

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.

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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

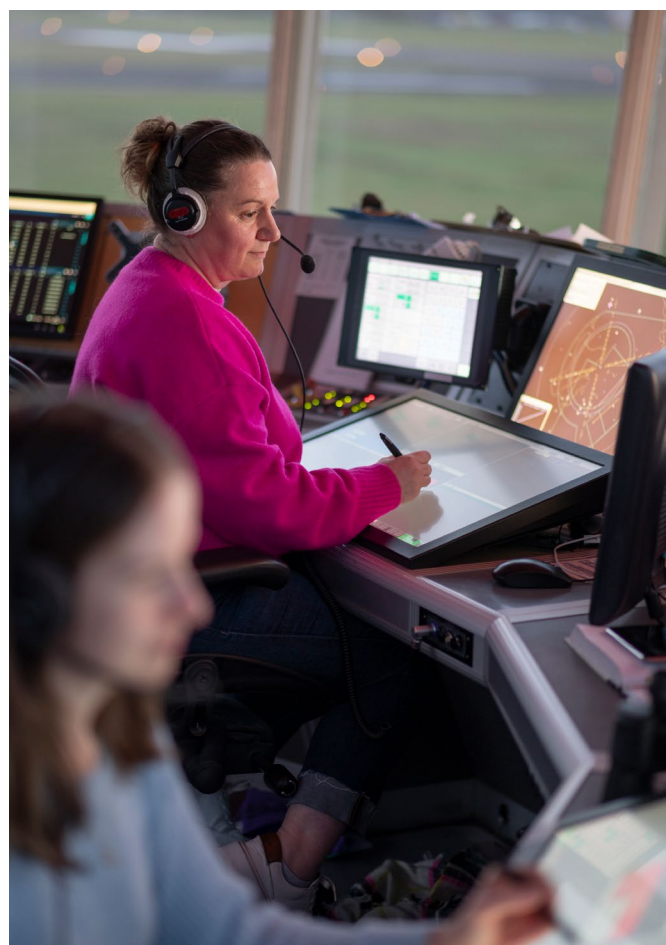
Training our next generation of air traffic controllers is key to ensuring operational resilience in the face of expected growth in air traffic volumes and as an enabler to airspace modernisation and the technical transformation of our infrastructure. In addition to providing the tactical service day-to-day 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.



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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 CO₂ 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