

Chairman's statement

Dr Paul Golby



Safety, operational and financial performance

I am pleased to report the progress made this year across all aspects of our business. Air traffic controllers at our centres and airports safely handled a record number of aircraft, whilst our engineers seamlessly integrated important technical upgrades into our operations. We met all of our regulatory safety targets and made progress against some ambitious and additional internal safety metrics. Our en route service achieved an average delay of 7.2 seconds per flight (2017: 10.9 seconds per flight). Overall, we delivered an even better service to our customers and the travelling public than in 2016/17 despite dealing with more aircraft.

We renewed important UK airport contracts and won a major contract to provide air traffic controllers to Hong Kong as part of their programme to operate a third runway. Our investment in Searidge Technologies and remote digital tower technology for London City and Singapore's Changi Airport also places us in a strong position to provide innovative services to airport customers at home and abroad. Finally, in May 2018, we made a strategic investment in Aireon LLC, which is creating a satellite-based air traffic surveillance service capable of tracking and monitoring aircraft in real-time that will enhance the safety and capacity of our North Atlantic en route service.

This year the group reported a profit before tax of £133m (2017: £126m, after charging £11m for goodwill impairment). Excluding goodwill impairment, the result was slightly lower than last year. This was because of the benefit of air traffic growth being offset by real price reductions for en route customers, a reassessment of our earnings from supporting Aquila's Project Marshall asset provision contract, and higher operating costs. The results are explained in more detail in the Financial Review.

Dividends

We are committed to paying a regular and progressive dividend that reflects NERL's cost of equity (assumed in the RP2 Performance Plan) together with any regulatory out-performance, plus 25% of profit after tax for NATS Services.

Accordingly, the Board decided to pay dividends of £57.0m (2017: £24.0m) during the year and in May 2018 agreed a first interim dividend of £29.5m for the 2019 financial year.

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Our initial business plan for RP3 (2020-2024)

The UK sits at the heart of a very busy global aviation network and our air traffic service is a vital part of the national transport infrastructure. We operate a safe and efficient network in the skies for the aviation industry which contributes directly and indirectly over £50 billion a year⁷ to the UK's economy.

Over recent years UK air traffic has grown at an unprecedented rate. This year we safely handled 2.52m flights (2017: 2.45m) which by 2030 is forecast to increase to 3 million flights, carrying more than 350 million passengers. With new airspace users, such as drones, and a proposed third runway at Heathrow it is clear that UK airspace will become even more complex.

This presents two fundamental challenges for our proposed en route business plan on which we are currently consulting customers; providing a safe service capable of handling the rise in air traffic volumes whilst simultaneously changing our operation to create more capacity and capability for the future.

In the current reference period (RP2: 2015-2019) we started to make the comprehensive technical, software and airspace changes required to safely handle this air traffic growth. We will complete this programme of change in RP3, which forms a key part of our plan. Our proposal will deliver new technology and a more modern airspace network in RP3 which will, in turn, enable significant improvements in safety, capacity, flexibility, efficiency and resilience for future years. Compared with previous regulatory periods we have put even more emphasis in our proposed plan on ensuring that we have the resources to deliver a resilient operation in line with the feedback we have had from our airline customers and the lessons from our own business and other sectors providing vital services.

We propose to take a leading role across the aviation sector in modernising airspace for the future. This will involve creating, coordinating and implementing an integrated plan which will need the support of Government, the CAA, airlines and airports, together with engagement of communities that may be affected.

UK's EU referendum decision

The outcome of the European Union (EU) referendum decision and the triggering of Article 50 has not had an impact on our business to date.

Our proposed performance plan for RP3 has been designed to accommodate more flexibly a range of traffic and other outcomes, supported by appropriate regulatory mechanisms.

Governance, Board and people

The Board's performance and that of its Committees and directors was evaluated this year through a process undertaken by the Company Secretary. This review was discussed at the Board's March 2018 meeting and was generally indicative of an effective Board with strong governance and open communication with the Executive. However, a number of improvement actions were also recognised in pursuit of even better governance.

Since last year's annual report was published, Andrew Barker and Derek Provan have resigned from the Board and I thank them for their service. Chris Hope joined the Board in July 2017 and Kathryn Leahy joined in May 2018.

The Board was sad that two former directors, John Devaney (my predecessor) and Baroness Brenda Dean, passed away in the year. Both contributed significantly during their periods of service.

On behalf of the Board, I thank our employees and the management team for their hard work and commitment during the year.



Dr Paul Golby, CBE FREng
Chairman