route) plc (NERL)

NERL is our core business and accounts for 84% of the group's revenue. It is the sole provider of ATC services for aircraft flying en route in UK airspace and the eastern part of the North Atlantic. It operates under a licence granted under the Transport Act 2000 as amended by the Air Traffic Management and Unmanned Aircraft Act 2021 and is economically and safety regulated by the CAA.

The CAA has a duty to ensure that it is not unduly difficult for NERL to finance its activities. Under the regulatory framework illustrated below, the CAA establishes revenue allowances for a price control period. These remunerate efficient investment (capex), operating costs (opex), pensions, tax and an allowed return on the capital invested in the Regulatory Asset Base (RAB) to recover the cost of capital. The RAB represents the value ascribed to the capital employed in the regulated businesses. For NR23 (2023 to 2027), the CAA set the cost of capital at 4.37% (pre-tax real). 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. The charges for the UK en route ATC service are administered by Eurocontrol, the European network manager and a non-governmental organisation of 41 member states. Charges for North Atlantic en route and other services are recovered by NERL directly from users.

The CAA 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, pension contributions and corporation tax rates from the level assumed and result in adjustments to charges in future periods.

The economic regulatory framework



NATS Services (NSL)

NSL is entirely separate from NERL and operates in contestable markets, servicing both UK and international customers. Together with its subsidiaries NSL accounts for 16% of the group's revenue.

The UK Airports service currently provides ATC to 14 major UK airports as well as engineering support and airport optimisation services. NSL provides ATC and related engineering services to the UK MOD mainly through the Project Marshall[8] contract that is delivered in partnership with Thales by our Aquila joint venture. Other UK Business includes aeronautical information management, design and data services, digital tower services, consultancy and ATC training to airlines and airspace users.

Our International activities focus on providing the same range of services to the Asia Pacific and Middle East markets and is also targeted to specific international airports and ANSPs. We have offices in Delhi, Dubai, Hong Kong and Singapore. Our Searidge Technologies subsidiary is based in Ottawa. It provides digital towers and advanced airport solutions.

Our strategy to 2040

Our purpose

Advancing aviation, keeping the skies safe.

We exist to ensure the skies are a safe and efficient environment for aviation. Defined by the things we care about, our strategy is driven by our purpose, values and objectives.

Our company vision for 2040

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

Our values

We are safe

Safety is our core value. Our commitment to the safety of our people, operations and positive safety culture remains consistent and unwavering. It permeates everything we do as we address an evolving working environment and the challenges brought about by the expansion of types of airspace users and new technologies.

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 advances our products and our services, and provides us with safe, sustainable and efficient solutions that we are proud of.

We are one team

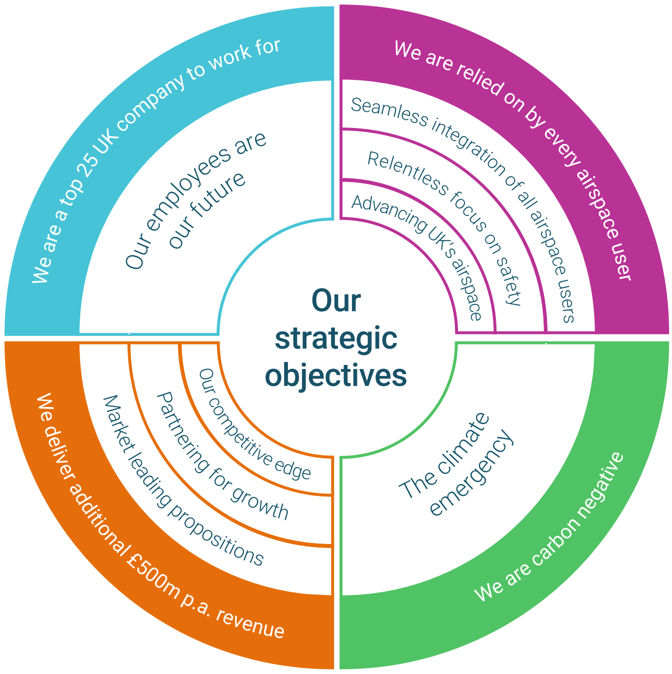
We accomplish more together. We share knowledge and collaborate, both within functions and across divisions so our successes are shared across the business. We put team goals ahead of personal ones, trust each other to deliver on commitments and support each other to develop the capabilities of the company. We are one team.

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.

Our strategic objectives

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



The objectives are that:

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

Chairman's statement

Safety is our highest priority and this year's performance was one of our safest, underlining the group's strong safety focus and culture. This was achieved while handling a 7% growth in traffic, equating to 2.4 million flights, and over a quarter of a billion passengers.

While safety in the skies was achieved, like our peers, there will always be challenges to managing a complex airspace infrastructure. This year we experienced two unconnected service-related issues which led to flight delays causing significant disruption to airlines, airports and passengers.

A technical flight handling system issue in August necessitated a considerable reduction in flight capacity for a short period in order to ensure the skies remained safe. Whilst a very rare event, this is not the service that the public and our customers expect or that we seek to deliver. I want to take this opportunity to again apologise for what happened, as well as to thank our engineers who have made the technical changes to ensure that this issue was resolved. We have fully cooperated with the CAA's Independent Review and are committed to ensuring that we learn all we can from this incident. Further detail is set out in the CEO's report.

The second issue, which occurred in September, related to a shortfall in ATC control tower staffing at Gatwick Airport which was inherited on the transfer of this service from the previous supplier in October 2022. Since taking over the contract we have been recruiting and training air traffic controllers as quickly as possible, recognising the unique challenges presented by this busy and complex airport. This staffing shortfall resulted in air traffic delays and a number of flight cancellations. We have continued to train additional controllers to provide increased resilience during 2024.

Outside of these events our service performance has been good. We have, for example, handled 23% of all European flights while accounting for less than 4% of air traffic delays across the UK's very complex and busy airspace. Service resilience and technology enhancement has been a consistent theme of Board discussions during the year.

The UK has some of the most complex airspace in the world. Its airspace modernisation strategy seeks to safely provide more capacity, with quicker, quieter and cleaner journeys for those who fly and less noise overall for those on the ground. Achieving this requires the collaboration of industry, the government and regulator. Our implementation of systemised and Free Route Airspace over southwest England and Wales in March 2023 represented significant progress and in the last year smaller geographically focused operational changes have been made to further enhance capacity, reduce aircraft fuel burn and controller workload. There is still much to be done with each change becoming more difficult and complex. This complexity will be most pronounced in the redesign of airspace around London, encompassing upper and lower airspace above its five major airports. As an air navigation service provider, airspace change is one of the most important contributions we can make to supporting the industry's transition to net zero, in advance of a significant uptake in sustainable aviation fuels. Separately we are recognised for the progress we are making to decarbonise our estate, ranked number one in the 2024 Financial Times Climate Leaders survey and 'A' rated by CDP.

The number of unmanned aircraft in our skies is projected to grow very significantly, enabling medical and other "beyond visual line of flight" operations. Accommodating them, while avoiding disruption to existing aviation, will require new ways of managing airspace. Our approach is to integrate new airspace users alongside conventional crewed aircraft, safely and seamlessly. We will present our proposal for a new economically regulated infrastructure service to the CAA during 2025.

The CAA's review of NERL's price control for the NR23 period (2023 to 2027) was also a key focus for the Board. While the Board judged that the CAA's final decision fairly recompensed NERL for costs incurred during the pandemic it considered that the service quality targets are extremely challenging particularly given the projected significant growth in flight volumes, live operational training requirements for the next generation of air traffic controllers and the need to progress airspace modernisation and technology transformation programmes. There is a risk that these targets over-prioritise short-term performance against long-term resilience and technical progress. We will take a responsible course of action that balances these needs, but we are unlikely to meet the targets as set. However we still plan to deliver a service that is measurably as good as, or better than, our European and other international peers.

The majority of the group's revenue and profit is determined by NERL's economic regulatory framework. This year the new price control for NR23 together with inflation and the one-off impact of the CAA's confirmation of the Covid income shortfall have driven an improvement in profit before tax of £371.5m (2023: £148.5m). However, as in 2023, this is not yet manifested in our cash flow, reflecting the 10-year period agreed for recovering the Covid income shortfall. The result has also been impacted by the write down of our investment in the Aquila joint venture which is currently projecting an increase in the costs to complete its Project Marshall contract. The year's financial performance is explained by our CFO, Alistair Borthwick, in detail in the Financial Review.

The Board has not recommended the payment of a dividend during the year given the ongoing price control review. The last dividend paid by the group was five years ago, in 2019. With the CAA's final decisions on the NR23 price control and the Covid income shortfall now determined the Board expects to resume dividend payments during the 2025 financial year.

Since publishing last year's annual report, Ross Baker has joined the Board as a non-executive director appointed by our Heathrow Airport shareholder. I was pleased to welcome Ross whose deep knowledge of the aviation sector will be of benefit to the Board.

As announced in April, this is my last report as Chairman after 10 years in the role. It has been a privilege to lead the company through some of the busiest and most challenging times the aviation industry has experienced. I would like to thank my Board colleagues and all our employees, for their significant contributions during my tenure. I am proud of the progress the group has made over this period and, in particular, our vital role in maintaining this critical service during the Covid pandemic. I am confident in NATS' ability to meet the challenges ahead. I am handing over to Warren East, who has extensive experience in transport and sustainability, and I wish him and the company every success.

Dr Paul Golby, CBE FREng
Chairman

Chief Executive's review

Our exceptional safety performance delivered by our operational teams in the year was overshadowed by two unrelated issues which resulted in significant travel disruption to airlines, airports and passengers. I would like to start by reiterating my apologies to all those impacted by the events of 10 months ago. Safety was, and always will be, at the forefront of our decision making during such rare events. While we will always prioritise safety, we never want to be the cause of significant disruption and we continuously strive to ensure that does not happen. My immediate job - and that of the executive team - in the days and weeks that followed was to make sure that the solutions were in place to make sure this could not happen again. I am ensuring that we learn all we can from the events of last August to make our service performance even more resilient.

Technical Incident

On 28 August, our UK en route service suffered a technical incident caused by an extremely rare set of circumstances impacting our flight plan processing system. This required us to reduce the number of flights in UK airspace for around 6 hours in order to maintain safety at all times, which is our overriding legal duty. According to Eurocontrol, and corroborated by the CAA's independent review, this resulted in an average two-hour delay to 579 flights and is estimated to have caused airlines to cancel around 1,500 flights on the day, with more cancelled in the following days as airlines sought to recover their schedules. Despite these delays, our outstanding employees made sure that we were still able to handle 5,592 flights that day out of an anticipated 7,400.

ATC services were fully restored by late afternoon on the 28th August and we upgraded the software within days to ensure that specific technical failure cannot happen again. We undertook a major internal incident investigation in relation to its causes and our response to events on the day, to ensure we learn all we can from this. Our investigation was conducted transparently, an approach which underpins the safety of the global aviation system.

We have now implemented the majority of our investigation's recommendations which I reported to the Transport Select Committee which was seeking assurance that lessons learned had been integrated into our readiness plans for Summer 2024. We also supported the CAA's independent review panel's investigation and will carefully consider the Panel's final report recommendations when it is published.

This event demonstrates the complexity of the air traffic management network, which, as a rule, operates efficiently throughout the year despite the necessary focus on continuous safety, but it is a stark reminder of the importance of underlying air traffic infrastructure to the operations of wider stakeholders, such as airlines and airports.

Gatwick resourcing

In September, we faced a separate and unrelated service performance challenge with NATS Services' contract at Gatwick Airport. When NATS Services took over the provision of Gatwick's air traffic control and engineering services from a competitor in October 2022, it was clear to us and to the airport that we were inheriting an air traffic controller shortage with an operational capability that was not resourced for a fully resilient service for post-Covid traffic volumes. Recognising this, we agreed a recovery plan with the airport, which reflects the time required to train new air traffic controllers alongside recruiting and validating new and experienced controllers.

Our full service was available for virtually all of the year, notwithstanding traffic volume growth of 8% on the prior year. However given the level of staffing we inherited, periods of short-term unavoidable staff absence, despite the flexibility and best efforts of remaining staff, resulted in some delay and flight cancellations, as well as temporary measures by the airport to limit capacity to avoid on-the-day delay and cancellations.

Restoring and improving service performance levels is a key business priority. The recovery plan agreed with the airport at the start of the contract is being executed, with a full pipeline of trainees in the tower and at our college. While dependent on training success and the timing of staff retirements, we are doing everything within our control to appropriately resource the unit. We have improved our resilience with more air traffic controller positions for Summer 2024 compared to last year and we expect a full complement for Summer 2025.

New airspace users

The year saw good progress on regulatory matters. The CAA's decision on the NR23 price control has drawn to a close a lengthy and complex regulatory review, providing a stable baseline now for the NR23 period to 2027 with broadly the financial resources we need. However, as Paul explains in his Chair's statement, the service performance targets will be particularly challenging to meet.

Alongside its NR23 decision the CAA asked NERL to consult with stakeholders to develop a proposal for services to enable safe and efficient flight by new airspace users, such as drones operating beyond visual line of sight and advanced air mobility, and a charging mechanism to fund this activity. We established the Integrated Traffic Management Service Development Group (ISDG), for exchanging views with industry on this topic and in February 2024 we started to consult on our NATS OpenAir service proposal. We aim to submit our proposal to the CAA in Summer 2025.

For that proposal, we are seeking views on the scope of new services that enable the safe and efficient use of integrated airspace and the options for economic regulation and the charging mechanism for such services. We do not envisage that NATS OpenAir would, in the main, provide air traffic services directly to new airspace users or manage any more airspace than we already do. Rather NATS OpenAir would provide a universal data sharing and network management function that connects other commercial service providers to a secure and authenticated network.

Chief Executive's review

New airspace users (continued)

Our understanding of what future technology solutions and services will be needed to maintain a safe airspace for new and existing users is being informed by three different Future Flight projects we are supporting as part of UK Research and Innovation's Future Flight Challenge:

- Distributed Beyond Visual Line of Sight Aviation System (DBAS), a new control room concept that can be used to co-ordinate airspace users for beyond visual line of flight operations;
- Project Caelus which is enabling essential medical deliveries for NHS Scotland; and
- the Air Mobility Ecosystem Consortium which has used simulations and visualisations to assess the impact of electric vertical take-off and landings (eVTOLs) in London's airspace.

Separately, through NATS Services, we have signed a memorandum of understanding with Eve to support early flight trials and their transition to sustainable commercial operation and a commercial partnership with Altitude Angel that will provide innovative services to integrate new airspace users alongside crewed aviation safely and securely.

People

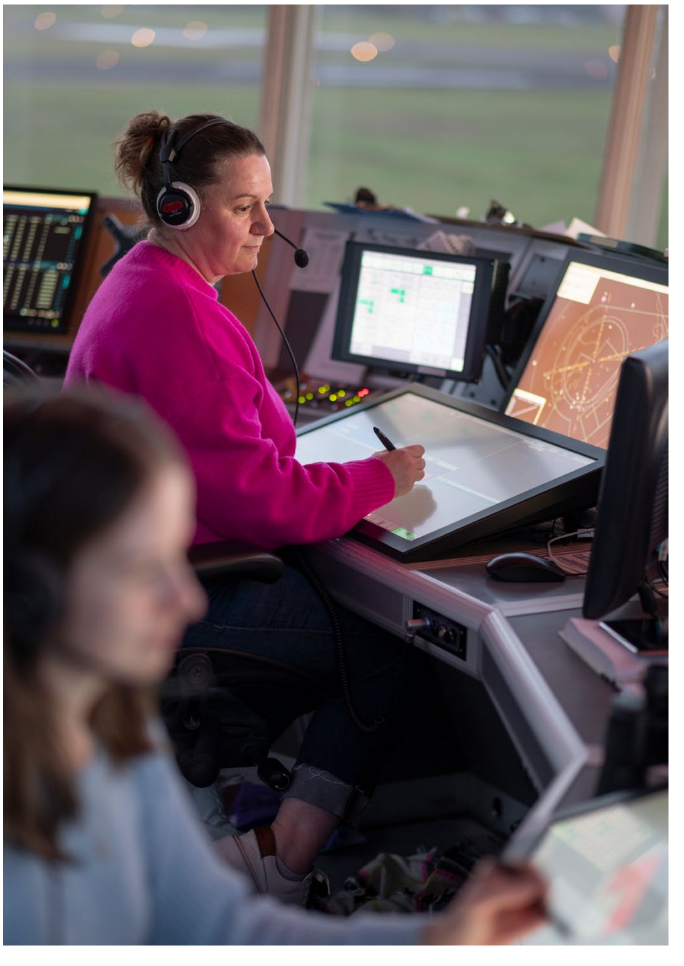
Training our next generation of air traffic controllers is key to ensuring operational resilience in the face of expected growth in air traffic volumes and as an enabler to airspace modernisation and the technical transformation of our infrastructure. In addition to providing the tactical service day-to-day we rely on operational staff to train new controllers and, outside of the summer peak, to support the development of new technology and changes to the airspace network. We have increased recruitment to balance supply and demand between newly trained controllers and those retiring from NATS. However, as trainees take approximately three years to validate and obtain their licence, we will not achieve maximum annual validation numbers until early in NR28 (our next regulatory period). To mitigate this challenge, we are continuing to review the effectiveness of our training to maximise success rates, we have increased the resources available to optimise our use of simulators and we have partnered with an external training provider. This year 73 trainees completed their initial training (2023: 74) and 75 controllers extended their validations, meaning they can control additional areas of airspace (2023: 60). We continue to lobby the regulator to review the requirement that foreign or military controllers must undertake full retraining to obtain a UK licence, which we understand to be a requirement that does not apply outside the UK.

I reported in the 2023 annual report that to enable our internal progress towards being a Top 25 employer to be benchmarked we had asked our employees how they felt about working at NATS. The survey was conducted by Best Companies, the employee engagement specialists. Based on their feedback, Best Companies rated us as "Very Good to Work For". At the time of publication of the previous annual report Best Companies had not concluded on our ranking. Subsequently they ranked us at #13, which is clearly very encouraging. Since the survey and alongside a series of employee focus groups, colleagues from across the business have been using the feedback to shape and deliver improvement plans in areas of leadership, personal growth and giving something back. We will measure our progress through future surveys and through our ability to attract and retain talent.

This year we published a combined gender, ethnicity and disability pay gap report to provide a broader picture of our pay differentials and to enable us to take a joined-up, consistent approach to tackling disparities. Due to the staggered timing of pay awards to different professional groups our gender pay gaps for 2023 increased. Had we applied pay awards to all employees at the same time there would have been no change to our mean gender pay gap and an improvement of 1.6% to our median gender pay gap. More remains to be done and we are taking the right actions to address this issue over the long term.

We have taken steps to make sure we have a centrally coordinated approach to Equality, Diversity and Inclusion (EDI) and we are working together as an organisation to build an even more inclusive culture so as to ensure that we attract and foster the talent that we need. Inclusive Companies ranked us at #44 in their most recent Top 50 list. This is a significant achievement and is testament to the commitment and hard work of employees from across the business and our employee networks.

Increasing representation of women and people from ethnic minority backgrounds in STEM professions still remains a challenge. However, we are taking proactive steps to attract people from underrepresented groups through targeted advertising of our air traffic control and early careers recruitment campaigns.



Chief Executive's review

Sustainability

Our strategy recognises the role we have in helping to create a sustainable future for aviation. It sets out our ambition to minimise our direct environmental impact and to become carbon negative across our estate. Our goals are ambitious and science-based, and as Paul highlights in his Chair's statement, we have been recognised by both CDP and the Financial Times for our progress to date. We are also committed to supporting the reduction of aviation's impact on the environment thereby ensuring aviation's crucial role in the UK's economy and to prioritising work with our customers and partners to find more sustainable solutions, including providing efficient routings to minimise aircraft emissions in our airspace.

We published our 5-year Transition Plan this year, which we will update annually. It sets out the actions we will take in the short term to pivot our business to a low carbon economy while building our resilience to the impacts of climate change (see Climate-related Financial Disclosures on page 25). As an example, we are now installing solar panel arrays that will generate 20% of our electricity needs at our Prestwick and Swanwick Centres.

Airspace modernisation is the industry's most immediate means of delivering carbon reduction targets. Alongside larger airspace changes, such as West Airspace, which was deployed in 2023, we continue to make local changes to the airspace network through focused projects. Those implemented since 2021 are now contributing reductions of 33,000 tonnes of CO_2 per annum by enabling more fuel-efficient flying alongside reduced controller workload.

We are supporting the industry with projects that seek to reduce the environmental impact of flying. Notable this year was Virgin Atlantic's flight from Heathrow to New York fuelled by sustainable aviation fuel and we continue to actively support research to understand contrail production over the North Atlantic and to trial contrail avoidance solutions.

We are incentivised by the regulator to provide fuel efficient flights to airlines based on our 3Di airspace efficiency metric. For the 2023 calendar year we were within the CAA's allowance with a score of 28.3 (2022 calendar year: 26.0, within CAA allowance). We are also sharing flight efficiency data with three of our largest airline customers to identify jointly opportunities for further emissions savings. Ultimately, our aim is for all airlines using the UK air traffic network to have access to their own 3Di performance data.

Foundations for growth

We continued to make good progress in establishing the foundations for achieving our strategic revenue growth objective by expanding our work with existing customers and building new partnerships.

At the start of the year we contracted with Heathrow Airport for the delivery of equipment and systems to support a new Virtual Contingency Control Tower (VCF) to act as a back-up to the existing airport control tower. This represents a major investment for the airport and will provide resilience and help protect the nation's aviation infrastructure. The airport has also contracted to extend the use of our Strategic Airport Capacity Manager (S-ACM) tool which uses advanced analytics to provide operational insights that enable the airport and airlines to optimise schedules. S-ACM also provides a new environmental reporting metric which supports a better understanding of the environmental impact of the airport's operations.

With the capability of our Searidge investment, we will deliver a 'hybrid' digital control tower working position at Farnborough Airport. This will be the first deployment of its kind in the UK and represents the next evolution in airport air traffic management, delivering the technology enhancements of a digital solution, but within an airport's existing control tower.

With support from the British High Commission, we reached an agreement with the Aviation Authority India (AAI), provider of air navigation services across India, to facilitate closer cooperation between our two organisations. This is an important strategic enabler to securing larger scale commercial opportunities in India, including with major airport operators.

Alongside a broader strategic partnership agreement, we agreed to collaborate with the Saudi Air Navigation Services (SANS) on a capacity enhancement study at King Khalid International Airport. The collaboration will leverage NATS' expertise and digital solutions, to unlock new possibilities in airspace management and the seamless flow of air traffic in the Kingdom.

Finally, we have partnered with Indra to incorporate within its air traffic management software system the NATS and Leidos developed Intelligent Approach system for enhancing airport capacity.

Looking forward

Our immediate focus is on delivering the best possible safe service to airlines, airports and their passengers through what we expect to be a very busy summer. We have planned extensively with all our stakeholders to ensure that this is achieved. We have an operational plan to ensure that we are organised and resourced for known events (such as the Paris Olympics) and with a clear focus on the on-time departure of the first rotation each day, while also ensuring that across the company our priorities for any particular day are defined and understood, whether for ATC service or essential engineering or controller training.

Finally, I would like to acknowledge Paul Golby's 10 years of service as Chairman of the Board. Paul brought a blend of challenge and stability. His leadership of the Board and strategic guidance has helped us tackle the extraordinary challenges of the pandemic. We have a lot to thank him for and I wish him well in the future. I look forward to welcoming his successor, Warren East, in September 2024 and to working alongside him. I would also like to thank all my colleagues who have shown such dedication and commitment in delivering a very safe service through a uniquely challenging year.

Martin Rolfe, FRAeS
Chief Executive

Business review

Air traffic volumes

Over the course of the year we handled 2.41m flights, which was 7% more than the previous year driven largely by continued progress in recovery from the Covid pandemic (2023: 2.26m flights).

Summer 2023 was busy with daily flight volumes peaking at 8,000 in July and the record daily volume recorded for North Atlantic flights, now 1,805, being broken multiple times. While the industry was much better prepared for the level of passenger demand, the European network continued to face its challenges. Alongside the ongoing conflict in Ukraine, which continues to constrain European airspace, there was a relatively large amount of ATC industrial action and an unusually high number of days affected by extreme weather which required extensive cross border cooperation. In the UK, weather related delay affected both Gatwick and Heathrow airports in particular. Eurocontrol, the network manager, has included the mitigation of bad weather in preparations for Summer 2024, in an effort to bring more stability to the network.

Outlook for air traffic volumes

Demand for air travel is generally linked to the strength of the economy as well as being sensitive to wider geopolitical events. In addition, as governments respond to climate change it is inevitable that economic and societal adjustments will be necessary for achieving net-zero emissions, the impacts of which add to forecasting uncertainty. The impacts of these policies and events are not felt uniformly across all traffic that NATS handles which can lead to the impact on forecast revenue being different to that seen on overall flight volumes.

We have developed an internal forecast which, for the first time, also has regard to the potential impact on air travel demand of sustainability policies based on DfT's Jet Zero Strategy. This forecasts flight growth of c1% per annum over NR23. While growth is slower than the CAA's assumption in the NR23 price control, our business plan maintains operational resourcing and capital investment at levels aligned with the regulatory settlement.

The UK's DfT Jet Zero Strategy sets out the government's approach to achieving net zero for UK aviation by 2050, identifying sustainable aviation fuel (SAF) as one of the key enabling technologies. The UK is set to mandate the take-up of SAF starting in 2025 at 2% of total UK jet fuel demand, increasing on a linear basis to 10% in 2030 and then to 22% in 2040. With SAF currently significantly more expensive than jet fuel, policy mechanisms are expected to be put in place to encourage the production and availability of SAF in order to minimise the impact on air fares for passengers. These factors are considered in our assessment of climate transition risk discussed on page 29.

The traffic forecast assumed by the CAA for the NR23 price control was aligned with Eurocontrol's March 2023 7-year base case forecast. In February 2024 Eurocontrol published an updated forecast (STATFOR 24) which reflects a weaker economic outlook for Europe, including the UK. This forecasts flight volumes some 2% lower for the UK through NR23.

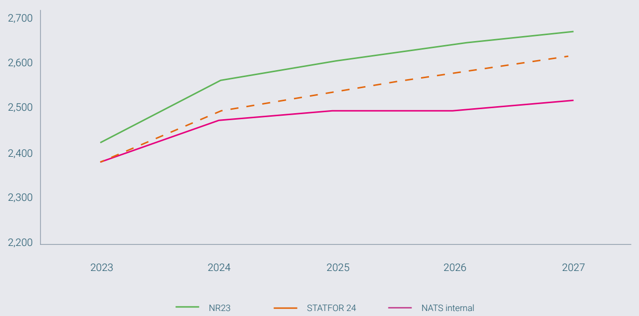
Safety Performance

Safety is our foremost priority and our primary duty. Safety must always be maintained, and this means that, if we have to, we will appropriately regulate the volume of flights in our airspace when this is necessary to ensure safety. Our service delivery, staff training and equipment maintenance and investment decisions are always made in the context of this overriding obligation.

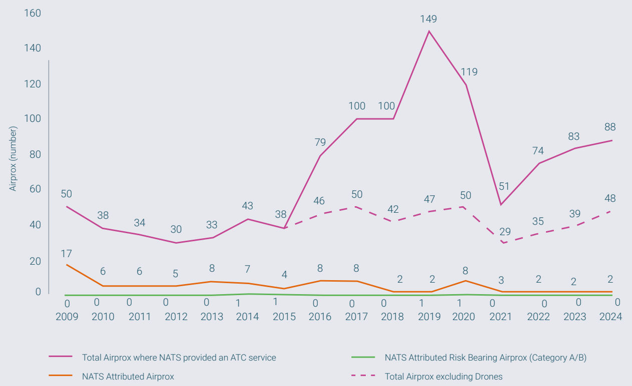
Our commitment to safety is underpinned by a robust set of metrics and targets that we use to monitor our performance and ensure that we have a focus on continuous safety improvement. These metrics and targets are aligned with the European performance scheme framework and are approved by the Board's Safety Review Committee and the CAA.

Our key target is to achieve zero NATS-attributable category A or B risk-bearing airprox, based on the independent assessment of the UK Airprox Board. This target applies across our en route ATC activities provided by NERL as well as our airport ATC operations provided by NSL. There were no NATS-attributable category A or B risk-bearing airprox in the financial year (2023: none).

UK flight forecasts
Calendar years ('000)



Airprox
Financial years ended 31 March



Business review

Safety Performance (continued)

Airprox are an important barometer of risk within the aviation sector, especially as traffic volumes are returning to pre-pandemic levels. On a 12-month rolling basis, the total number of Airprox in the airspace in which we provide our services increased in the year. However, when adjusted for traffic volumes, these were fewer than the average for the 2015 to 2019 years. The graph illustrates that unmanned aircraft systems (UAS or drones) remain a significant contributor to the overall number of Airprox, particularly around airports and heliports. In order to better understand the risks associated with this evolving airspace user, NATS is collaborating in drone detection and proximity data trials at several NATS sites around the country. These trials will help us to determine whether new safety processes and performance measures are required for detecting and preventing the illegal use of drones in flight restriction zones around airports.

We also measure our safety performance using the Risk Analysis Tool (RAT[9], as a proxy measure for safety risk) which assesses the severity of safety events and enables us to drive the appropriate safety culture across the whole business.

This financial year we recorded a total of 526 points (2023: 673) which, despite an increase in the volume of flights this year, is a further improvement on the previous year's record low level. RAT events in the year included two severity B events against our target of less than 10 for RAT A or B events. All serious events are subject to an additional level of scrutiny by the Safety Review Committee, ensuring that appropriate mitigating actions have been agreed and implemented.

The strategic safety goals set by the Corporate Strategy continue to drive our work, with initial focus on the implementation of continuous improvements in safety management. In support of this objective, we intend to formalise risk registers across the business. This is expected to provide improved clarity and visibility of the management of operational safety risks, helping the organisation prioritise its resources and better communicate risk related information to the accountable managers to support effective decision making. In the longer term, we expect this to provide a better and more dynamic understanding of the relationship between NATS top level risks and local change risk assessments.

Safety management

We are subject to an extensive safety regulatory framework that includes requirements under UK regulations overseen by the CAA and retained EU regulations overseen by the European Union Aviation Safety Agency (EASA). This framework is anchored in our safety management approach that covers systems, procedures and personnel.

To ensure that we work effectively to understand, maintain and improve safety performance in a consistent way, we have a formalised Safety Management System (SMS). The application of the SMS goes hand-in-hand with all of our activities so that safety is considered at every stage. This integration of safety in everything we do means that we can deliver safety and efficiency improvements across the company. The SMS is continually evolving to meet the needs of the business, incorporating lessons learned, changing regulation and the evolving use of airspace, including UAS and new industry concepts. We have also continued to enhance our SMS training.

Safety culture

Safety is our core value underpinned by our strong safety culture, which is essential as its positive values, behaviours and beliefs ensure we make the right decisions when we need to.

This also recognises that every colleague has a personal responsibility for safety no matter what role an individual performs, and this impacts the safety of our business and our people. We monitor the rate of reporting of safety events, which has exceeded pre-Covid levels and is a positive indicator of an effective reporting culture supported by a just investigation ethos.

We undertake a company-wide safety culture survey every two years which enables the company, and its Board, to assess the current strength of our safety culture and highlight areas for improvement. The 2023 survey identified three company-wide actions: bringing the safety culture and individual safety behaviour to life through an engaging campaign, ensuring resourcing plans are communicated effectively and the development of a fatigue risk management system with a focus initially on operational staff. The next survey is being planned for November 2025.

Technology transformation

Our strategy to replace our legacy operational systems with the latest modern, resilient technical solutions will, through a range of new capabilities, enable us to safely manage increasing volumes and complexity of traffic. We are continuing to invest in sustaining our existing assets during this transition period, commencing the modernisation of our surveillance system, delivering world-first capacity management tools at Heathrow and Gatwick airports and the ongoing development of future airspace changes in support of the industry's focus on the Airspace Modernisation Strategy.

We have continued to make further progress to finalise our new underpinning infrastructure. For example, the deployment of our back-up voice system in October on its own separate resilient network provides a step-change in capability and resilience when compared to its aged predecessor. Our focus has shifted to the ongoing development and testing of applications which will be progressively deployed onto our infrastructure over time. The early versions of these applications are into critical final testing and validation necessary before we commence the detailed training of our operations teams to enable a successful transition. We expect to deliver the first phase of our new controller tools and workstations on its existing architecture at our Prestwick centre in early 2026. A sequential approach to capability enhancement will allow us to continue to learn from the integration and use of these applications and technology.

The restructured and decoupled delivery plan, which allows each part of the programme to progress independently, has proved effective. However, we continue to face a number of ongoing skills-shortages which once resolved will enable us to scale-up our delivery capacity in due course. As an example, we have implemented and partnered with large-scale technology-industry leaders to enable us to leverage their capabilities and to operate our new technical infrastructure.

Financial review

Results overview

£m (unless specified)	2024	2023	Change
Revenue and regulatory allowances	**1,189.0**	930.0	259.0
Adjusting items	**(123.2)**	(23.2)	(100.0)
Adjusted revenue and regulatory allowances	**1,065.8**	906.8	159.0
Profit before tax	**371.5**	148.5	223.0
Adjusting items	**(123.2)**	(23.2)	(100.0)
Adjusted profit before tax	**248.3**	125.3	123.0
Operating cash flows	**200.1**	183.5	16.6
Cash flows from investing activities	**(112.3)**	(112.2)	(0.1)
Cash flows from financing activities	**(81.7)**	(59.3)	(22.4)
Net increase in cash and cash equivalents	**6.1**	12.0	(5.9)
Adjusting items	**86.3**	46.1	40.2
Debt-adjusted cash flows	**92.4**	58.1	34.3
Capital expenditure	**116.8**	113.7	3.1
Net debt (statutory basis)	**(745.4)**	(803.6)	58.2
Gearing (%)	**41.9%**	52.3%	(10.4%)
Regulatory Asset Base (RAB)	**2,139.2**	1,865.8	273.4
NERL's regulatory return - adjusted profit basis (%)	**4.9%**	0.0%	4.9%
Dividends	**nil**	nil	n/a

The group reported a statutory profit before tax of £371.5m (2023: £148.5m). The significant increase on the previous year is mainly a reflection of the NR23 price control and the CAA's assessment of the income shortfall owing to NERL for the Covid period (2020 to 2022), recognised as variable consideration in the prior year. These factors were partly offset by a share of losses and the impairment of a loan to NATS Services' Aquila joint venture as a result of an increase in the costs it is currently projecting to complete Project Marshall.

Alternative performance measures

In order to provide better insight for managing our financial performance, we have adopted a number of non-IFRS measures: adjusted revenue and revenue allowances, adjusted profit before tax, debt-adjusted cash flows (DACF), net debt, the regulatory asset base (RAB), regulatory return (adjusted) and gearing. These alternative performance measures (APMs) are not defined by international financial reporting standards (IFRS) and should be considered in addition to, and are not intended to be a substitute for, IFRS and statutory measures. A reconciliation of the APMs to IFRS measures is provided at page 174.

Financial review

Putting profit and cash flows in context

a. NR23 price control

This year's statutory profit before tax reflects a full year's impact of NR23, which applied from 1 January 2023. The regulatory framework, explained on page 6, is a typical cash-based model of UK economic regulation adopted by the CAA when determining NERL's price control. At each price control review, the CAA re-sets the level of revenue for a five-year period which it considers appropriate to enable NERL to recover its costs, continue to invest in the airspace infrastructure and earn a reasonable return while operating efficiently and providing targeted levels of service performance for customers. This process of re-setting revenue allowances can result in a step change (up or down) in NERL's results in the first year of the price control.

In this first full year of NR23, the 'cliff edge' impact is pronounced as the prior year's result reflected the temporary price control put in place during Covid. The practical effect of which was that NERL's charges were set initially as if Covid had not occurred but with the CAA taking a view subsequently on the appropriate recovery of revenue allowances based on the shortfall between NERL's flight income and its actual costs. Furthermore, the actual costs NERL incurred during Covid reflected the actions it had taken to reduce its operating costs and pause capital investment to conserve cash. By contrast, the revenue allowances for NR23 reflect the scaling back-up of NERL's activities to support post-Covid air traffic volumes and to deliver its NR23 business plan. The CAA's revenue allowances also take account of the higher inflationary environment, an allowed return calculated on an average RAB that now includes the Covid income shortfall and the increase in defined benefit pension cash contributions from 1 January 2023.

The latter, being paid at 85.3% of pensionable pay, are based on the funding deficit and ongoing cost of benefits calculated at 31 December 2020 when real gilt yields were close to their historic low. The timing of that measurement means that these contributions are significantly higher, unprecedentedly so, than the charge to the income statement of 22.4% of pensionable pay measured under international accounting standards. This IAS 19 charge reflects the higher interest rate environment since 2022 which has significantly reduced the cost of pensions. After taking a rebate of pension costs under the pass-through mechanism into account, the combination of a lower IAS 19 charge and the different basis for pensions alone accounts for an increase in profit of £41.1m.

b. The Covid income shortfall

The outcome of the CAA's retrospective reconciliation for determining the Covid income shortfall was accounted for in the prior year as variable consideration, constrained at an amount highly probable of not being reversed subsequently. In November 2023 the CAA confirmed the value of the shortfall at an amount higher than the variable consideration previously recognised. Accordingly, the results reflect an additional regulatory allowance of £123.2m for Airspace ATC services provided during Covid (2023: £23.2m). The measure of Adjusted profit before tax of £248.3m (2023: £125.3m) excludes this allowance to enable a better understanding of the group's underlying performance for the service provided in the financial year.

c. Debt adjusted cash flows

As in the prior year, our statutory profit before tax is not yet supported by the equivalent level of cash flow generation. This reflects recovery of the Covid income shortfall over an extended 10-year period to 2032, starting from January 2023. The related amount recoverable under the regulatory agreement is reflected in our financial position and will endure for the remainder of this recovery period. As a result, we will continue to utilise significantly increased but manageable levels of debt to deliver the NR23 plan. The term and structure of our debt was aligned in 2023 to match our expected cash flows to 2033 and provides efficient and stable funding over the extended period for recovering the Covid income shortfall. The path of net debt over time will be determined by the recovery of the Covid income shortfall, reintroduction of an appropriate dividend strategy and investments.

Financial Performance
Four financial years ended 31 March

The chart above shows our statutory results before tax (PBT), our debt adjusted cash flows[2] (DACF) and the change in net debt in each of the last four years. DACF represent the cash flows from our operations, our investing activities and our debt service costs but exclude the cash flows relating to our financing capital structure such as bond issues and bank loan repayments. The scale of the shortfall in income receipts, particularly in 2021 and 2022, is borne out by our DACF across this period.

In the later years of NR23 we expect DACF to exceed profit before tax, which will be reflective of underlying performance, while operating cash flows benefit from the ongoing recovery of the income shortfall.

Financial review

NERL's regulatory return – adjusted profit basis

NERL's regulatory return for calendar year 2023 adjusted for the one-off impact of the CAA's confirmation of the Covid income shortfall was 4.9% (2022 calendar year: 0.0%) compared with the CAA's NR23 cost of capital assumption of 3.2%. Operating costs were £61.0m lower than CAA's final determination assumption. This reflects the fact that the CAA sets annual revenue allowances assuming operating costs relating to the calendar year's actual CPI inflation. However, the impact of CPI on NERL's costs tends to lag by a year as these are generally indexed according to the prior year's inflation. While NERL has been able to contain temporarily some of the inflationary pressures on its cost base, its expectation is that the level of inflation currently projected on costs in 2024 and going forward will exceed the level assumed by the CAA in those years. Accordingly NERL currently expects higher operating costs against the CAA's target for the later years of NR23. The savings in 2023 are therefore not anticipated to be repeated, and overall costs over the price control period to be more aligned with the CAA's final determination assumption in its entirety. This factor was partly offset by lower revenue for an expected rebate of pension costs in future price controls.

On an unadjusted basis NERL's regulatory accounts will report a return of 11.2% largely due to the Covid shortfall income being included in this single year, as explained previously.

Revenue and regulatory allowances

	2024 £m	2023 £m
Airspace	**998.4**	754.7
Airports	**154.1**	132.6
Defence	**11.1**	15.6
Other UK business	**17.3**	14.5
International	**8.1**	12.6
Total	**1,189.0**	930.0

Overall, revenue and regulatory allowances at £1,189.0m (2023: £930.0m) were £259.0m higher than the prior year. By service line the significant factors contributing to this increase were:

Airspace: revenue and regulatory allowances were £243.7m (32.3%) higher.

UK en route revenue at £807.7m (2023: £670.0m), improved by £137.7m mainly due to the increase in revenue allowances set for NR23 outlined above. In addition, regulatory allowances of £136.5m, increased by £95.5m (2023: £41.0m), includes the recognition of £123.2m of Covid income shortfall, recognised as variable consideration in the prior year as explained above.

Revenue for the North Atlantic en route ATC service increased by £10.5m to £54.2m (2023: £43.7m) reflecting a 13.7% increase in the charge per flight for NR23 as well as a 9.2% growth in flights volumes to 528,350 (2023: 483,802 flights).

Airports: revenue was £21.5m (16.2%) higher for the year. This reflected inflation uplifts to our ATC contracts and growth in engineering project income as airport operators continued to invest in enhancing their infrastructure. Revenue also included a full year's service to Gatwick Airport which had returned to our ATC contract portfolio in October 2022.

Defence: revenue was £4.5m lower (28.8%). This is mainly related to the asset provision contract element of Project Marshall, expected to complete in 2025.

Other UK business: revenue at £17.3m increased by £2.8m (19.3%) due to new contracts and price indexation of existing contracts which enable developers to mitigate the impact of windfarms on ATC radar data.

International: revenue was £4.5m lower (35.7%) as demand is recovering more slowly than we expected after Covid, with fewer opportunities coming to market this year for the airport enhancement programmes we offer. We remain optimistic of the prospects in our international target markets, and we have developed strong partnerships to ensure we are well placed in 2024/25 and beyond.

Operating costs

Operating costs increased by £48.5m or 6.4%, mainly reflecting inflationary pressures on staff and non-staff costs and asset impairment charges.

	2024 £m	2023 £m
Staff costs	**(495.5)**	(485.9)
Non-staff costs (net)	**(184.9)**	(163.2)
	(680.4)	(649.1)
Depreciation and amortisation (net)	**(104.6)**	(94.2)
Asset impairment charges	**(19.4)**	(9.7)
Goodwill impairment charge	**-**	(2.9)
Operating costs	**(804.4)**	(755.9)

Staff costs were £9.6m higher at £495.5m (2023: £485.9m) with CPI-linked pay awards and additional overtime and headcount to support both operational resilience and our technology transformation programme being mitigated by increased internal capitalised labour and lower defined benefit pension costs. The number of employees in post at 31 March 2024 increased by 283 to 4,606 (2023: 4,323).

Non-staff costs increased by £21.7m to £184.9m (2023: £163.2m). This reflected additional costs required for data infrastructure, hosting and cyber security in line with the modernisation of our technical infrastructure, as well as the costs required to deliver the Airports engineering projects above.

Depreciation and amortisation increased by £10.4m to £104.6m (2023: £94.2m), following the deployment of a new back-up voice communication system and a new system to monitor the performance of airspace infrastructure assets. Asset impairment charges of £19.4m (2023: £9.7m) were recognised for a data integration system and assets relating to an airport transformation programme which are no longer considered to be commercially viable, and to write down the value of network infrastructure test equipment, following an assessment of potential alternative uses.

Financial review

Results of joint ventures and associate

	2024 £m	2023 £m
Aquila joint venture	**(29.5)**	0.9
Other associate and joint venture	**1.2**	2.4
Results of joint ventures and associate	**(28.3)**	3.3

The Aquila joint venture in which NATS Services is invested is projecting an increase in the costs to deliver its Project Marshall contract, which completes in 2037. As a result we have recognised our share of losses up to the carrying value of our investment of £4.5m at 1 April 2023 and impaired the outstanding shareholder loan of £18.8m. We have also made a provision for a liability of £6.2m for the legal obligation to enable Aquila to draw on the shareholder loan facility up to its limit of £25m. Alongside our joint venture partner we are continuing to provide financial support to Aquila, as well as underwriting its performance under the contract and working with the management team on measures to improve its financial outlook and to protect our financial interests.

Net finance income and fair value movements on financial instruments

	2024 £m	2023 £m
Net finance income/(costs)	**28.9**	(1.8)
Fair value movement on financial instruments	**(13.7)**	(27.1)
Net financing income/(costs) and fair value movements	**15.2**	(28.9)

The net finance income of £28.9m (2023: net finance cost of £1.8m) principally related to unwinding the discount applied to regulatory allowances for the Covid income shortfall, which is being recovered over NR23 and NR28. This is alongside additional interest income earned on cash holdings. These factors more than offset bond and other debt interest costs.

A fair value charge of £13.7m (2023: £27.1m) was also recognised in the year. This included £9.0m for the change in market value of the RPI swap liabilities (2023: £13.7m) and a charge of £4.7m (2023: £13.4m) on revaluing the group's equity investment in Aireon[10] based on its most recent business plan projections.

Taxation

The tax charge of £94.0m (2023: £32.3m) represents an effective rate of tax of 25.3%. This is slightly higher than the headline rate of 25%.

The tax charge consists of a current tax charge of £74.6m and a net deferred tax charge of £19.4m. The deferred tax charge arises mainly from the deferred tax liabilities on capital expenditure.

We achieved Fair Tax Mark accreditation in the year. NATS' taxes generally arise in the UK, though it undertakes business in other countries. Wherever we operate we organise our operations to pay the correct and appropriate amount of tax at the right time, according to relevant national laws, and ensure compliance with the group's tax policies and guidelines. Our Country-by-country reporting (CbCr) table is set out within the explanatory notes on page 178.

The group also pays other taxes such as employer's national insurance contributions (£47.4m), business rates (£5.9m) and the apprenticeship levy (£1.9m), which are significant operating costs. The group's tax strategy can be viewed at www.nats.aero.

Balance sheet

	2024 £m	2023 £m
Goodwill	**42.6**	42.7
Tangible and intangible fixed assets	**1,109.6**	1,114.5
Right-of-use assets	**36.4**	37.7
Investments	**24.3**	29.7
Pension scheme surplus	**13.5**	58.7
Regulatory allowances recoverable	**799.0**	731.2
Regulatory allowances payable	**(54.8)**	(141.6)
Cash and cash equivalents	**166.2**	160.2
Derivatives (net)	**(80.0)**	(80.1)
Borrowings	**(864.9)**	(911.4)
Lease liabilities	**(46.7)**	(52.4)
Deferred tax liability	**(205.5)**	(197.9)
Other net balances	**(24.9)**	(42.6)
Net assets	**914.8**	748.7

The increase in net assets reflects the statutory profit after tax, partly offset by the reduction in the defined benefit pension scheme's IAS 19 funding surplus to £13.5m (2023: £58.7m - see below).

Capital investment

	2024 £m	2023 £m
SESAR deployment	**43.1**	47.9
Airspace modernisation	**8.9**	7.8
Infrastructure	**17.1**	9.8
Operational systems	**26.8**	29.5
Other	**10.2**	7.7
Regulatory capex	**106.1**	102.7
Other non-regulatory capex	**10.7**	11.0
Capital investment	**116.8**	113.7

Financial review

We continued to make a significant investment in our critical airspace infrastructure (regulatory capex in the table above). In particular, we introduced a back-up voice communication system which significantly enhances our operational system resilience. Overall, we expect to invest c£630m over NR23 to replace ageing infrastructure and systems, continuing our strategy towards their consolidation into a single platform which will provide improved tools and standardised operations, which are critical to future service quality and airspace modernisation.

Defined benefit pensions

The group operates a final salary defined benefit pension scheme with 1,480 employee members at 31 March 2024 (2023: 1,550). The scheme was closed to new entrants in 2009 and a defined contribution scheme was put in place which now has 2,336 members (2023: 2,108) - the costs of this scheme increased by £8.5m in the year reflecting the growth in members and staff pay awards. More information on our pension arrangements is provided in note 32 to the financial statements.

a. IAS 19 charge and funding position

The cost of defined benefit pensions at £39.6m (2023: £69.9m) reflected a reduction in the accrual rate to 22.4% (2023: 44.9%) of pensionable pay, as a result of higher real interest rates at the start of the financial year relative to those at the start of the prior year.

IAS 19 pension surplus	£m
At 1 April 2023	58.7
Charge to income statement*	(39.6)
Actuarial gains/(losses):	
- on scheme assets	(315.0)
- on scheme liabilities	168.3
Employer contributions*	141.1
At 31 March 2024	**13.5**
Represented by:	
Scheme assets	3,384.6
Scheme liabilities	(3,371.1)
Surplus	**13.5**

*including salary sacrifice

At 31 March 2024, the scheme's assets exceeded its liabilities by £13.5m (2023: £58.7m) as measured under International Accounting Standards (IAS 19) using best estimate assumptions.

The real yield on AA corporate bonds used to value RPI-linked pension obligations increased by 20 basis points over the 12-month period. In addition, demographic assumptions were updated to reflect actual mortality experience and future improvements in life expectancy in line with the CMI's 2022 projections. These had the effect of reducing the value of pension liabilities which reduced by £114.9m over the year. The fair value of the scheme's assets reduced by £160.1m.

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 are currently undertaking a formal valuation of the scheme as at 31 December 2023, which is not yet complete. Until that valuation is agreed, the schedule of contributions remains based upon the Trustees 31 December 2020 valuation, which reported a funding deficit of £171.9m (equivalent to a funding level of 97%). Alongside assessing the funding deficit, the scheme's actuary also determined that the cost of employee benefits accruing in future should be 66.2% of pensionable pay. Contributions have reflected this rate since January 2023, as well as a recovery plan agreed with Trustees, which aims to repair the deficit by December 2029. During calendar year 2023 the company paid deficit contributions of £27.2m and it will pay £27.8m in calendar year 2024.

Net debt, liquidity and cash flows

	Cash and cash equivalents £m	Borrowings (including lease liabilities) £m	Net debt £m
Balance at 31 March 2023	160.2	(963.8)	(803.6)
Cash flow	6.1	75.5	81.6
Non-cash movements	(0.1)	(23.3)	(23.4)
Balance at 31 March 2024	**166.2**	**(911.6)**	**(745.4)**

At 31 March 2024, the group's net debt was £745.4m (2023: £803.6m). It comprised £864.9m in bonds less unamortised costs and fees, and £46.7m of lease liabilities recognised under IFRS 16. These were partly offset by £166.2m of cash and cash equivalents.

Net debt reduced during the year with NERL recovering £91.6m (2023: £6.4m) of the Covid income shortfall from its charges.

At 27 June 2024 the group had available liquidity of around £540m. Our cash flow forecasts show that the group should be able to operate within the level of its bank facilities and within its financial covenant for a period of at least twelve months from the date of issue of this report including under plausible stress scenarios, where appropriate mitigating actions would also be undertaken.

Alistair Borthwick
Chief Financial Officer

Going concern and viability statements

Going concern

The group's business activities, together with the factors likely to affect its performance and financial position, its cash flows, liquidity position and borrowings are set out in this Strategic report. In addition, note 3 to the financial statements describes critical judgements and key sources of estimation uncertainties and note 21 the group's objectives, policies and processes for managing its capital and its financial risks and details its financial instruments and hedging activities.

At 31 March 2024, the group had access to liquidity of £566m comprising cash of £166.2m and undrawn committed bank facilities of £400.0m. At 27 June 2024, the group had access to cash and undrawn bank facilities of around £540m.

When considering the appropriateness of the going concern basis of preparation of the financial statements, the directors have reviewed the cash flow forecasts prepared by management covering a period to 28 June 2025, being at least 12 months from the date of approval of these financial statements. The directors have had regard to reasonably plausible changes in trading performance as well as severe traffic volume scenarios individually and in combination and the principal risks discussed on pages 20 to 22.

The severe traffic volume scenarios modelled were: an immediate 15% reduction in air traffic volumes for a 12-month period, as a proxy for a traffic shock such as a major geopolitical incident and subsequent recession, being the most severe traffic scenario; a low case internal traffic forecast of 5.9% fewer flights than the NR23 decision assumed; a 20% loss of airport contract income from smaller airports in our portfolio, in the event of the financial collapse of an airport; an unplanned increase in operating costs; an increase in the financial support provided to our investments and unremunerated increases in defined benefit pension contributions. Finally, a combination scenario was also performed of lower air traffic volumes, higher operating costs and higher pension contributions. Under the most severe scenario the group maintains adequate liquidity (of £334m) and headroom (NERL gearing at 51%) to meet its debt covenant (NERL gearing at 85%), prior to mitigating actions (such as other cost saving measures and deferring capital investment).

The directors have also considered, through a reverse stress test, the point at which liquidity would be utilised or the financial covenant would be breached before both mitigating action and regard to the financeability duties of the CAA and Secretary of State for Transport.The reverse stress tests considered, before mitigation, severe reductions in traffic volumes to 50% of expected levels or significant unplanned expenditure, which in this event would be broadly equivalent to the annual staff cost. 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 pages 20 to 22, and the effectiveness of currently available mitigating actions.

In particular, the directors assessed the solvency and liquidity risks arising from a traffic shock 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 2027.

The Board considers that there is greater certainty around forecasting assumptions over a three-year period than a longer period, having regard to the NR23 price control settlement which covers the period to 31 December 2027.

Specific consideration has been given to:

> The risk of a traffic shock: the consequences for the group's en route and airport ATC income of a severe shock to air traffic volumes and the reasonably possible mitigating actions available to the group to manage its financial resources;

> Joint venture funding: a scenario of additional unplanned financial support to Aquila beyond the group's legal obligation to enable it to fulfil its Project Marshall contract;

> Defined benefit pensions: the requirement to agree a new schedule of contributions following completion of the Trustee's formal valuation at 31 December 2023. The directors consider that NERL's contributions will be recovered through the NR23 price control, and future price controls, including any additional contributions required arising from unforeseen changes in financial market conditions during NR23. This is further supported by the CAA's issuance of a Pension Regulatory Policy Statement in April 2021. Contributions from NATS Services will be met from operating cash flows; and

> The term of NERL's bank facilities: the directors have a reasonable expectation that NERL will meet the conditions of its banking covenant and be able to raise funds in the bank or debt capital markets as required, including refinancing bank facilities expiring in May 2026.

Principal risks and uncertainties

Enterprise Risk Framework

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

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

Taking into account the work of the Committees, the Board formally reviews emerging and principal risks on a six-monthly basis. Safety risks remain a priority for the business and as such are considered at every Board meeting in addition to the regular six-month review. In addition, in light of events in the year, the Board has had particular regard to risks impacting service resilience, operational resourcing and relating to technology enhancement.

Our Principal Risks

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

The list below is not intended to be exhaustive and reflects the Board's assessment as at the date of this report. The risks outlined are the most important risks facing the company in seeking to achieve its objectives. The group focuses on mitigating these risks, although many remain outside of our control – for example changes in regulation, security threats, environmental factors and the impact of longevity and financial markets on pension funding.

These risks are reflected in and have been considered in assessing viability and going concern on page 19. A summary of risk management and internal control processes is on page 52.

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

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

As a provider of a safety-critical service, safety is the company's highest priority. NATS targets compliance with all targets set out in the regulatory price control. The group maintains an explicit Safety Management System, which includes investigations and reviews of operational safety performance and individual incidents to identify and respond to contributors to safety risk. The effectiveness of the Safety Management System is overseen by the Executive level NATS Safety Steering Group and the Board level Safety Review Committee.

Strategy: general economy, geopolitical issues and uncertainty of air travel demand

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

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

Strategy: regulatory settlement

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

The CAA issued the NR23 price control, which sets charges from January 2023, in year. Despite including operational service targets viewed as very challenging by NERL, the overall determination was deemed to be acceptable.

The NR23 decision also included a reconciliation of costs and revenues for the period January 2020 to December 2022 for the purpose of setting NERL's revenue shortfall in relation to the shortened RP3 control period. The extended recovery period of 10 years had been anticipated in the re-financing activity that completed in March 2023 so raised no concerns in terms of NERL's financeability.

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.

Principal risks and uncertainties

Strategy: sustainable aviation

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

There are a range of potential physical and transitional impacts to the group from climate change, and these are outlined, along with how we managed these risks in our risk management system, within our Climate-related Financial Disclosures section on page 25.

Operational: business continuity and resilience

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

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

A major incident investigation was undertaken following the technical failure on 28 August 2023. Our business continuity and resilience processes have been amended to reflect the recommendations of that review. The further recommendations of the CAA's independent panel review are also being considered.

Operational: systems security

The threat of disruptive cyber-attacks (such as denial of service) on critical infrastructure continues to remain elevated given ongoing conflict in the Middle East and Ukraine. A malicious cyber-attack could affect the integrity, availability, confidentiality or resilience of NATS' operational ATC and business IT systems, adversely impacting the provision of a safe and efficient ATC service and resulting in additional regulatory scrutiny. A cyber-attack on a non-operationally critical part of the business could also be reputationally damaging and result in extensive management effort. NATS seeks to mitigate the risk through robust security controls, including physical security, security vetting, identity and access management and security patching, employee training, security monitoring and incident management. Effectiveness of security controls is assured through ISO 27001 certification and regulatory compliance. Close working relationships are maintained between NATS and the UK's security services, including the National Cyber Security Centre and the National Protective Service Authority to monitor threats and minimise the risk of a damaging cyber-attack.

Operational: air traffic controller resource availability

While we retained our skilled air traffic controllers during Covid to support the recovery we were unable to train new controllers due to the risk of spreading the virus within our operation as well as training in a live environment being unfeasible with such low flight volumes. Training recommenced when pandemic restrictions lifted in 2022. While we have sufficient resources today to meet our regulatory commitments, there is a risk that during NR23 we may not have adequate resource to meet all of our operational and training needs, as the pipeline of newly trained controllers and less certain rates of staff retirements work through the system. The Operations Leadership Team and portfolio governance continues to focus on these risks and ensuring we can respond to changing demand, including implementing actions to make our training programme more efficient so that new controllers can validate more quickly. A new resource agreement has also been reached with the trades unions to increase resilience through additional air traffic controller attendances over the critical summer period.

Operational: employee relations

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

Regular dialogue takes place with trades unions on a range of challenging issues including air traffic controller supply, the impact of high inflation and the cost of living crisis on our employees and employee pay. We strive for constructive relationships with our trades unions, and these relationships enabled us to agree three-year pay deals for grades negotiated by PCS and Prospect which run to December 2025. We remain committed to the partnership approach, and to engaging and consulting in a constructive and positive manner recognising the contribution our employees make and the wider challenges facing the aviation sector.

Transformation: portfolio delivery

The complex deployment of new technology and retirement of legacy systems could affect our ability to maintain service levels during transition and require additional costs to sustain legacy systems and support deployment during this period. NATS targets to deliver the change portfolio within the constraints of the business plan agreed with the CAA. If we are found to have been demonstrably inefficient or wasteful in expenditure on capital assets, the CAA may reduce recovery of such expenditure under the regulatory regime. We maintain programme governance and risk management processes overseen by the Executive, the Transformation Review Committee and the Board. We have adopted industry best practice, by using a Portfolio, Programme and Project approach.

Our capital programme developed following extensive customer consultation is reflected in our NR23 business plan.

Principal risks and uncertainties

Financial: defined benefit pension scheme

Adverse movements in the value of scheme assets and liabilities arising from factors such as lower investment returns, lower real interest rates and improving life expectancy may increase the size of the funding deficit and result in significant contributions to fund pension benefits.The Trustees completed a formal valuation as at 31 December 2020, which reported a funding deficit of £172m reflecting market conditions at that date. Trustees are currently undertaking their next formal valuation based on the position as at 31 December 2023.

The scheme was closed to new entrants in 2009, pensionable pay rises are negotiated with our trades unions on the basis of affordability and are also capped through an agreement, and future service benefits are linked to the Consumer Prices Index. NATS regularly reviews the scheme's funding position and is consulted by Trustees on the design of risk reduction strategies.

Also, subject to regulatory review, NERL is able to recover increases in contributions from changes in unforeseen financial market conditions. NATS Services maintains adequate cash reserves to meet its share of pension contributions.

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

Financial: availability of funding and other risks

The main financial risk to the group relates to the availability of funds to meet business needs (including meeting obligations to the pension scheme), 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 21 to the financial statements.

Non-financial and sustainability information statement

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 aspect of our overall performance. We recognise the growing expectations of the public and policymakers regarding transparent reporting on our outcomes.

Scope of non-financial information statement

This statement focusses on employee and environmental matters, being the material non-financial matters, and provides information thereon necessary for an understanding of the company's development, performance and position. Our gender, ethnicity and disability pay gap report[11] and a slavery and human trafficking statement[12] are published on our website.

Governance

The NATS board is responsible for non-financial policy and performance. The Board has reviewed how it has applied the principles of the UK Corporate Governance Code 2018 in each of the main areas of culture, diversity, employees, stakeholders, remuneration and succession. The Board receives regular updates throughout the year on these topics and formally reviews the approach annually.

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

Strategy

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

- Our corporate strategy includes a target to operate a carbon negative estate by 2040 and to be a Top 25 company to work for;
- Developing and monitoring appropriate policies, codes, management systems and targets, including a Responsible Business policy[13] which can be viewed at www.nats.aero, and net zero emission targets;
- Embedding environmental KPIs within our debt finance to enable sustainability linked finance;
- Monitoring performance and practices across our business and our supply chain;
- Undertaking internal and external audits;
- Raising awareness of responsibilities among employees and developing training;
- Supporting a range of diverse employee networks to promote a diverse and inclusive culture;
- Managing relevant enterprise risks and monitoring trends;
- Transparently reporting non-financial performance information to our customers, key stakeholders and the public each year; and
- Monitoring levels of support provided through our employee assistance programme.

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

The Audit Committee oversees all verification and assurance activity.

a. Employee policies and outcome

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

This year we have taken steps to make sure we have a centrally co-ordinated approach to Equality, Diversity and Inclusion (EDI), ensuring we are working together to build an even more diverse organisation. Our strategic focus for EDI covers four key pillars of activity; Attract, Engage, Lead and Educate. Each of these pillars has clearly defined measures to ensure progress and delivery.

We continue to set and track performance against a set of meaningful goals to promote greater diversity and inclusion. These targets track the proportion of women, people from minority backgrounds and those with disabilities across our recruitment, talent and succession plans. Increasing representation of women and people from ethnic minority backgrounds in STEM professions remains a challenge, not just for NATS, but we have taken proactive steps to attract people from underrepresented groups, to ensure that as a business we have access to the widest possible talent pool.

b. Environment policies and outcome

Our sustainability strategy encompasses initiatives across our business and estate to reduce greenhouse gas (GHG) emissions, resource use, energy and pollution, while enhancing biodiversity protection, climate change resilience and sustainable procurement. It also includes initiatives to improve airspace efficiency, manage aircraft noise and to actively work with industry partners and others, including the UK Sustainable Aviation coalition, the Borealis Alliance, CANSO, Eurocontrol and the International Civil Aviation Organisation, to ensure a coordinated approach to reducing aviation's environmental impacts.

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

Non-financial and sustainability information statement

b. Environment policies and outcome (continued)

In terms of the core air traffic service we provide, we seek to reduce the impact of our operation on CO_2 emissions, noise and other environmental impacts as much as possible, through how we run our business. We undertake this through the design and management of airspace across the UK, developing innovative solutions in partnership with our key suppliers and airport and airline customers for mutual benefit. As an example, we continue to develop and deploy solutions to enhance airport and airspace performance, including Intelligent Approach and Digital Towers.

We co-chair and participate in European and global groups to set standards, produce guidelines for ANSPs to reduce their environment impact and engage with customers on future tools and airspace changes. We are involved in industry groups and R&D initiatives to investigate solutions to aviation's impacts. Under the Single European Sky ATM Research programme we are involved in projects to avoid contrail induced cirrus (non-CO_2 impacts) and have been active in continuing to support trials in the year.

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

We support the commitment by the aviation industry in the UK and Europe to reach net zero by 2050, including support to the UK Sustainable Aviation coalition.

Reducing the impacts of our business, and improving sustainability is key to achieving this and it can also reduce costs as we consume fewer resources and work in more efficient ways.

Finally, we continue to support the government's goal to accelerate the development of renewable energy from wind power by working with technology partners to enable windfarms to be operated safely without interfering with radar signals used for air traffic control.

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

Risk management

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

Our enterprise risk management framework describes sustainability risk categories linked to the delivery of our sustainability strategy; physical sustainability risks (e.g. as a result of increased frequency and severity of extreme weather events); transitional sustainability risks (e.g. indirect policy, legal, market and reputational risks); net zero and carbon negative risks; improvements to our environmental performance; achieving compliance with multiple requirements; and the associated impacts of those risks.

Metrics and targets

a. Employee matters

Gender pay reporting has established benchmarks against which we monitor the impact of our actions to address the imbalance of gender and ethnicity over the longer term. This year, we have further broadened our pay gap reporting to include publication of our disability pay gap for the first time. We did see a small deterioration in median gender pay gap this year, however this reflected the staggered timing of pay awards for different pay groups, which have varying gender splits. Had all pay awards been applied at the same time, our median pay gap would have improved by 1.6%. We recognise it takes time to create sustainable change, but we can see examples of an increase in overall diversity (gender, ethnicity and disability) in Senior Leadership roles and 34% of our 2023 early careers intake were from an ethnic minority background, up from 18% in 2022.

Our objective remains to bring the best diverse talent into our organisation and support individuals to reach their full potential.

b. Environment

We have established a near term science-based target to reduce the emissions from running our business by 41% by 31 March 2026 against a 2019 baseline, which the Science Based Targets initiative (SBTi) has validated and awarded NATS 'Business Ambition' status – the highest achievement possible. This demonstrates NATS emissions targets exceed requirements to help prevent the most damaging effects of climate change, and consistent with the goals of the Paris Agreement. Annual sustainability linked finance targets align with our science-based target reduction profile, with the aim this year to achieve a 29% reduction in scope 1 and 2 emissions and the same level of reduction across limited scope 3 emissions (categories 1,3,4,6,7).

In both cases we have reduced emissions by 35% compared to a 2019 baseline, resulting from site consolidation, energy efficiency and emissions reduction measures. The installation of roof mounted solar panels to self-generate renewable electricity at our Swanwick air traffic control centre was near completion by the year end. This is the first of three large-scale solar installations at our main Swanwick and Prestwick centres, covering roof, ground and adjoining land which, subject to final planning decisions, will generate approximately 13-21% of the energy consumption of these sites.

We also installed 100 electric vehicle charging points across our main sites to support lower transportation emissions. We procured 99.6% of our electricity from green electricity and 100% of NATS direct gas procurement is low carbon biogas.

In relation to airspace emissions, 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. For the 2023 calendar year, we achieved a 3Di score of 28.3 within the CAA allowance range.

Non-financial and sustainability information statement

b. Environment (continued)

The cumulative impact since 2006 of strategic airspace changes which improve aircraft flight profiles and reduce fuel burn is avoiding 33,000 tonnes of CO_2 emissions per annum.

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

Climate-related Financial Disclosures

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

As the provider of the UK's critical national airspace infrastructure, we are preparing for climate change trends from warmer, wetter winters and hotter, drier summers alongside an increase in frequency and intensity of extreme weather events, as well as sea level rise and storm surges.

Our company strategy recognises the contribution that air traffic control can make in creating a sustainable future for aviation. It sets out our ambition to minimise our direct environmental impact by being carbon negative by 2040, in addition to achieving net zero carbon emissions across our estate by 2035. Our strategy also supports DfT's targets of net zero flying by 2050, with domestic flights and airport operations net zero by 2040, through measures including optimising flight paths to reduce aircraft fuel burn and CO_2 emissions and delivering airspace modernisation.

Achieving our carbon targets also supports our other strategic objectives. Innovation in the delivery of carbon reduction can help us realise opportunities that support our objective to generate increased revenue and positively impact our objective to be relied on by all airspace users as we create integrated safe, efficient airspace for all.

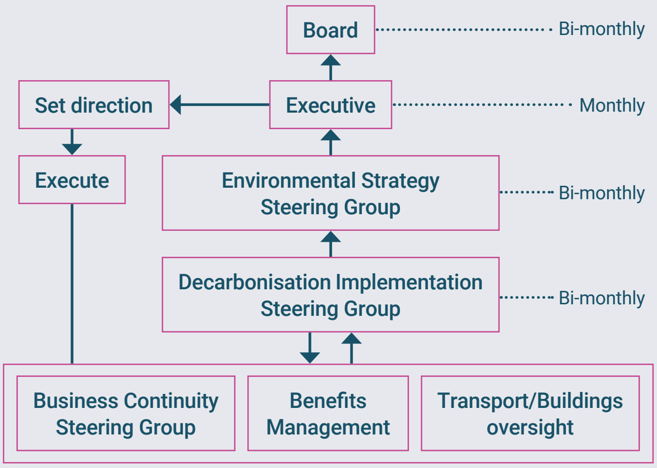
For current and future employees, being able to deliver solutions to our carbon challenges will be something we can be truly proud of. Alongside inclusion, career development and wellbeing, our environmental ambitions are, therefore, a core part of us being a Top 25 UK company to work for.

We explain below how we identify, assess, manage and review climate-related risks and opportunities impacting the group, covering the eight requirements of the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, as well as our energy use and greenhouse gas emissions under the Streamlined Energy and Carbon Reporting framework.

Governance

1) a description of the governance arrangements of the company in relation to assessing and managing climate-related risks and opportunities;

Sustainability: governance and meeting cadence



Our Board is responsible for setting and leading our climate-related strategy and goals, and has oversight of climate-related risks and opportunities impacting the group (risk governance is explained on page 52).

The Board delegates responsibility to various committees (see pages 49 to 73). The remit of its committees is reviewed periodically to ensure alignment with climate change risks and opportunities and the monitoring of progress against decarbonisation targets.

Our Board members bring a variety of skills and experience of ESG and climate change matters from their own qualifications as well as other external board appointments, including from within the aviation and economically regulated entity sectors.

The CEO has overall accountability for the group's decarbonisation target and for ensuring business resilience to climate change. The Board receives periodic updates on matters discussed at the Environmental Strategy Steering Group (ESSG). This includes progress against the company's near-term 1.5°C aligned science-based targets, our sustainable-finance linked targets and commitments to achieve net zero by 2035 and carbon negative by 2040, as well as consideration of physical and transition climate-related risks. These updates enable the Board to understand the drivers of emissions performance and to assess investments and resources to achieve net zero as well as actions for mitigating climate risks.

Non-financial and sustainability information statement

Governance (continued)

The ESSG meets bi-monthly and is chaired by the Director of Safety and Sustainability. Its members include the CFO, Chief Operations Officer, Technical Services Director, Director Supply Chain, Director of Sustainability and the Communications Director.

The ESSG sets direction for sustainability activities across NATS. Its scope covers environmental impacts from airspace users of our air traffic control service and from our estate as we deliver our services, as well as climate-related risks and opportunities faced by the group. The ESSG receives progress reports from the Decarbonisation Implementation Group, whose primary objective is to manage and monitor performance towards our net zero and carbon negative objectives. These goals include overseeing ATM activities that contribute to reducing aviation emissions, such as more fuel-efficient flight profiles and airspace change, as well as activities which reduce all scope 1 and 2 emissions from NATS' estate and selected scope 3 emissions. The ESSG is also supported by other oversight groups, whose roles are described in the figure above.

Strategy

2) a description of:

i. the principal climate-related risks and opportunities arising in connection with the operations of the company, and

ii. the time periods by reference to which those risks and opportunities are assessed;

3) a description of the actual and potential impacts of the principal climate-related risks and opportunities on the business model and strategy of the company;

4) an analysis of the resilience of the business model and strategy of the company, taking into consideration different climate-related scenarios;

Scenario analysis

We use scenario analysis to assess material climate-related financial risks and opportunities and we have considered 1.5°C, 2-3°C and 4°C warming scenarios to provide a view of potential transition and physical risks. Scenario analysis improves our understanding of NATS' climate risk exposure and is integral to climate risk assessment under our risk management framework.

To assess transition risks and opportunities, we have tested the resilience of our business strategy against three scenarios with differing pathways to net zero:

> an incremental transition that assumes current policies and trends in aviation with a high degree of residual emissions being offset or removed outside of the aviation sector;

> an orderly transition with a focus on supply-side decarbonisation solutions, such as sustainable aviation fuels (SAF); and

> a disorderly transition with a greater emphasis on demand reduction measures.

These scenarios are described more fully in the figure below.

Incremental Transition

2-3°C warming by 2100

A slow piecemeal transition following business as usual market and policies. Investments from the public and private sector continues but there are delays in the implementation of innovations with a high degree of residual emissions requiring to be offset or removed outside of the aviation sector.

Key Assumptions:

> Technological Change - Slow Pace

> Policy Reactions - Current Policies

Key Events:

> 74% increase in UK terminal passenger volumes by 2050 (from 2018 levels)

> 10% SAF uptake by 2050

> Carbon emission trading schemes (ETS and CORSIA) assumed to continue beyond 2036, with a cap reset

> A formalised carbon offsetting market begins to take shape in the short/medium term

Main Sources:

Jet Zero (Current Trends Scenario), IEA (Stated Policies Scenario), NGFS (Current Policies Scenario)

Orderly Transition

1.5°C warming by 2050

A rapid but 'smooth' transition, achieving emission reductions in line with the Paris Agreement. Policy acts as a strong lever for change, technological innovations are successful and encourage investment. This scenario assumes a greater focus on supply-side decarbonisation solutions such as SAF and zero/low-emission aircraft.

Key Assumptions:

> Technological Change - Moderate Pace

> Policy Reactions - Immediate and Smooth

Key Events:

> 70% increase in terminal passengers by 2050 (from 2018 levels)

> UK SAF plants operational by 2026

> 50% SAF uptake by 2050

> Zero emission aircraft introduced in 2035

Main Sources:

Jet Zero (High Ambition Scenario), IEA (Net Zero By 2050 Scenario), NGFS (Orderly Below 2°C)

Non-financial and sustainability information statement

Scenario analysis (continued)

Disorderly Transition
1.5°C warming by 2050 featuring volatility

A disjointed and non-linear pathway. Climate policy responses are uncoordinated or delayed. The implementation of new technology slows, motivating investment away from the industry. This scenario places a greater emphasis on demand reduction measures.

Key Assumptions:

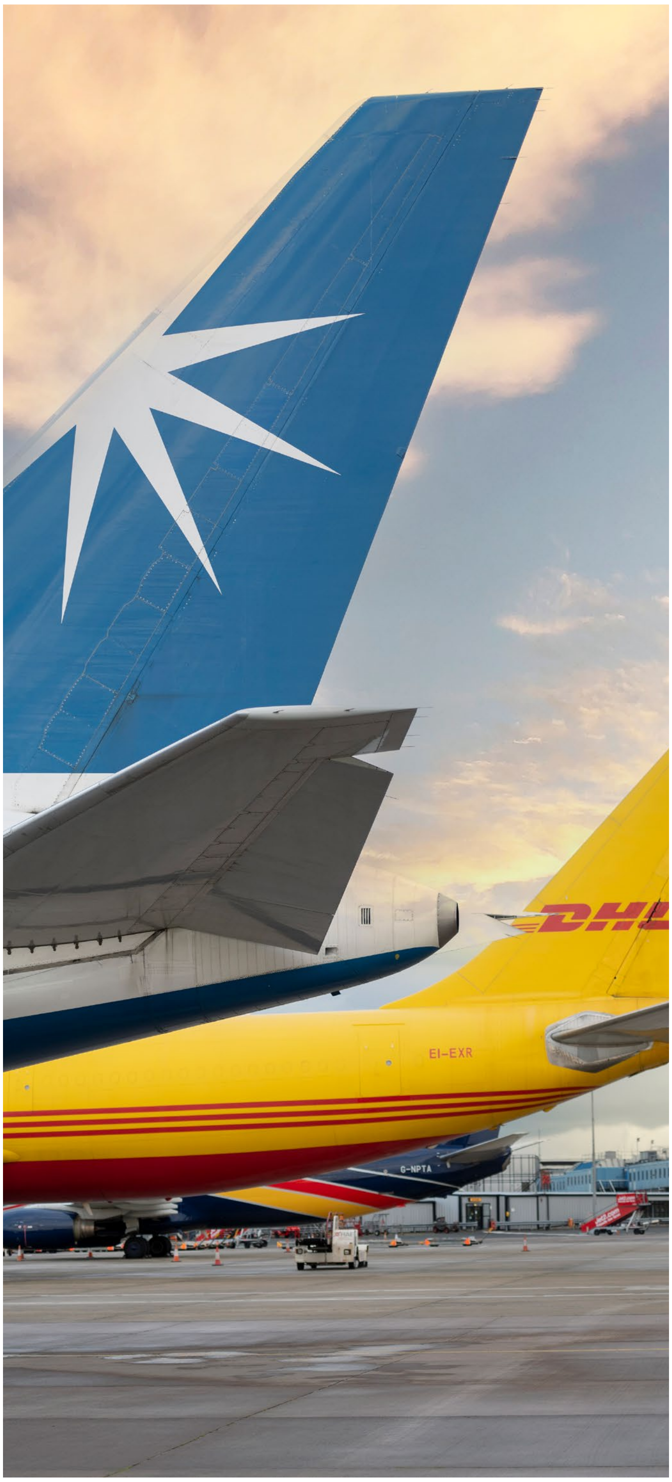
> Technological Change - Fast Pace
> Policy Reactions - Immediate and Divergent

Key Events:

> Terminal passenger volumes by 2050 assumed at 2018 levels
> 5% SAF uptake by 2050
> ETS and CORSIA extended in 2035 with no cap reset, driving up offsetting costs
> Demand reduction measures, such as a frequent flyer levy, in the near term to allow for slower commercial scaling up of supply-side solutions

Main Sources:

Chatham House (Scenario G), IEA (Delayed Transition Scenario), NGFS (Disorderly Divergent Net Zero)



The timeframes we have used to assess climate-related risks and opportunities are:

> Short (one to two years): in line with our annual budget and shorter-term planning horizon;
> Medium (to 2030): broadly reflecting the 5-year price control and our longer-term business planning, enabling us to adjust course if appropriate;
> Long (to 2050): spanning our 2035 net zero and 2040 carbon negative targets.

Our assessment of physical and transition climate risks is summarised in the table on pages 32 and 33.

Non-financial and sustainability information statement

Climate-related physical risks

We have considered the potential for asset damage or operational risks from acute physical risks from an increase in the frequency of extreme weather events and from chronic physical risks arising from changing long-term climate trends.

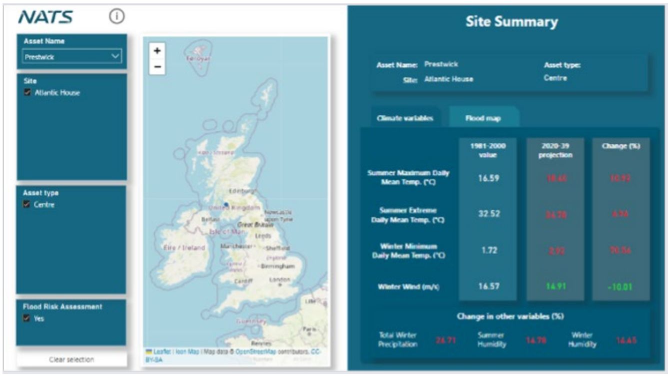
Our exposure to short term physical risks is reflected in the weather extremes we have experienced in recent years, which we have been able to mitigate with limited operational service disruption. For example: high winds from Storm Dennis in 2020 caused damage to a surface movement radar at Stansted Airport; Storm Arwen in 2021 resulted in the loss of communications and surveillance from a radar following a generator failure; and in summer 2022 some of the cooling systems failed at Swanwick due to extreme heat, subsequently mitigated with additional cooling infrastructure. The significant windstorm of 2024, Storm Isha, did not result in a service impact from, or damage to, our infrastructure. However it did disrupt air travel over the whole of the UK and Ireland leading to many go-arounds on final approach and diversions to alternative airports. In addition to safely managing these operational impacts, our industry communication cell (ATICCC) provided updates to airport and airline customers to help them plan their operations and minimise the need for mass diversions. Aside from impacts to assets and our service, the safety of our employees is a priority during extreme weather events.

Recent weather events also provide a baseline for post event reviews of our resilience and asset maintenance, spares management and replacement decisions. We mitigate the risk to our infrastructure and operational service through a planned and preventive maintenance regime and using a weather watch process when extreme events are forecast by the Met Office. Following the latter we proactively protect our assets and operational service. Alongside system resilience, asset design and restoration management minimise engineering related delay impacting our operational service.

We assessed physical risks over a medium-term horizon using a bottom-up approach that applied desktop GIS of a high emission reasonable worst-case scenario from the Met Office's UK Climate Projections (UKCP18, RCP8.5 ~ >4°C global warming) plotted onto the locations of 206 assets across the UK and Gibraltar. These assets represent the critical air traffic control and engineering assets providing services for civil and military customers. In addition, for 24 sites potentially most vulnerable to flooding, we prepared flood risk reports based on fine resolution flood risk modelling for 1 in 100 year and 1 in 1,000-year events at both 2030 and 2050 time horizons. This site-specific climate and flood risk modelling data has been summarised in a dashboard, an example of which is below, helping our engineers and estate managers to understand potential physical risks to individual assets and sites.

Over the long-term time horizon our assessment is supported by UK climate maps of temperature, precipitation and wind speeds and climate variable histograms based on the 4°C global warming scenario.

We do not own similar infrastructure overseas, given the nature of our activities currently. However, as we deliver our strategy to grow the business new critical assets will be subject to climate risk assessment.



Our analysis indicates that, at the flood return periods considered, more frequent extreme weather events such as storms could result in surface water and fluvial flooding at some sites leading to asset damage and operational service risks. As a result, we are planning a more detailed review of the resilience of the drainage capacity at our two air traffic control centres to surface water and the potential for attenuation storage systems, as well as possible flood protection measures against local fluvial flooding. Also, we own a small number of assets supporting the service at some airports which may be at risk of fluvial flooding. In these cases we will be seeking to understand the wider mitigations being considered by the customer, government agencies and providers of other infrastructure services.

With respect to other weather-related risks, our design criteria for asset replacements utilise industry best practice standards, climate projections and expected future capacity requirements to ensure resilience to wind (such as by using radomes to protect radars from extreme weather) and changes in operating temperatures.

More broadly than our day-to-day operational service delivery, resilience and asset management, we work with government and industry proactively to remain vigilant for emerging physical risks. We are an active member of the European Aviation Climate Change Adaptation (EACCA) group, chaired by the Airports Council International (Europe) and Eurocontrol. This group has prepared CEO level engagement materials on physical risks as well as operationally focused summer and winter seasonal guidance notes for airports and air navigation service providers. The seasonal guidance alerts stakeholders at airports and ANSPs to the latest physical risks to be aware of and how to mitigate those risks.

We are currently updating our adaptation report for DEFRA, to reflect the actions we've taken since our 2021 report. We are also supporting the Department for Transport with their emerging climate adaptation strategy for the UK transport sector: 'Fit for a changing climate? Adapting the UK's transport system'.

Non-financial and sustainability information statement

Climate-related transition risks and opportunities

Climate-related financial disclosures identified several categories of climate-related risks and opportunities, including those arising from policy and legal actions, technological change, market factors and reputational risks and our assessment was made on this basis.

We have quantified transition risk when published sources have enabled us to model the impact of climate-related assumptions on the demand for air travel. Otherwise, we have qualitatively graded the impact and likelihood of material risks and opportunities in line with the NATS risk management framework. Our assessment is based on internal analysis, market data and involved a team of multi-disciplinary senior business leaders spanning the group's activities, supported by external subject matter experts. It captured a long list of risks and opportunities, which was further refined to those deemed most material to the group's business, strategy and financial plans.

a. Policy and legal risks

The most material risks to revenue relate to policy decisions which affect air flight volumes, either from supply-side measures or those that directly curtail the demand for air travel, such as frequent flyer levies. The focus of current policies, which also underpin the Orderly Transition scenario, is on supply-side measures that remove carbon from aviation through more efficient aircraft and operations, including airspace modernisation, carbon emission trading scheme, carbon removals and mandates for the take-up of sustainable aviation fuel (SAF).

Our long-term traffic forecast to 2040 takes account of the DfT's Jet Zero Strategy "High Ambition" pathway assumption for SAF take-up. Our modelling assumes that air fares will increase to reflect the higher cost of SAF relative to jet fuel, leading to a reduction in passenger demand and lower flight volumes. We have quantified the estimated impact as a £20m reduction in NERL's revenue in the latter years of NR23, relative to the CAA's price control assumption. The projection applies to both the Incremental Transition and Orderly Transition scenarios. We believe the risk would be heightened in a Disorderly Transition, particularly in the long term, with a greater emphasis on demand reduction measures. We will be looking for the regulator's traffic forecasts at subsequent price control reviews to reflect sustainability policies.

b. Reputational risks

Airspace modernisation is one of the sector's operational measures for supporting its net zero targets, providing more fuel-efficient flight paths estimated to mitigate up to 4% of UK aviation emissions. Synchronised airspace change of this scale requires the continued commitment of the DfT and the CAA which have sponsored the Airspace Change Organising Group (ACOG), under the auspices of NATS, to coordinate this unprecedented programme of change. There is also a significant dependency on airports to agree and deliver their respective changes to lower airspace, as well as public acceptance of airspace change proposals.

While significant aspects of airspace modernisation are outside our control, as operator of the UK's airspace infrastructure, we may face reputational risk if stakeholders perceive the coordinated response to be slower than expected, particularly as the cost of carbon rises. This could also have knock-on implications for our strategic objective to be a Top 25 employer and our ability to attract and retain talent, resulting in higher operating costs to do so.

c. Market risks

We track the public's perception of aviation annually by partnering with Ipsos to produce the Aviation Index. The 2023 survey shows that the public sees improving the environmental performance of aviation as a top priority for the industry, ahead of improving flight times, increasing airport capacity and reducing noise for example. This survey provides us with a metric to monitor changes in attitudes to climate change and early warning of a hardening of attitudes that could result in a reduction in the propensity to travel by air, resulting in lower revenue. This risk is likely to be most prominent in a Disorderly Transition over a long-term horizon.

NATS relies on access to capital markets and to banks to finance its activities, including short term bank facilities and bonds expiring in 2031-2033. There is a moderate risk in a Disorderly Transition scenario that access to, and the cost of, funding we require in the medium and long term may be impacted by general sentiment towards the aviation sector's progress in reducing emissions and airspace modernisation, or if NATS is not perceived to be on track to meet its decarbonisation strategy.

d. Technology-related risks

Our net zero target by 2035 and our strategic objective to be carbon negative by 2040 are dependent on the development of technical and cost-effective solutions for the removal of carbon as well as reliable alternatives to our fossil fuel back-up power sources. Additional capital investment may be required in the short and medium term to support the development of market or internal solutions.

e. Opportunities

Our strategic objective to grow revenue by £500m by 2040 assumes the development of services to new users of airspace. As the economy transitions to net zero this is likely to include a growth in demand from low emission unmanned aerial vehicles and the potential for new sources of income, such as data provision.

We are also well placed to support existing customers with their transition to net zero with tools and services that enable lower emissions. Our Intelligent Approach tool reduces emissions on final approach enabling more sustainable capacity growth by airports and our demand capacity balancing tool which is used by Heathrow Airport now includes an environmental parameter for airfield modelling, alongside capacity. Our experience of managing flow movements on the ground and enhancing airfield efficiency provides unique insights to optimise airport operation and maintenance and we are developing a new range of products at helping customers reduce emissions, such as Greener Ground, based around a combination of sensors, mobile communications, advanced analytics and artificial intelligence.

Non-financial and sustainability information statement

e. Opportunities (continued)

Also, Green Aviation Insights is aiming to provide a global benchmark of environmental impact providing data-driven insights to enhance collaborative improvement efforts across the ANSP network.

We expect to realise cost efficiencies over the medium term from the energy-efficiency improvements we are making to our estate, such as the installation of solar arrays at our air traffic control centres. Also, the shift to low emission energy reduces our sensitivity to changes in the cost of carbon in future and enhances our business resilience.

Finally, achieving our net zero target and carbon negative strategic objective will also be a positive contributor of employee satisfaction, aligned with our objective to be a Top 25 employer, and enhance our reputation with wider stakeholders, including providers of finance.

Overall, none of the transition scenarios tested threaten the resilience of the group's business model and strategy and we are well placed to take advantage of opportunities which arise from the transition to a low carbon economy.

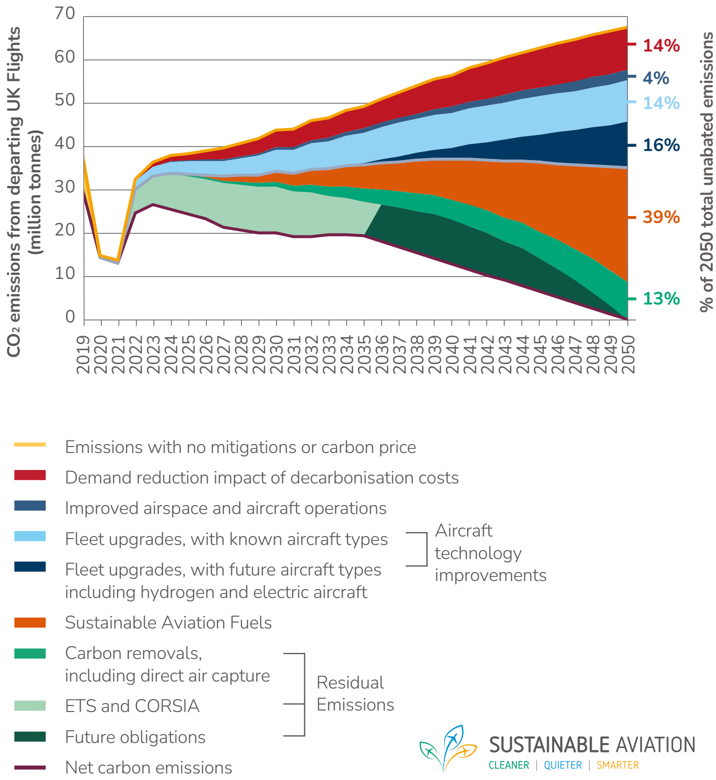
Our decarbonisation strategy

As well as preparing for the impacts of climate change on our business, we are committed to transitioning to a business model that is consistent with the objectives of the Paris Agreement and this is reflected in our strategic objective of reducing our Scope 1, 2 and selected Scope 3 emissions (which excludes airline emissions) to net zero by 2035 and being carbon negative by 2040. Our near-term target to reduce the emissions from running our business by 41% by 31 March 2026 against a 2019 baseline has been validated by the Science-based Targets initiative for which NATS was awarded 'Business Ambition' status - the highest achievement possible.

By 2030, we are targeting a 65% reduction in emissions from a 2019 baseline of 40,321 tonnes. We are then seeking to minimise our emissions as far as practicably possible by 2035, at least to no more than 10% of our 2019 baseline. To achieve net zero, any residual GHG emissions will be compensated by removals. This either relies on developing technologies which capture and store carbon emissions deep underground or a range of nature-based solutions that remove and store carbon from the atmosphere. Achieving our 2040 strategic goal to become carbon negative will mean that our GHG removals from the atmosphere exceed our residual emissions.

Our strategy also supports the UK government's Jet Zero strategy to achieve net zero aviation emissions by 2050, with domestic flights and airport operations net zero by 2040, alongside broader international aviation commitments. Air traffic management and operational improvements are likely to reduce CO_2 emissions from UK aviation by around 4.6% by 2050 relative to 2016, in line with independent assessments of the contribution air traffic control can make to overall aviation emissions reduction. This is embedded in the Sustainable Aviation decarbonisation road map shown in the figure below.

Our contribution is represented in the NR23 price control plan by a sustainable reduction in the 3Di score in the face of traffic growth, which is enabled by airspace modernisation as the biggest contribution we can make to reducing the carbon footprint of flying.



Risk management

5) **a description of how the company identifies, assesses, and manages climate-related risks and opportunities;**

6) **a description of how processes for identifying, assessing, and managing climate-related risks are integrated into the overall risk management process in the company;**

Sustainability and climate change is a principal risk to our business and is fully embedded within our overall Enterprise Risk Management framework (ERM). The approach for identifying, assessing, and managing climate-related risks is described above. Risk owners have been appointed to monitor and develop mitigation plans for material risks. This process is consistent with the approach to all other risks, outlined on page 52.

Physical risks and opportunities are assessed, monitored and managed by NERL and NSL, as the group's two principal operating subsidiaries, and reported to the ESSG. Transition risks and opportunities are identified at a group level initially with input from experts and monitored and managed at subsidiary level as appropriate. Risks are reassessed periodically for material changes in the group's operating environment, which may arise from consultation on a new price control, government sustainability policy or a science-based assessment of the rate of climate warming relative to the company's scenarios.

Non-financial and sustainability information statement

Risk management (continued)

The Audit Committee and Board receive updates on top enterprise risks, including climate-related risks, at each of their meetings.

Climate-related risks are embedded in the directors' consideration of their duties under S172 (see page 37), our going concern and viability assessments (see page 19) and consideration of the carrying value of certain balance sheet items, such as the carrying values of our ATC infrastructure assets, NERL's goodwill and the group's equity investments.

The ERM sets out the categories of risk we face. This is a tool for business areas to identify and assess each risk based on its potential impact and likelihood of occurrence and to compare that to the risk appetite and tolerance statements agreed by the Board. Three specific categories relate to sustainability and climate change:

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

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

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

Metrics and targets

7) **a description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets; and**

8) **the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based.**

Our metrics and targets allow us to measure our impact on the environment and monitor our performance towards meeting our strategic objectives.

The key metrics in this respect relate to service performance, net zero and physical and transition risk monitoring. These are set out in the table on page 34 together with the disclosure of Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions and energy use under the Streamlined Energy and Carbon Reporting (SECR) requirements.

Our target for this financial year was to have reduced our estate GHG emissions by 29% against the 2019 baseline, and we have achieved 35% (2023: target 24%, achieved 39%).

Our targets validated by SBTi

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

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

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

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

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

We maintain a range of certified ISO (or equivalent) management systems, which are externally assessed by DNV GL, including ISO 31000 (risk management), ISO 14001 (environment management) and ISO 14064 (GHG verification). The Audit Committee oversees all verification and assurance activity.

Supporting information

The Non-financial and Sustainability Information Statement and the environment metrics reported on page 34 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.

Non-financial and sustainability information statement

Risk or opportunity	Time horizon	Potential impact	Mitigations in place or planned
Physical risks from extreme weather events (acute risks) and changing long-term climate trends (chronic risks)			
Flooding at en route centres and airports where NATS provides a service	Medium and long term	Restricted access to sites and damage to equipment impacting operational service.	Ongoing analysis of flood risk for key sites. Longer-term maintenance to improve drainage capacity and flood defences.
Storms (precipitation and lightning) at remote sites	Short, medium and long term	Costs of damage to communications, radar and navigation assets and disruption to operational service.	Design tolerances reflecting projected weather impacts, planned remedial action, geographical separation of assets, layers of redundancy and back-up for critical systems.
Wind speed and gusts at remote sites	Short, medium and long term	Cost of damage to or loss of a radar. Simultaneous loss of multiple assets leading to reduced operational service.	
Summer extreme temperature at en route centres, airports and affecting infrastructure assets	Short, medium and long term	Damage to cooling systems and equipment components leading to reduced operational service.	
Thunderstorms and clear air turbulence	Short, medium and long term	Disruption to ATC service performance, air traffic delay and aircraft re-routing.	Operational regulations to limit capacity and ensure safe service provision.
Opportunities linked to resilience against physical climate impacts			
Supporting customers with the specification and installation of airport engineering equipment	Medium and long term	Additional revenue from engineering project services or solutions mitigating climate impacts to airport infrastructure (remote/digital towers).	Ongoing assessment of physical risks to customer sites and targeted commercial activities.

Non-financial and sustainability information statement

Risk or opportunity	Time horizon	Potential impact	Mitigations in place or planned
Transition risks			
Policy and legal: measures impacting air travel demand directly (e.g. air passenger duty, frequent flyer taxes) or indirectly (e.g. SAF mandates, carbon emission trading)	Medium and long term	Lower air traffic volumes and revenue than assumed by the price control. Direct demand measures having medium impact in incremental scenario and high impact in disorderly scenario. Indirect measures having high impact in both incremental and disorderly scenarios.	The price control includes an uncertainty mechanism which mitigates against the loss of revenue due to unforeseen reductions in traffic volumes from the level forecast by the economic regulator. Traffic forecasts are re-set for each price control to have regard to the anticipated demand for air travel. A coordinated industry-wide airspace modernisation that supports the sector's transition to net zero.
Reputational: public perception of the aviation sector's impact on climate change and pace of emission reduction; or regulator and customer perception of pace of NATS contribution	Medium and long term	Medium impact in all transition scenarios from a loss of revenue as consumers reduce air travel or opt for lower carbon transport. Medium impact in incremental and disorderly scenarios from higher costs of employee retention and recruitment of new talent.	
Market: capital market concerns at the pace of either the aviation sector's transition to net zero, or NATS own transition to net zero	Medium and long term	Medium impact in incremental and disorderly scenarios from higher cost of funding.	Undertaking actions to facilitate the achievement of our net zero target and our carbon negative strategic objective, alongside coordinated industry-wide airspace modernisation.
Technology: supply-demand of renewable energy and reliance on electricity grid (power and heat)	Short, medium and long term	Access to clean energy alternatives drives higher cost of energy and risk of grid power outages with high impact in disorderly scenario and medium impact in incremental and orderly scenarios.	Energy avoidance and conservation measures, photovoltaic arrays at main sites reducing scope 2 emissions and minimising exposure to electricity price fluctuations, supply prioritisation.
Technology: supply-demand of carbon sequestering and offsetting	Medium and long term	High impact in disorderly scenario from potential increase in cost to achieve net zero and carbon negative strategic objectives.	Taking early actions in service of meeting decarbonisation targets. A price control which allows the recovery of the efficient costs of achieving decarbonisation.
Transition opportunities			
NATS ATC solutions offer resilience and support emission reductions	Short, medium and long term	Increased revenue from solutions supporting sustainable capacity growth (Intelligent Approach), reduced airborne holding (XMAN), ground and air operations (Greener Ground, Green Aviation Index).	Targeted commercial activities.

The time horizons we have used to assess climate-related risks and opportunities are short: one to two years, medium: to 2030 and long-term: from 2030 to 2050. We have rated financial impacts of transition risks, broadly indicative of a reduction in revenue or an increase in costs, as High (£10m-£100m p.a.), Medium (£1m-£10m p.a.) and Low (<£1m p.a.).

Non-financial and sustainability information statement

Environmental performance and greenhouse gas emissions

Description	FY 2023/24 (or CY 2023)	FY 2022/23 (or CY 2022)
Service performance and resilience		
3Di (calendar year)	**28.3**	26.0
Environmental performance^		
Scope 1 emissions (location-based tonnes CO_2e)	**2,548”**	2,895”
Scope 1 emissions (market-based tonnes CO_2e)	**97”***	2”
Scope 2 emissions (location-based tonnes CO_2e)	**11,057”**	10,587”
Scope 2 emissions (market-based tonnes CO_2e)	**84”**	114”
Scope 3 categories 1, 3, 4, 6 and 7 emissions (tonnes CO_2e)	**12,792”**	11,287”
Total scope 1, 2 and 3 categories 1, 3, 4, 6, 7 (tonnes CO_2e) – location based	**26,397”**	24,769”
Scope 3 category 11 emissions (tonnes CO_2e)	**25,175,227”**	23,365,760”
Scope 4 modelled enabled ATM-related CO_2 increase / (reduction) in tonnes[14]	**18,915”**	(56,317)”
Water supply and treatment (m^3)	**35,800”**	34,142”
Energy consumption (gas + electricity) MWh	**64,988”**	64,243”
Transportation: owned and leased vehicle fuel consumption (as reported within scope 1) KWh	**810,057**	528,895
Transportation: business travel (scope 3) from employee-owned vehicles and hire cars KWh	**614,568**	1,066,645
CO_2e intensity metrics		
Total scope 1 + 2 emissions (location-based tonnes CO_2e)	**13,605”**	13,482”
Total scope 1 + 2 emissions (market-based tonnes CO_2e)	**180”**	116”
Total scope 1 + 2 intensity metric (location-based tonnes CO_2e per £m of revenue)	**11.4”**	14.4”
Total scope 1 + 2 intensity metric (market-based tonnes CO_2e per £m of revenue)	**0.2”**	0.1”
Net zero metrics towards validated science-based target		
Percent reduction of CO_2e against 2018-19 baseline (scope 1, 2 and 3 categories 1, 3, 4, 6, 7)**	**Target: -29% Actual: -35%”**	Target: -24% Actual: -39%”
Percent change in CO_2e against 2018-19 baseline (scope 1 and 2 emissions)**	**-34%”**	-35%”
Percent reduction of CO_2e against 2018-19 baseline (scope 3 categories 1, 3, 4, 6, 7)**	**-35%”**	-43%”
Physical and transition climate risk monitoring		
Aviation Index: Percent of public that feel emission reduction should be most prioritised for improvement (calendar year)	**54%**	62%

^restated due to inclusion of additional information, improvements to modelling accuracy and data quality.
”verified to ISO 14064. Certificates, GHG emission methodologies and boundaries are outlined in detail in our GHG report, available at www.nats.aero/environment/library
* increase in scope 1 emissions reflects Gatwick Airport site at which green gas is not procured
** Our absolute near-term science-based emission targets apply to total combined i) scope 1 and 2 and ii) scope 3 (categories 1, 3, 4, 6, 7) CO_2e location-based emissions by 2025/26, using a 2018-19 baseline. Scope 3 categories 1, 3, 4, 6, 7 describe GHG emissions covering purchased goods and services, fuel and energy related activities, upstream transportation and distribution, business travel and employee commuting (including homeworking).

Engaging with our stakeholders

Our stakeholders	Why are they important to us?	How we engage and have regard to their views in our decisions?
Airspace Users, Airports and Other Customers	A safe ATC service is essential for airspace users and airports to which we provide our services and expertise, and for the travelling public. Their requirements are key drivers of our business plan, defining both the demand for the ATC network and the infrastructure that enables access to airspace and integration of users. It also determines 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, airports and the public on their priorities and our plans for our regulated activities for each price control period, most recently NR23. We reflect on their feedback and update our plans accordingly before review by the CAA. We engage biannually with airspace users, and separately with individual airport customers, on our service performance, our charges, cost efficiency and our capital investment plans. We have discussed preparations for summer 2024 across Europe with Eurocontrol (the network manager), airlines and airports and other key stakeholders and hold discussions with the industry ahead of weather events. We are consulting the industry on our initial proposals for NATS OpenAir, a new air traffic management service enabling an integrated airspace for both existing and new types of airspace users.
Employees	Our ATC service and infrastructure depends on the skill and professionalism of our employees. They make a critical difference to our success, and our investment in them protects and strengthens our safety and business culture. Most of our employees are members of trades unions.	The executive and senior leaders have an open dialogue with trades unions and receive feedback on pay and benefits, a safe and healthy working environment, flexible working, talent development and career opportunities, and a diverse and inclusive culture. The CEO and executive communicate regularly to employees via our intranet and to senior leaders in regular virtual meetings. The Board receives a monthly report from the CEO which includes employee relations, diversity and inclusion and other employee matters. The Board collectively seeks opportunities to engage with groups of employees during the year. We operate a Just Safety culture, enabling employees to raise safety matters, and we seek feedback on a safety culture survey. We also survey employee wellbeing and maintain a whistleblowing facility. We conduct employee opinion surveys to understand how colleagues feel and where we can improve. The March 2023 b-Heard survey is a baseline for our strategic objective to be a Top 25 company to work for by 2040. Further details on the Board's regard to employees in its decision-making is provided below.
Regulators	Our regulators ensure we provide our service and develop our infrastructure in accordance with our ATC licence and international safety standards. Ensuring we fulfil our licence obligations and develop the business for the long-term ensures the success of the company for all our stakeholders.	As economic regulator, the CAA consulted stakeholders on our plan for NR23 ahead of determining the charges, safety, service performance and capital investment targets and incentives. We engaged with them and provided feedback on the balance of service targets and incentives, risk mechanisms and financial resources. The CAA appointed an independent panel to review the technical issue we faced in August 2023. We shared the results of our internal investigation into the incident and the Executive and Board supported the panel's review. 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 CEO maintains a regular dialogue with the Department for Transport. The government engages on aviation policy that affects NATS, including preparations for Summer 2024.
Shareholders	Our shareholders provide equity investment which finances our activities and enables us to invest in our ATC service and infrastructure, for which they expect a return. An employee share trust owns 5% of the company which enables employees to share in the company's long-term success.	The Board Chair, CEO and CFO met informally with shareholders and discussed the Board's strategy review and alignment with shareholder interest and the NR23 price control. The Strategic Partnership Agreement enables shareholders to appoint representatives to the Board. Shareholders wish to see remuneration policies which drive executive management to deliver strong sustainable performance aligned with the interests of key stakeholders.

Engaging with our stakeholders

Our stakeholders	Why are they important to us?	How we engage and have regard to their views in our decisions?
Communities and Environment	Local communities around airports expect the aviation sector to pay attention to aircraft noise, fuel and CO_2 emissions and local air quality. Our ATC service can help mitigate some environmental impacts. Society expects improvements in sustainability, and we are committed to net zero greenhouse gas emissions from our estate by 2035, being carbon negative by 2040 and being an enabler to aviation's target of net zero by 2050. We are a significant employer where our UK operations are based.	We follow the CAA's guidance on public consultation on airspace use, aircraft movements and environmental impacts. We work with communities affected by flights below 7,000ft at an early stage of any airspace change, to ensure they have a voice in airspace design. Changes mean some communities may be subject to more overflights than previously, while others are no longer overflown. Following consultation, we appraise design options before making our recommendation to the CAA.
Lenders	Lenders provide debt finance that we repay over time and compensate by way of a commercial return. Access to debt finance is necessary to fund our business activities efficiently.	We meet lenders at least annually to discuss our performance, business plan and capital investment. Lenders wish to understand the company's financial strength over the long-term, the principal risks it faces and ESG matters. The importance of these relationships was demonstrated by NERL's June 2021 refinancing which secured funding of £1.6bn and the further £145m bond issued in March 2023.
Suppliers	Our suppliers provide goods and services to maintain and develop our operation. Working closely with them minimises risk and combines our expertise to develop innovative ATC solutions. We engage with them on ESG matters.	Our supply chain management approach involves regular and ongoing engagement with suppliers for procurement, risk management and performance measurement. We complete due diligence using industry JOSCAR methodology. We tailor engagement to critical suppliers and undertake Executive reviews, conferences and joint workshops. Our approach is an open and constructive relationship based on fair terms, good performance and high standards of conduct. We are ISO44001 accredited and hold CIPS Platinum standard of assurance.

S172 statement

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. In doing so the directors 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. The directors also have regard to the impact of the company's operations on the community and the environment.

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

How our Board and its committees operate, and the way decisions are reached, including the matters discussed during the year, are set out in the Governance section on pages 40 to 75.

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

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

NATS has 4,606 employees and 143 contract staff. It is fundamentally a people-based organisation which relies on highly trained professionals to deliver a safe, resilient service to customers and the public day to day. The Board's Safety committee oversees occupational health and employee wellbeing, in addition to the safe provision of air traffic services and security, enabling the Board to engage with, and have regard to, employee matters. Further detail on employee matters is provided within the Responsible business statement on page 23.

Engaging with employees: the Board received reports from the Executive on the actions being taken to address the three b-Heard survey topics employees felt most strongly about: opportunities for personal growth, strength of leadership and support for local communities. The survey is the baseline for our strategic objective to be a Top 25 UK company to work for by 2040. The CEO, CFO and Director of Operations engaged directly with employee representatives at the annual trades union conference. Through the year, the CEO, CFO and wider Executive team also engaged with employees on the group's strategy, the NR23 price control decision, the August 2023 technical incident and other business developments.

ATCO resourcing: the Board continued to assess the impact of the shortfall in resources NATS inherited following the transfer of the Gatwick Airport ATC contract in October 2022. The Board reviewed the staffing resilience plan and assured themselves that short term increases in staff workload from covering sickness and pending training and validation of new ATCOs was not increasing stress unacceptably and/or risking an increase in safety incidents.

The Board assessed progress with training the next generation of air traffic controllers given the importance of these skills for operational resilience as air traffic volumes grow and for enabling airspace modernisation and the technical transformation of our infrastructure. The Board recognised the increased recruitment required to balance supply and demand between newly trained controllers and those expected to be retiring during NR23 and the actions to maximise training success rates.

The Board also considered the plans in place to meet the high demand for air travel in summer 2024 given its importance to customers, passengers and the wider European network.

Health and wellbeing: the Board maintained its focus on the safety and wellbeing of all colleagues, including employee mental health. This included mandatory training to provide a safe working environment, access to an employee assistance programme, peer support and wellbeing-related benefits. The safety survey included questions on wider health and safety considerations.

Diversity and Inclusion (D&I): D&I continued to be a Board focus with progress made in the year explained in the Chief Executive's review. In particular the Board set a target for equal gender recruitment. The Board also reviewed the Pay Gap reports published in April 2023 and April 2024 and noted some improvement which reflects the focus on gender and ethnic diversity in our recruitment processes and early careers campaign, as well as the disability pay gap included in the 2024 report.

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

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

August technical incident (see page 9): this was a matter of significant focus for the Board, which considered service resilience, technical resilience and safety performance, the service impacts on airline and airport customers and passengers, communications with the Department for Transport and the CAA and the responses from stakeholders. The Board's Transformation Review Committee assessed the cause of the technical incident and the remedial actions taken. The TRC and Safety Review Committee assured themselves that the overriding priority had been to maintain safety. The TRC oversaw NATS Major Incident Report and its recommended improvements. The Executive and NERL's Board supported the CAA's independent panel investigation, meeting with the panel to enable questions to be asked directly of NERL. The panel also met separately with Paul Golby (NATS Chair) and Greg Bagwell (Safety Review Committee Chair and member of the Transformation Review Committee). The Board studied the independent panel's Interim report.

Gatwick Airport staffing (see page 9): a key priority for the Board since NATS took on the ATC contract in October 2022 has been addressing the inherited shortfall in essential operational ATCO staff resources and restoring and then improving service performance. Following a period of short-term staff absence which adversely impacted the inherited staffing levels and service performance, the CEO met the boards of Gatwick Airport and easyJet plc to discuss the plan to restore ATCO staffing levels agreed with the airport at the start of the contract. The Gatwick CFO attended the Board's meeting in January 2024. The Board reviewed the resource plan for summer 2024 and progress with ATCO training and validations.

S172 statement

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

NR23 price control (see page 9): a Board sub-committee comprising Paul Golby, Martin Rolfe, Alistair Borthwick, Harry Bush, Mike Campbell and David Smith met regularly during the financial year to oversee the CAA's proposals for NR23 and the balance of safety, service performance and investment priorities that benefit airspace users and the flying public, and returns to shareholders. The Board assessed the CAA's final decision and were very concerned with residual challenging service targets and the level of investment returns proposed. However, overall, the Board accepted the balance of operational and financial resources having regard to the interests of members, employees, airspace users, passengers and wider society.

Strategy review (see page 7) and annual business plan alignment: the Board held a strategy workshop which reviewed the progress to embed the four strategic objectives into business plans and, in March 2024, it approved the group's budget for 2025 and the three-year business plan, aligned to the strategy. Significant attention in the year was given to post-Covid challenges to technical engineering capacity, to be mitigated by greater contracted resources, and the alignment of capital investment priorities with available engineering capacity.

Traffic forecast (see page 12): the Board reviewed and approved NATS' internal long term forecast to 2040 for business planning. It reflects the macro-economic outlook and the DfT's Jet Zero sustainability strategy policies. The Board's understanding of the volume of air traffic in future is relevant to its assessment of the balance between, and allocation of resources to maintaining safety performance, service performance and resilience, ATCO resourcing and training plans and infrastructure investment, which determine future airspace capacity for airspace users. The Board was also concerned with the impact on shareholder returns during NR23 from the projected loss of income from volumes below those assumed by the price control.

The Strategic report was approved by the Board of directors on 27 June 2024 and signed by order of the Board by:

Richard Churchill-Coleman
Secretary