Chairman's statement

Dr Paul Golby

Financial performance and dividends

The group's revenue was £21m higher than last year, at £919m (2016: £898m). While Airspace customers benefited from real price reductions under the RP2 Performance Plan, the related reductions in revenue were more than offset by additional revenue from the increase in flights handled.

This year we safely handled an additional 7.6% of flights. This growth was much higher than assumed in our RP2 Performance Plan set when jet fuel prices were much higher than today and flights were projected to grow by only 2%. We also generated additional income from supporting the UK military with Project Marshall, which helped to offset lower Airports income.

Profit before tax and goodwill impairment, at £137m (2016: £137m) was in line with last year. After taking into account a reduced charge for goodwill impairment of £11m (2016: £93m), profit before tax at £126m (2016: £44m) was £82m better.

The Board has reviewed the group's dividend policy. This now aims to pay a regular and progressive dividend that reflects NERL's cost of equity (as reflected in the RP2 Performance Plan) and any regulatory out-performance as well as a pay-out of 25% of profit after tax for NATS Services. In addition, from time to time the Board will consider the potential for, and affordability of, returning any excess capital to shareholders taking into account NERL's gearing and the overall liabilities of the NATS group.

The Board paid dividends of £24.0m in 2017 (2016: £81.7m). In May 2017, the group paid a first interim dividend of £28.5m for the 2018 financial year.

Chairman's statement

Defined benefit pension scheme

The Trustees' 2015 triennial valuation reported an increase in the deficit to £459m (2012 triennial valuation: £383m). As a result, the group has agreed to increase its contributions to the scheme and expects to meet this increase through an adjustment to NERL's prices in the next Performance Plan period (based on the EU performance scheme regulations) and from NATS Services' operating cash flows.

The Trustees intend to bring forward their next valuation to 31 December 2017. This will help inform NERL's Initial Performance Plan for the next regulatory reference period (RP3: 2020-2024) on which we will be consulting customers and other stakeholders from spring 2018.

UK's EU referendum decision

While the outcome of the UK's EU referendum decision and the triggering of Article 50 has not had an adverse impact on the demand for air travel to date, it has potentially significant implications for the UK aviation sector.

The company has provided input to the Department for Transport (DfT) on the regulation of Air Traffic Management (ATM) after Brexit. In our view the logical outcome is for the UK to re-establish national economic regulation of UK ATM and to retain control of this critical part of the UK's national infrastructure. This would avoid the complexity and cost of having two regulators (the European Commission and the CAA) and enable NATS to be more agile in responding to changing customer requirements. This would also be the most reliable means of ensuring that NERL continues to be able to finance its operating and investing activities.

The UK has played a leading role in the development of SES since its introduction and has every incentive to continue working with our European partners to maintain high standards of safety and to optimise the use of airspace.

Capital investment

We are upgrading our operation by deploying new technology, to replace legacy systems and introduce more advanced systems which will support new and modern airspace designs, once approved, as well as improved service resilience and operational flexibility. The original investment plan developed for RP2 was based on more modest flight growth. Following changes in the business environment and industry developments in technology, we have revised our investment plan for RP2 to accelerate the deployment of SESAR technology which, alongside the essential and overdue modernisation of airspace we expect to form part of the UK Government's aviation strategy, will provide more capacity to meet future demand. The growth in flights last summer (2016) put pressure on the service with some sectors reaching existing design capacity, resulting in an increase in ATC delay.

HM Government's shareholding

Last year, I reported that HMG would explore the sale of its 49% shareholding in NATS. Since then, HMG has indicated that while it has no plans imminently to dispose of its shareholding, it will continue to keep its investment under review.

Governance

Baroness Dean of Thornton-le-Fylde, Andy Lord and Tony Tyler retired from the Board during the year. Peter Read stepped down in May 2017 and Will Facey at the end of June 2017. Brenda Dean, Andy and Peter all played key roles on a number of Board committees over an extended period of service. I would like to thank them all for their advice and counsel to the Board.

I have been pleased to welcome Maria Antoniou and Andrew Barker to the Board in the year. Mike Campbell joined the Board in May 2017. Each brings a relevant set of skills and experience to the company.

Outlook

The first two years of RP2 have been challenging as we have faced much higher than expected air traffic. Next year we will be consulting our customers on our Initial Performance Plan for RP3. As the RP2 ATC environment is turning out to be quite different to the one assumed, we will be making the case for a Performance Plan in RP3 with more financial headroom to respond to changing industry conditions (e.g. to adjust the level of investment and resources) and to provide enhanced operational resilience. We think this is in the interests of our customers.

Martin Rolfe, Chief Executive, has built a strong management team. I would like to express my thanks to them and all of our employees for their hard work and dedicated service to the company.

Dr Paul Golby, CBE FREng
Chairman