



Chairman's statement



Financial performance

Calendar year 2015 was the first full year of Regulatory Reference Period 2 (RP2: 2015 to 2019). As foreshadowed in last year's report, the results this year reflect the challenging regulatory settlement for RP2 and the more competitive environment for our airport ATC business. Our results show reduced revenues of £898m (2015: £922m) and a significantly lower profit before tax of £44m (2015: £200m), after anticipated increases in pension and depreciation charges, and a £93m (2015: £17m) goodwill impairment charge. Our cost base has been progressively reduced in anticipation of the lower revenues we now face, enabling NATS (En Route) plc (NERL) to achieve a modest outperformance of its regulatory rate of return in the first year of RP2.

In May 2016, the company paid a first interim dividend for 2016/17 of £24.0m which mainly reflects a proportion of the allowance for shareholder return that the CAA made in the prices that NERL is permitted to charge in RP2. The company paid dividends of £81.7m during the 2015/16 financial year which also reflected some dividends from accumulated retained earnings not distributed in earlier regulatory reference periods, noting that NERL paid no dividends to shareholders from the date of the PPP until October 2008.

Safety and operations

We have maintained our excellent safety record, providing a resilient service with little air traffic delay and achieved a number of important capital investment milestones. I am pleased to report that a number of airport operators awarded their tower contracts to NATS this year. We also transitioned air traffic control operations smoothly to the new provider at Gatwick airport.

Our strategic objectives

Our direction is now very clear as we progress through RP2:

- > deliver a safe, efficient and reliable service from our air traffic control centres and airport towers;
- > transform the business through the integration and deployment of Single European Sky ATM Research programme (SESAR) technologies; and
- > win and retain commercial UK business and explore sound international opportunities as they arise.

The most far reaching objective is deploying SESAR technology to improve the way Europe's airspace is managed. We have a clear technical and operational transition plan and have started to deliver this challenging and major programme of work.

Independent Enquiry actions

We have discharged the 21 NATS related recommendations resulting from the Independent Enquiry into the December 2014 technical failure at Swanwick. In addition, we are working with the CAA on the five joint recommendations which are expected to complete in 2017, subject to stakeholder consultation.



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EU referendum

During the year the Board considered how the referendum on continued United Kingdom (UK) membership of the European Union (EU) will affect the Company. If the UK votes to remain in a reformed EU, we do not anticipate a significant impact on NATS activities or business risks from the changes agreed with EU partners. If the UK votes to leave the EU then, in the longer-term, the impact of this decision depends to a large extent on the type of relationship that is forged between the UK and the EU. However, we do not expect that it will have a significant impact on NATS activities provided the UK continues to participate in the Single European Sky project (SES). However, in the shorter-term the initial uncertainty and market volatility that might result (e.g. exchange rates) could affect the demand for air travel and therefore our future revenue, although any changes would be mitigated by traffic volume risk sharing arrangements.

Defined benefit pension scheme

Trustees of the defined benefit pension scheme are performing their formal triennial valuation as at 31 December 2015. The funding position is likely to show a materially higher deficit than the last valuation due to continued challenging market conditions. Actions are in place, through the economic regulatory framework and from cash reserves to enable the company to meet likely increases in contributions. The Trustees are expected to complete their valuation later this year.

HM Government's shareholding

In his Autumn Statement, the Chancellor of the Exchequer announced that HM Government would explore the sale of its 49% shareholding in NATS. The Board is being kept informed of this review, but understand that no final decision has yet been made.

Governance

In October, the Board confirmed Martin Rolfe's appointment as Chief Executive Officer after a rigorous search involving internal and external candidates. Since his appointment he has set a new tone with employees, customers and other external stakeholders.

Derek Provan joined the Board this year and brings the benefit of his experience of airfield operations at Heathrow. He replaced Roger Cato who stood down after serving for 13 years. I would like to thank Roger for his valuable contributions to the Board, Safety Review, Technical Review and Nomination committees.

Outlook for 2017

We knew that RP2 would bring challenges. Our regulatory targets for 2017 are even more demanding than for 2016. Traffic volumes are growing, which is positive but also presents a challenge in terms of airspace capacity and society's tolerance for overflight noise. We will seek to improve how we engage with the range of stakeholder views and seek to address them as we make our case for airspace modernisation. We also remain acutely aware that we are not the only choice of air traffic service provision for UK airports and will continue to strive to provide the safest and most efficient service possible to all customers.

NATS is well equipped to meet these challenges.

I would like to extend my appreciation to the management team and all of our employees for their hard work and commitment to the company's success.

Dr Paul Golby, CBE,
Chairman