

Chairman's statement



Safety and operational performance

It has been another year of good progress. Our ATCOs safely handled record numbers of aircraft whilst meeting our regulatory safety and flight delay standards. We also came very close to meeting our extremely ambitious internal safety metrics, set at the beginning of the current Reference Period (RP2: 2015-2019), when the forecast growth in number of flights being handled was significantly lower than has been accommodated. During the year, as a key milestone in our Deploying Single European Sky ATM Research (DSESAR) programme, we completed a significant technical upgrade in our TC operation with the deployment of an IT-based electronic flight strip process. The impact on flight delays was minimised through a comprehensive and complex transition plan created and managed in partnership with our airline customers.

The average NATS en route delay per flight for the 2018 calendar year was 12.5 seconds, including 4.8 seconds of delay specifically associated with the above transition (2017 calendar year: 6.2 seconds per flight). This performance was five times better than the average delays experienced elsewhere across Europe.

We also commenced the introduction of space-based Automatic Dependent Surveillance - Broadcast (ADS-B) surveillance data into our Oceanic operation. This is the first time anywhere in the world that an oceanic region has had the ability to receive automatic real-time position reports for every aircraft. When fully operational this innovative new service will enhance safety, and provide much needed additional capacity on the world's busiest oceanic routes. Airlines and their customers will also benefit from more efficient flight profiles, reducing fuel burn and carbon emissions.

Financial performance and dividends

The group's profit before tax at just over £98m (2018: £133m) was £35m less than the prior year mainly reflecting real price reductions to our customers, and an investment in additional staff to meet the growth in air traffic volumes and to progress our technology change and airspace programmes. The results are explained in more detail in the Financial Review.

The Board declared and paid dividends of £59.0m (2018: £57.0m) in the year and in May 2019 declared a first interim dividend of £30.0m for the 2020 financial year. The Board is committed to paying a regular and progressive dividend that reflects NERL's cost of equity together with any regulatory out-performance, as well as 25% of profit after tax of NATS Services.

Reference Period 3 (2020-2024)

Last summer we consulted customers on our plan to deliver a safe, high quality and resilient service 24/7 with higher traffic and at lower prices than in RP2. Alongside this we will play a key role in the modernisation of UK airspace and we will upgrade our Air Traffic Management (ATM) service. These will be enabled by the completion of the largest and most complex technology upgrade that we or any of our European counterparts have previously undertaken. These aims were shared across our industry and were strongly supported during our consultation with customers. The CAA has now published its draft proposals for the UK's National Performance Plan (NPP) for RP3. Whilst we agree with the CAA in several important areas such as safety, the priority for airspace modernisation and the need for satellite-based ADS-B surveillance, we have significant concerns with some key aspects of their other proposals. These would set service performance targets beyond our reach (when the European Union (EU) is setting lesser targets), and would provide insufficient funding for all the resources we need to deliver the day to day service together with our technology and airspace modernisation programmes. If these concerns are not addressed, we would be compelled to focus on provision of the current service and safety, resulting in a delay in the technology and airspace modernisation programmes. Such a delay would create additional longer term costs for our customers that far outweigh the additional resources we have sought for these important programmes. We also have concerns with the CAA's proposal for cost of capital, which would lead to materially lower returns for shareholders incompatible with the risks imposed. In our response to the CAA we have provided constructive input on how to achieve the strategic objectives the aviation industry requires while continuing to deliver excellent service performance which is amongst the most cost efficient in Europe.

Airspace modernisation

The Government's Aviation Green Paper sets out an ambitious plan for the future of UK aviation. Published alongside this was our technical feasibility study into airspace modernisation in the South of England recognising the importance of airspace change and our role in delivering it. We have been commissioned by the Department for Transport (DfT) and the CAA to create and maintain a strategic masterplan of airspace change out to 2040 and to create the ACOG to lead this change programme. This group comprising individuals from NATS, airports and airlines, will create and manage a collaborative programme to deliver airspace change, delivering further capacity for those wishing to fly, mitigating noise impacts on overflown communities and reducing CO₂ emissions from aviation.

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Drones

Airspace modernisation is also an important enabler to facilitate the safe integration of commercial unmanned aircraft or drones with conventional aviation. Drones offer huge potential benefits to public services and the economy. However, as the number of unmanned aircraft grows, increasing the electronic visibility of drone flights is essential to keeping the skies safe. Last December's drone incident at Gatwick Airport was not only a serious local issue but one which impacted the whole of UK airspace leading to airline cancellations, delays and aircraft en route being diverted to other airports. The strength and design of the industry's defence against malicious attacks must therefore reflect the need to minimise the impact across the whole UK network.

Brexit

The growth in demand for air travel is generally closely related to the strength of the UK economy. While the full effects of Brexit, in whatever form it is eventually implemented, are unlikely to be understood prior to the start of RP3, the progress of negotiations over the next few months could give significantly more information about its nature and possible impact on the UK economy. In these circumstances, we have asked the CAA to reassess their traffic forecasts before finalising the NPP proposals for RP3. The case for this has been strengthened, given the current uncertainty.

We are planning on the basis that measures put forward by the UK and the EU will ensure that flights can continue in any Brexit scenario.

Governance, Board and employees

The new Corporate Governance Code came into effect for our financial year starting April 2019. It places greater emphasis on the relationship between the company, shareholders and stakeholders. We will explain how we have applied the new Code's principles in the 2020 Annual Report and Accounts.

After nearly 20 years of service as Finance Director, Nigel Fotherby will be retiring on 30 June 2019. On behalf of the Board, I would like to thank Nigel for his outstanding contribution over this period which included steering NATS through the process of creating the Public Private Partnership (PPP) in 2001, the regulatory and financial restructuring following the tragic events of 9/11 and leading the company's input into the price control reviews for our economically regulated en route air traffic service. We all wish him well for the future. Nigel will be succeeded by Alistair Borthwick who will join us from energy supplier SSE in August.

Since last year's annual report was published, Hugh McConnellogue and Louise Street have joined the Board as Airline Group appointed directors. Both have extensive experience in the airline industry and will be a welcome addition to the Board. Also in the period, Chris Hope left the Board and I would like to thank him for his knowledgeable and extensive contributions during his tenure.

On behalf of the Board, I thank our employees and the management team for their commitment during an exciting and successful year.



Dr Paul Golby, CBE FREng
Chairman