

Chairman's statement

Covid-19

From late February 2020 it became clear that Covid-19 would have a very significant impact on commercial airlines and airport operators on which we depend for the majority of our income. The company has endured several demand shocks over the years: the 9/11 terrorist attacks; volcanic ash; the global financial crisis and Gulf wars, but none has posed such a significant threat and level of uncertainty to its business model. While the regulatory framework largely protects our revenue, the reduction in profit for the year to £25.3m (2019: £98.2m) in large part reflected our assessment of the likely impact of Covid-19 on the value of our assets and investments, and is explained in the Financial review.

Since the outbreak the Board's primary focus has been to both challenge and support the Executive management in responding rapidly to protect the company's staff, ensuring a continued safe operation, and securing additional funding to meet the immediate shortfall in cash receipts from reduced air travel and agreement by Eurocontrol to allow airlines an extended period to settle their earlier ATC charges. The latter was partially mitigated by funding advances Eurocontrol put in place to make some payment to air navigation service providers (ANSPs). The actions we took, which are explained later in this report, should ensure that the company is well placed financially and operationally to respond to and support a recovery in air traffic demand.

While the timing, rate and extent of that recovery remains uncertain, the Board is confident that the regulatory framework underpinned by government obligations within the Transport Act 2000 will continue to ensure that the company is able to finance its

licensed activities. This confidence is reinforced by the support shown by our lenders in agreeing a new £380m bank facility in August 2020.

Reference Period 3 (2020-2024)

There have been a number of other key events which have influenced the Board agenda during the year, the most significant of which was the proposed regulatory settlement for RP3.

In 2018 we put forward to the CAA a business plan for RP3 which we believed met customer priorities for safety, service, technology change and airspace modernisation.

However, the CAA's decision on the national performance plan for RP3 did not in our view provide for the necessary resources or overall balance of risk for us to deliver the service and essential airspace transformation required by our customers and the travelling public. The Board rejected the CAA's decision leading to a referral to the CMA. The CMA's findings upheld key elements of the company's referral, while sustaining other aspects of the CAA's proposals, although many of their findings have now been overtaken by the impact of Covid-19.

The practical effect of this is that the CMA's final determination is for a three-year settlement for 2020 to 2022, whereby NERL's charges will be set initially as if Covid-19 had not occurred but with the CAA taking a view subsequently as part of an RP3 reset on the appropriate recovery of revenue allowances. This provides both NERL and its customers with certainty until the impact on the industry and its recovery can be better understood.

The CAA intends to reset NERL's RP3 price control before the end of 2022. This will clearly have to reflect changes in stakeholder priorities following Covid-19

including essential airspace modernisation which can only be delivered as a collaboration of ACOG, NATS, airlines, airports, the regulator and the UK government – many of which may have fundamentally different priorities as a result of the impact of Covid-19 on their activities.

Safety performance

Safety is always the Board's highest priority. During the financial year, the UK Airprox Board attributed two risk-bearing airprox events to NATS, one of which occurred in the 2018/19 financial year. These incidents are extremely rare and, as one would expect, a structured and thorough investigation process has been undertaken to identify causal factors and implement recommendations, reviewed by the Board and its Safety Review Committee. The Board also considered NATS' safety performance generally, its safety culture and emerging risks from new classes of airspace user, such as drones and commercial space operations.

Brexit

The UK Government has confirmed that the UK will no longer participate in the EC's Single European Sky or European Aviation Safety Agency (EASA) after the transition period ends in December 2020. This means that economic and safety regulatory decisions will be taken by the CAA in the future, including the revised price control for RP3. In practice we expect close European and global alignment and cooperation in aviation safety and air traffic management to continue. We are also planning on the basis that measures put forward by the UK and the EU will ensure that flights can continue in any Brexit scenario.

Dividends

The Board considers dividends in May and November each year and in the last financial year paid £59.0m (2019: £59.0m). The Board will not be paying a dividend while the new bank facility, which expires in July 2022, remains in place.

Governance, Board and employees

This year the Board adopted the new Corporate Governance Code which places greater emphasis on the relationship between the company, shareholders and stakeholders. Our stakeholders are very important to us and we remain committed to maintaining regular open dialogue and effective communication with them. On page 28 we set out our key stakeholders and how we have engaged with them to ensure that their views are being listened to by the Board.

During the year, our discussions around RP3 and the response to Covid-19 are examples of how the Board has had regard to section 172 of the Companies Act 2006. In these discussions we considered the broader implications of our decisions, not just for shareholders but for our employees and a wider group of stakeholders, together with the likely consequences of our decisions in the longer term.

Alistair Borthwick joined the company as Chief Financial Officer in August 2019 from energy business SSE, following Nigel Fotherby's retirement. Alistair was appointed to the Board in October 2019 and has been leading the company's financial response to Covid-19. It has been a particularly challenging period for our employees and on behalf of the Board I would like to express my deepest thanks to all of them for their dedication and commitment.

Dr Paul Golby, CBE FREng

Chairman