

Chairman's statement

Covid

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

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

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

sustainability, for the company and the wider aviation industry.

Regulatory framework

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

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

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

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

Gatwick Airport contract award

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

Dividends

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

Palamon

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

Environmental sustainability

Reducing CO2 emissions is one of the biggest long-term challenges the aviation industry faces. We are committed to a net zero emissions target from our operation by 2035

and to provide more fuel-efficient flight paths for aircraft. We support the Sustainable Aviation commitment to net zero by 2050 and we are making our environmental performance metric (3Di) available to the global industry to support fuel efficient flight profiles.

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

Our Board and employees

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

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

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

Dr Paul Golby, CBE FREng

Chairman