

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