

Chief Executive's review



This has been a year of many firsts: the first full year of RP2; the first year of implementing our SESAR deployment strategy; and the first year of our strategic partnership with Heathrow. It is also the end of my first year as Chief Executive Officer, with my new management structure now in place.

Overview of performance

We expected our profitability to be lower this year for the reasons given by the Chairman. We therefore took the right actions over the last two years to reduce costs.

Last summer I set out our priorities for the year (see table below). I am pleased to report that we achieved most of these.

We handled 2.28 million flights in the year, 3% more than 2015. This was another very safe year for our ATC provision with no risk-bearing Airprox⁵ incident attributable to NATS. Overall we performed better than 2013 but not quite as well as 2014 which was a particularly good year. We continue to look for ways to reduce safety risk and introduced measures over the winter which improved our safety performance at airports. Benchmarking against our peers confirms we are meeting, and in some cases setting, best practice.

Unauthorised infringements of controlled airspace account for about 30% of NATS safety risk and we are actively working with the CAA and the Airport Operators Association (AOA) to tackle hotspots around key airfields. While good progress has been made engaging with the general aviation community, this has not achieved the level of improvement we believe is essential. We have worked with the CAA

to establish an approach which includes tougher CAA enforcement action against repeat offenders and increased funding for tools and technology to detect infringers and to support pilots, including their training. We also see a need for a greater focus on drones, including technical solutions to assist detection, alongside a regulatory policy that recognises their increased use for commercial and recreational purposes.

Our overall, Air Traffic Flow Management (ATFM) delay⁶ for the financial year was 4.3 seconds per flight (2015: 2.2 seconds). While this is marginally higher than last year it is seven times better than the European average. A significant contributor to our good performance this year has been Time-Based Separation (TBS). NATS deployment of this capability is a world first, and has improved landing rates at Heathrow airport in conditions of strong headwinds, significantly enhancing performance during some of the windiest days. It has fundamentally, and safely, changed the management of airport approach and won several industry awards in its first year of operation. Our primary objective will always be keeping the skies safe while delivering the best possible service – this means ensuring that we employ the best technology that we can. Our ambition for our regulated business is to provide our customers 'One Operation from Two Centres on a Common Platform'. This will enable us to replace our legacy systems with new technology that is easier and more cost effective to maintain, allowing us to be more agile and responsive to customer needs. SESAR technology will also enable us to increase our airspace capacity to accommodate rising traffic levels and interoperate fully

Chief Executive’s review (continued)

Priorities for 2015/16	How we did
Safety & resilience: Continue to provide safe and resilient air traffic services from our 14 UK airports and two en route centres.	✓
Temporary Operations room: Transition to the temporary operations room in Swanwick, the first stage of the SESAR deployment plan.	✓
iTEC: Deploy and operate iTEC in the Scottish upper airspace.	✓
Airport contracts: Renew or win three or more UK airport contracts.	✓
Project Marshall: Start the Marshall Programme ATC and technical services at Middle Wallop/Netheravon & Shawbury.	✓
Overseas revenue: Achieve overseas revenue target in our focus regions.	✗

with other European ANSPs. This year we developed the transition sequence for deploying SESAR technology. We achieved the first milestone by moving the Swanwick area control and military operations into a temporary operations room while we refit the main operations room. The second major milestone was achieved with iTEC entering limited service for Scottish upper airspace, a clear step towards trajectory-based operations (more accurate and dynamic flight profiles coordinated between stakeholders).

In service of the UK’s aviation strategy, we delivered the first stage of our airspace modernisation programme (LAMP⁷ phase 1a) but further stages have been paused. The pace of progress now depends on the political will to support its wider benefits. Airspace change is a challenge for the aviation industry, particularly in the face of concerns about aircraft noise and pending the decision on runway capacity in the South East. We are investing heavily in engaging with local communities most likely to be impacted by airspace change to try to find the best solutions for local communities, airlines, the travelling public and NATS.

We are working hard to make our airport service proposition even more compelling. This was reflected in important contract renewals from Aberdeen, Belfast International, Glasgow, Heathrow and Southampton, and the winning of George Best Belfast City Airport.

Edinburgh airport is tendering its next ATC contract, which we will be competing to retain. We also supported Gatwick airport with the transition of its ATC service to its new provider, and have seconded NATS staff to support that service.

Our support to Project Marshall, awarded in 2014 by the MOD to Aquila, our joint venture with Thales UK, has started positively. We now provide the ATC service at Middle Wallop and Netheravon airfields and are upgrading and maintaining radio and tower systems at a number of MOD sites.

In Europe, our FerroNATS joint venture handles 20% of Spanish airport air traffic movements and is meeting all of its operational performance targets. We are continuing to develop our other international business and this year generated revenue of £7.6m (2015: £4.1m). The Asia Pacific region performed a little better than expected while the lower oil price has reduced opportunities in the Middle East for now.

Our purpose and objectives

Since taking over as CEO and following my engagement with some 2,000 staff last summer, it was clear that a more engaging and effective articulation of our purpose and strategic objectives was necessary. I am now working with my executive team to achieve this. Our strategic objectives are clear, my executive team is focused on delivering our day to day operations, delivering the SESAR technology and related business change; and winning and retaining commercial business.

Our priorities for 2017

- > Provide safe and resilient air traffic services from our airports and centres.
- > Achieving two SESAR milestones: to complete the introduction of iTEC into Scottish upper airspace; and to deploy and operate electronic flight strips in limited operational service in Swanwick Terminal Control.
- > Achieve a Mode-S Surveillance radar capability for Project Marshall.
- > Establish a remote tower capability for airport ATC operations.
- > Establish further strategic partnerships with our airport customers.

Overall, we made good progress in meeting our objectives in 2015/16 which gives me further confidence that we can rise to the challenges we face as we transform the business in RP2. Above all, I would like to thank all our employees for their dedication again this year.



Martin Rolfe
Chief Executive Officer