







Chief Executive's review

Martin Rolfe



Overall we made good progress in implementing our strategic objectives this year and achieved all but one of the priorities we set ourselves. I was pleased with our performance as we handled the most rapid growth in air traffic volumes in a decade while in parallel continuing to make changes to our operation.

Priorities for 2017	How we did
Provide a safe, efficient and reliable service every day from our airports and centres	
Deliver SESAR technology and transform the business for the future:	
> Complete the introduction of iTEC into Scottish Upper Airspace	
> Deploy and operate electronic flight strips in Swanwick Terminal Control	
Win and retain commercial business:	
> Establish a remote tower capability	
> Establish further strategic partnerships with our airport customers	
> Achieve Mode S Surveillance capability for Project Marshall	

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Provide a safe, efficient and reliable service every day

This year we safely handled 7.6% more flights than last year. We saw high growth rates in international flights, particularly from London airports, and the volume of North Atlantic flights exceeded its previous peak in 2008. The number of flights was also higher than projected by the Civil Aviation Authority (CAA) in our Performance Plan for Reference Period 2 (RP2: 2015-2019) which, while challenging to handle operationally, has benefited our revenue.

The basic structure of the UK's airspace (its routes, sectors and holding patterns) was designed over 50 years ago when traffic volumes were far lower than they are today. Airspace in the South East is now operating to its maximum capacity during the busiest times of the year. When the airspace is at capacity our service performance is very sensitive to the timing and distribution of traffic flows across the country. This was evident last summer when periods of bad weather combined with industrial action in neighbouring countries (causing flights to divert into UK airspace) changed the patterns of flight across the UK. We faced similar operational challenges when particularly high demand coincided with the introduction of new systems (e.g. iTEC) into our operation.

Our primary objective is to ensure that, irrespective of the prevailing conditions, all flights are handled safely. For this reason, on certain days, we regulated traffic flows in some sectors of airspace to maintain safety which resulted in more air traffic delay than has been seen in recent years, and slightly more than our regulatory targets anticipated. However, at no point did our performance fall outside of the bounds of the RP2 Performance Scheme targets which was very good, considering the scale of traffic growth. Our service was also extremely good in comparison to Europe, with delay amounting to one third of the European average.

Learning from last summer, we have been working closely with airlines, airports and the CAA over the winter to assess demand across the UK airspace network and to develop a strategy to minimise delay this summer.

Deliver SESAR technology and transform the business for the future

The longer term solution to minimising delay during periods of high demand is the combination of new technology and modern UK airspace structures. The process of modernising airspace started in the previous financial year but further stages have been paused pending Government consultation on a UK aviation strategy over the next year.

We expect this strategy to include greater Government emphasis on airspace modernisation and its effect on those who are overflown. Modernising airspace will significantly increase its capacity but, like runway capacity enhancement, there are significant social and political hurdles (such as public opposition to changing aircraft noise patterns) to be overcome, even when the noise impact is an overall improvement for a community. By engaging effectively with local communities, alongside airports and airlines, we can establish rules for respite and distribution that can help mitigate some of the noise impact on the ground.

We also welcome Government's clear decision on the location of a new runway and a faster planning process to deliver it. We have already started working with Heathrow Airport and other stakeholders to review the design of the local airspace, taking account of safety, noise and other environmental considerations.

We consulted customers during the year on a revised capital investment plan for RP2. This follows changes that we have seen in the business environment (such as higher than expected traffic growth) and progress made by the industry in developing SESAR technologies, such as iTEC. In a programme we refer to as Deploying SESAR⁵, we propose to accelerate the deployment of new technology to deliver capacity and safety benefits to customers more quickly while reducing our investment in legacy systems and their running costs. To achieve this, we expect to invest up to £160m more than the RP2 Performance Plan assumed. In order to mitigate the impact of this additional investment on prices in future, we have secured £100m of EU (INEA) funding and we are applying for a further £30m.

As we deploy new technology we will be retiring our legacy systems. This requires significant change to our operation, including the need to train our people in the use of these new systems and in new methods of operation. While the transition will be challenging we will be doing all we can to minimise any operational impacts for our customers.

This year we achieved key programme milestones, developing our ability to manage similar transitions in future: we delivered a new system to control upper airspace from our Prestwick Centre and we have started trial operational use of electronic flight strips in our Swanwick terminal control operation.

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Win and retain commercial business

We are working hard to strengthen that part of our business which is not economically regulated. In particular, within the UK we face increasing competition for the provision of airports ATC. Our response is to build trusting and sustainable partnerships with UK airport customers, combined with a clear and compelling proposition for different airport market segments and to use advances in technology to improve price competitiveness.

During the year we were awarded the ATC contract by George Best Belfast City Airport and renewed ATC contracts with Aberdeen, Glasgow and Southampton airports, along with our engineering contract with Highlands and Islands Airports. However, the Edinburgh Airport ATC service will transfer to a competitor at the end of March 2018 and we are working with the airport and its new provider on the transition of this service. This is evidence that we must continue to innovate and offer our service cost effectively.

Digital towers (which see air traffic controllers manage aircraft from remote facilities instead of in traditional airport towers) are becoming a demonstrably viable option for airports and have the potential to transform the way air navigation services at airports are delivered. London City has announced plans for a digital tower service in the future. In April 2017, we invested £5m to acquire a 50% interest in Searidge Technologies, a Canadian provider of digital tower capability, and during the year we continued to develop a digital tower capability at Swanwick. Together these enable us to offer a wider choice of digital tower solutions to customers depending on their requirements.

We are supporting our Aquila joint venture with its delivery of the MOD's Project Marshall. The service provision element of this contract is performing extremely well. However, the asset provision element has faced schedule challenges. Together with our joint venture partner, Thales, we are committing more resources in 2017/18 to re-plan and execute on a delivery schedule for asset provision that will ensure our military customer has the capability required to perform its mission.

We continue to develop our international activities, focusing on the Middle East and Asia Pacific. Of note this year was the award of an airspace design contract in Thailand.

Our people

One of the priorities I have set for the 2018 financial year (see below) is a focus on our people.

We have a record of good relations with our employees and enjoy generally constructive relationships with our Trades Unions. However, all parties faced a challenging pay round last summer and, on its conclusion, we jointly reflected that our ways of working and partnership approach needed to be reinvigorated and renewed. We are now working with union representatives to understand how we can work together more effectively; an objective which will take time but to which we are all committed.

As noted above, a large part of our strategy over the next five years is to replace much of our technical infrastructure. This infrastructure has served us well but is coming to the end of its useful life. Updating this technology will be a significant change for everyone working for NATS and this priority recognises that we will need to support our people through this transformation.

Our priorities for 2018

- > Provide safe and resilient air traffic services from our airports and centres;
- > Focus on our people and employee relations as we transform our infrastructure;
- > Achieve Swanwick site acceptance testing for London City Digital Tower;
- > Deliver key Deploying SESAR milestones: expanding electronic flight strips in Terminal Control and fit out Combined Operations room at Swanwick;
- > Provide support to Heathrow and Hong Kong for their third runways; and
- > Enhance the Oceanic technical platform and Operations at Prestwick.

Our immediate focus is ensuring that we have the right resources to support this summer's airline schedules so as to minimise the need for regulations that cause delay to the travelling public. We are also focusing on continuing the delivery of electronic flight strips which transition from trial to full operational use in our terminal control operation starting in January 2018. Finally, we are starting to turn our attention to developing next year's business plan which will form our initial proposal to customers for RP3 (calendar years: 2020 to 2024). Our key objective in developing this plan will be to ensure that we have sufficient resources in RP3 to continue to deliver a safe and efficient service to the travelling public which is resilient to changing circumstances and operational conditions.



Martin Rolfe
Chief Executive