Chairman's statement

Supporting the safe return of traffic

We exist to ensure the skies are a safe and efficient environment for aviation. Our priority from the start of the year was to support the safe return of air traffic as Covid travel restrictions were lifted. This was achieved by ensuring we retained the skills, capability and capacity during Covid so that we would not impair the recovery of aviation post-pandemic and by careful planning and preparation. The Board has been pleased with the company's safety performance, which has been consistently good throughout the year. Our customers have acknowledged this, as indicated by the strong scores they gave for our safety and operational performance in a recent customer survey.

We continue to proactively work with airlines, airports and the European network manager on plans for this coming summer, ensuring the UK continues to play a successful part in the efficient and effective recovery of air traffic.

NR23

In October 2022, the CAA published its initial proposals for NERL's next five-year price control (NR23: January 2023 to December 2027) as well as its retrospective reconciliation for calendar years 2020 to 2022. The latter covers the recovery of the shortfall between flight income and costs for the Covid period, over an extended 10-year period, which is much longer than the past.

We responded to the CAA's consultation on those initial proposals alongside other industry stakeholders in December 2022. According to the CAA's latest timelines, we expect a final decision on our price control and the retrospective reconciliation by summer 2023. It is essential that this provides the resources necessary to support the sector's recovery and for sustainable investment in the UK's ATC infrastructure, together with appropriate recovery of the costs incurred to maintain the service and infrastructure during the Covid period.

Although we do not have the benefit of the CAA's final decision yet, we are continuing to consult with our airline and airport customers on our service delivery performance and the evolution of our capital investment programme.

Results, funding and dividends

Our obligation is to keep airspace open and to provide a continuous ATC service, irrespective of the level of flight volumes. This was the case through the Covid pandemic when flight volumes collapsed. We expect the CAA's decision to enable us to recover the necessary costs of providing that service, and to recognise that the actions we took ensured these were efficient in those extraordinary circumstances. It is on this basis that the shortfall between our flight income and costs has been reported in our results and financial position since the start of the Covid pandemic. However, to support more affordable charges for customers, both the NR23 plan we submitted and the CAA's Initial Proposals propose that we recover this amount over an extended ten-year period, rather than the two years specified in our current licence. That has meant that through the Covid period and beyond, we have to finance the significant cash outflows that were required to maintain our ATC service and the continuing investment in critical infrastructure, while ensuring we are resilient to a range of traffic recovery outcomes and able to fulfil our plans for NR23. To do this, in March 2023, we issued a further £145m of bonds to replace one of our short-term bank facilities. This completed the refinancing plan which was initiated as part of our response to the Covid pandemic.

We are reporting a £180.2m increase in revenue and regulatory allowances to £930.0m (2022: £749.8m). However, in spite of the positive recovery in traffic in the year, the operating cash flows we generated are still below pre-pandemic levels. Following the CAA's Initial Proposals, our revenue and regulatory allowances include our assessment of the income shortfall during the Covid period until December 2022, which we expect will only be fully recovered in cash after 10 years. This is contributing to lower cash generation than we would otherwise expect. Our assessment of the income shortfall and revenue charged since January 2023, in line with the initial proposals of the NR23 price control, contribute to an improvement in profit before tax to £148.5m (2022: £8.7m), alongside the materially lower finance costs as a result of refinancing (on account of which one-off costs of £41.7m were incurred in the prior period).

The Board did not recommend the payment of a dividend during the year in order to conserve cash and improve liquidity. The Board however remains mindful of the importance of returns to shareholders together with the support received from them during the Covid period. Now that the sector and wider global recovery from Covid appears stable, the opportunity to restore regular dividends will be assessed once the CAA's final decisions on the NR23 price control, including the recovery of the Covid income shortfall, are received and considered.

Chairman's statement

Strategy

In May 2022, the Board endorsed the Executive's strategy and long-term objectives to 2040. Since then, the Board has received regular updates on the progress being made to embed these into business plans and the targets for monitoring performance.

Corporate social responsibility

The Board strongly supports the group's sustainability, diversity and inclusion strategies. Our sustainability focus is on two fronts: firstly achieving a net zero estate by 2035 (with reduction targets validated by the Science Based Target initiative (SBTi)) and becoming carbon negative by 2040, and secondly contributing to the aviation sector's net zero 2050 target. On the latter, we have made good progress this year in enabling more fuel-efficient flight profiles through the implementation of free route airspace. In NR23, we are seeking to redesign the airspace network to maintain capacity to support traffic growth as well as the industry's net zero targets. There is a significant dependency on airports to agree and deliver their respective changes to lower airspace to achieve this. Synchronised airspace change of this scale requires the continued commitment of the DfT and the CAA, which have sponsored the Airspace Change Organising Group (ACOG), under the auspices of NATS, to coordinate this unprecedented programme of change.

The Board has been encouraged by the company's approach to developing a diverse and inclusive place to work and supports the target of a 50:50 gender split for all external recruitment. Our people play an essential role in everything we do. We want our employees to feel valued and able to fulfil their potential in a workplace where their contribution is recognised and rewarded. Success is critical for attracting future talent and achieving our ambition to be a Top 25 employer.

Our Board

There were several changes to our Board during the year. Richard Keys and Iain McNicoll CB CBE stepped down, each having served for nine years as non-executive directors appointed by the Crown shareholder. I would like to express my sincere thanks to them for their very significant contribution over this period in chairing the Audit and Safety Review committees respectively. Hugh McConnellogue also resigned from the Board.

Greg Bagwell CB CBE and David Smith were appointed as non-executive directors by the Crown shareholder in October. Bart Prudon was also appointed to replace Hugh McConnellogue as a representative of The Airline Group in March 2023. I was pleased to welcome them and anticipate their mix of very relevant experience will add positively to the Board.

Kathryn Leahy resigned from the Board in June 2023 and is leaving her role at Heathrow Airport in October to join the NATS Executive team as Chief Operations Officer. I wish her well in her new role.

Our people

I am grateful to all our employees for their continued dedication and commitment in maintaining a safe service for all our customers as the sector recovers from the after-effects of Covid.

Paul Golby

Dr Paul Golby, CBE FREng
Chairman