

# NATS (En Route) plc BUSINESS PLAN REPORT 2007

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## 1. INTRODUCTION

Under Condition 10.3(b) of the NATS (En Route) plc (NERL) Licence, NERL is required to submit a business plan report no later than 4 months after the end of the financial year.

This report covers the period 1 April 2006 to 31 March 2007 and is designed to meet the requirements of Condition 10.6: to "provide a description of progress achieved in relation to the business plan and the latest service and investment plan, reconciling actual performance against these plans." For the purposes of this report, the NERL Business Plan 2006 and the Service and Investment Plan (SIP) 2006 were selected as the most appropriate reference points. Hence, actual performance during 2006/07 is compared with the appropriate parts of these plans.

In addition to the Licence requirements stated above, Single European Sky (SES) legislation that is now in force<sup>1</sup> requires all certificate holders to produce an annual report, the scope of which covers two areas that are over and above that required by the Licence:

- Information about the human resources policy
- Information on the formal consultation process with users

This document covers these areas, in sections 6 and 7, respectively, and therefore satisfies the requirements of both SES and the Licence.

In addition to the highlights contained in this report, further information on performance during 2006/07 is available in the following documents:

- NATS (Holdings) Ltd Annual Report and Accounts 2007
- NATS (En Route) plc Financial statements for the year ended 31 March 2007
- NATS (En Route) plc Regulatory Accounts 2006/07
- NATS Operational Performance Reports (published monthly)

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<sup>1</sup> EC No 2096/2005 laying down common requirements for the provision of air navigation services

## 2. DEMAND

Chargeable distance, which determines allowed revenue, grew by 4.3% in 2006/07 compared with 2005/06. Chargeable Service Units (CSUs), which are the basis on which airspace users are charged, grew by 4.4% in 2006/07 compared with 2005/06. Out-turn CSUs for 2006/07 were 10.40m against the 2006 NERL Plan forecast of 10.21m, better by 1.9%.

Total UK flights grew by 3.2% in 2006/07 compared with 2005/06. The out-turn for 2006/07 was 2.41m against the 2006 NERL Plan forecast of 2.42m, lower by 0.6%.

Traffic grew across all markets in 2006/07 except domestic, which was marginally down after two consecutive years of relatively high growth. European markets continued to show growth, most noticeably through the continuing expansion of Eastern European market destinations.

European legacy airlines have been moving from short haul to long haul, with both charter and scheduled flights continuing to expand into the fast growing Asian markets. US legacy airlines have been doing the same, moving from domestic and onto transatlantic routes with both Asian and transatlantic markets showing high levels of growth for the second consecutive year.

### Demand in 2006/07

	2006 NERL Plan	Actual	Difference
Chargeable Distance (m kms)	765	772	+0.9%
CSUs (000s)	10,209	10,400	+1.9%
Total UK Flights (000s)			
- Domestic	517	502	-2.9%
- Transatlantic	315	325	+3.2%
- Other	<u>1,588</u>	<u>1,579</u>	<u>-0.6%</u>
TOTAL *	2,420	2,406	-0.6%

\* Totals may not add due to rounding

## 3. SAFETY

During 2006/07 a total of 56 Airprox were reported in the airspace in which NATS was providing a service. Eighteen of these were attributable to NATS, one of which is predicted to be a risk bearing class B (9 of the reports, including the one predicted to be risk bearing, are yet to be evaluated by UKAB). For comparison, the total for 2005/06 was 56 with 17 attributable to NATS, none of which were risk bearing. The single predicted class B Airprox means that the target for 2006/07 of no Category A or B Airprox attributable to NATS was not achieved.

The table below shows a summary of Safety Significant Events (SSEs) reported during FY06/07 with the figures for the previous year for comparison.

### SSEs for NERL (NATS attributable in brackets)

	2006/07	2005/06
<b>SSE1</b>	4 (1)	3 (1)
<b>SSE2</b>	28 (15)	26 (17)
<b>SSE3</b>	47 (25)	82 (54)
<b>SSE1-2</b>	32 (16)	29 (18)
<b>SSE1-3</b>	79 (41)	111 (72)

Overall, the number of NATS attributable SSEs has reduced, mainly driven by the reduction in the number of NATS attributable SSE3s, particularly at LTCC and LACC. This is an encouraging indication that our recent efforts to improve safety performance are having an effect. The variation in the numbers of SSE1s and SSE2s is probably just statistical variation, and not significant, as the numbers are small.

The 41 NATS attributable SSE1-3s equate to a rate of 1.70 per 100,000 movements (compared with a rate of 3.09 for FY05/06). This met the target of 2.05 per 100,000 movements.

#### **4. SERVICE**

NATS reports on its service delivery on a monthly basis in the Licence Condition 11 operational performance report. Key points for 2006/07 were as follows:

- Actual (NERL) attributable delay per flight during 2006/07 was 22.2 seconds un-weighted and 21.1 seconds when weighted according to the service performance regime set by the CAA for CP2. These figures can be compared with the CP2 par value of 45 seconds and the NERL Business Plan 2005/06 stretch target to deliver less than 1 minute average delay per flight against high traffic during the period to 2011.
- Average (NERL) delay per delayed flight during 2006/07 was 16.7 minutes, the same figure as in the previous year;
- Only 2.2% of flights experienced any NATS attributable delay, the same percentage as in the previous two years.

The major airspace developments planned for 2006/07 were:

- Lakes – to provide future capacity in the Lakes/Irish Sea, reduce the extent of flight profile capping at peak periods and enable subsequent airspace development in Daventry and London Central sectors;
- Hurn – to add extra capacity on the southwest axis (particularly for weekend traffic), position the airspace for future improvements to TC South West, provide the capability to support up to 4 sectors within Hurn to meet longer-term forecast demand, giving an overall increase in capacity of 20% in this area.

Both of these developments were implemented on schedule during winter 2006/07. In addition, a standard upper airspace level of 19,500 feet was introduced to conform with the requirements of the Single European Sky.

#### **5. CAPITAL INVESTMENT PROGRAMME**

The 2006 SIP is taken as the baseline against which to assess performance during 2006/07. Capital expenditure during the year amounted to some £136m. This was £27m lower than last year, reflecting the near completion of the Corporate and Technical Centre and Prestwick Centre building projects at the end of 2006 and the technical completion last year of the new operations room at Swanwick in readiness for the transfer of London terminal control and military operations from West Drayton in 2007/08.

The capital spend in 2006/07 was some £41.5m below plan, largely because of the non-payment of an expected SACTA ATM joint venture company payment due to a revised CASPIAN roadmap being agreed during the year.

Significant items of expenditure consisted of:

- Prestwick/Manchester programme
- CASPIAN programme
- Southern Centres programme
- Swanwick/West Drayton programme
- Continuation of the radar upgrade programme (RSS) for civil and military use
- Business IT including SAP implementation
- CNS (non-RSS) programme

The following investment milestones were achieved during 2006/07:

- Swanwick Systems Upgrade – Build N13-1: Operational – Apr 06 (early)
- STAR Safety Tracking & Reporting System: Operational – May 06 (on time)
- Claxby Radar Replacement: Operational – Jun 06 (early)
- NAS System Upgrade – Build 30-02 – Jun 06 (early)
- Swanwick Systems Upgrade – Build N13-2 – Jul 06 (early)
- TC/LMARS Relocation: Technical Handover – Sep 06 (early)
- Lakes Airspace Development: O date – Oct 06 (on time)
- NOTA Phase 2: Operational – Oct 06 (on time)
- CASPIAN Phase 1 Project Definition: Complete – Oct 06 (early)
- SAATS: operational – Nov 06 (scheduled later after customer consultation)
- LACC Workstation Upgrade: Complete – Nov 06 (early)
- NAS installation at Swanwick: Complete – Dec 06 (on time)
- nPC Building: Main Construction Complete – Feb 07 (early)

## 6. MANPOWER AND BUSINESS EFFICIENCY

	<b>Plan March 2007</b>	<b>Actual March 2007</b>
ATCO	1,462	1,454
ATSA	880	830
ATCE	1,063	1,024
Others	543	536
Total	3,948	3,844

*Note: All figures in the table above show the number of staff in post at 31 March 2007 provided by NATS to NERL under the Management Services Agreement, and are shown on a full time equivalent basis.*

ATCO numbers were lower than plan with fewer staff and trainees than required. Lower ATSA numbers primarily reflected recruitment delays and the rescheduling of training for interim future area control tools support (iFACTS). Lower than planned numbers of engineers reflected recruitment issues and some project delays. Other staff numbers were a little lower than planned across a number of business areas.

NATS has in place a leadership model and performance measurement standards which have helped everyone understand the business targets and how they contribute individually to delivering them. HR policy continues to be underpinned by the "working together" partnership which has already proved so invaluable to achieving change across the business despite some significant challenges. The issue of the cost of pension provision has been raised, whilst new age discrimination compliant redundancy terms have been agreed. There will be a joint review of the pension scheme with the trade unions when the next valuation is complete.

## 7. CUSTOMER CONSULTATION

NERL has continued to place great importance on consulting customers on the services it provides. In addition to regular meetings with customers' Operations Directors and Managers, the OPA (Operational Partnership Agreement) working group has continued to meet on a quarterly basis. This has proved to be an effective forum in which NATS and its customers can work together to resolve short term demand and capacity issues to maximise the use of UK airspace.

The Service and Investment Plan 2007 was distributed to customers in draft and presented at a meeting in November 2006. Details of the Eurocontrol charge for 2007 were discussed with customers at a separate session of the same meeting. Customers were given 3 months in which to submit comments on the SIP. NERL undertook various bilateral discussions with customers and relevant trade associations, which helped to inform the final version of the Plan. The final SIP, which was published on 30 March 2007, included records of, and NERL's responses to, comments received from customers.

## 8. EXTERNAL RECOGNITION

2006/07 saw NATS receive a number of awards in recognition of its achievements, as follows:

### Service

- NATS won the Maastricht 2007 Award for Service Provision for its Mode-S for Terminal Control project
- Mode-S in Terminal control won the Project Team category in the Innovation in Engineering awards hosted by the Institute of Engineering and Technology
- The NIBS2 programme was recognised by SAP as the best implementation in Europe this year of a new SAP integrated business system.

### People

- NATS won the award for Best Rebranding Exercise in Corporate Communications magazine's awards for excellence in corporate communications
- Ranked 20th in the category of large companies in the 2007 Sunday Times 100 Best Companies to Work For survey

### Value

- NATS awarded Chartered Institute of Purchasing and Supply certification

## 9. FINANCIALS

### Overview of financial performance

The table below summarises NERL's financial performance for the year relative to the 2006 NERL business plan:

	Actual	Better/ (worse) than plan
	£m	£m
<b>Revenue</b> - external	575	9
- inter-group	13	1
	<u>588</u>	<u>10</u>
Staff and non-staff operating costs	(376)	37
Depreciation, amortisation and impairment	<u>(83)</u>	<u>(10)</u>
<b>Operating costs</b>	<u>(459)</u>	<u>27</u>
<b>Earnings before tax</b>	129	37
Interest	(43)	(2)
<b>Profit before tax</b>	<u>86</u>	<u>35</u>

### External revenue

External revenue for the year at £575m was £9m better than plan. This principally reflected higher UK air traffic services revenues, including the benefits of better service performance which offset lower revenues from the contract with the MoD, and higher North Atlantic revenues.

**Operating costs**

NERL reported operating costs of £459m for the year or £27m better than plan.

Staff and non-staff operating costs amounted to £376m, £37m better than plan. This principally reflected a reduction in the pension accrual rate from the plan rate of 30.2% to 20.0%, as recommended by NATS' actuaries following significant movements in bond yields since the plan was prepared, and gains arising from asset sales that had been planned for 2007/08.

Depreciation, amortisation and impairment at £83m were £10m worse than the plan, reflecting higher charges for asset impairment following a comprehensive review of the roadmap for the future centres programme and higher underlying depreciation charges.

**Interest**

Net interest charges of £43m were £2m worse than plan. The benefits from lower gearing and refinancing in November 2005 were offset by increased charges for derivative financial instruments.

**Profit before tax**

NERL generated a profit before tax of £86m, or £35m better than budgeted for the year.

**Net debt**

NERL net debt at 31 March 2007 amounted to £538m, a reduction of £12m compared with the previous year. This reflected total borrowings of £677m offset by cash and short term deposits of £139m.