

Governance report



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The directors and officers of NATS Holdings Limited who were serving as at the date of approval of the accounts were as follows:



Chairman

Dr Paul Golby CBE FREng

Paul served as Chief Executive Officer of E.ON UK plc from 2002 to 2011 and is a Fellow of the Royal Academy of Engineering. He is Chairman of Costain Group plc, the Engineering and Physical Sciences Research Council and a non-executive director of National Grid plc. Paul chairs the Nomination Committee and is a member of the Audit Committee. Paul also attends the Remuneration Committee, Safety Review Committee and Technical Review Committee by invitation.



Executive Director

Martin Rolfe, Chief Executive Officer

Martin took up the post of Chief Executive in May 2015 having been Managing Director, Operations since 2012, with responsibility for NATS' economically regulated UK and North Atlantic services. An engineer by training, Martin holds a Master's degree in Aerospace Systems Engineering from the University of Southampton. He has 20 years of experience in the defence and aerospace industry, and prior to joining NATS was the Managing Director of Lockheed Martin's Civil Division with responsibility for worldwide Air Traffic Management programmes as well as UK Government business. Martin has also worked for the European Space Agency and Logica plc.



Executive Director

Nigel Fotherby, Finance Director

Nigel joined NATS in 1999 as Finance Director and led the Finance team through the transition to PPP (2001) and, following the events of 9/11, the financial restructuring and refinancing of NERL in 2003. In addition to his responsibilities for finance, Nigel leads NERL's economic regulatory team and represented the company in the economic regulator's review of NERL's charges for CP3 and RP2. Previously, he worked for Lex Service plc as Finance Director of its retail group and then for BT Cellnet, where he was Deputy Finance Director. He began his career with Coopers & Lybrand where he qualified as a Chartered Accountant.

Directors of NATS Holdings Limited

Director's biographies



Non-Executive Director

Maria Antoniou

Maria is Senior Vice President HR/Executive HR based in E.ON's headquarters in Germany, a position she has held since 2013. Maria joined E.ON in 2008 as the UK HR Director. During her time in the UK the business was significantly restructured and emphasis given to becoming a customer focused organisation. Prior to joining E.ON, Maria spent two years in the public sector as Group HR Director for Transport for London and 20 years with Ford Motor Company. Maria's last role at Ford was as global HR Director for Jaguar, Land Rover and Aston Martin.

Maria chairs the Remuneration Committee and is a member of the Nomination Committee. She is also a director and chairs the NATS Employee Sharetrust.



Non-Executive Director

Andrew Barker

Andrew is IAG's Head of Group Finance Development and Investor Relations, responsible for financial strategy and the Group's €4.5bn equity base. Previously, he was Managing Director of UBS Investment Bank where he spent 16 years. He led the global transport research team and was voted Europe's and the world's number one transport analyst in successive annual investor polls. His final role at UBS was as the bank's Head of European Market Strategy.

He subsequently spent four years as a director of easyJet, where he was responsible for strategy, fleet and network planning and Government affairs; and he also set up and ran the world's first global transport sector hedge fund. Andrew is a director of The Airline Group Limited (AG) and a member of the Remuneration Committee.



Non-Executive Director

Dr Harry Bush CB

Harry is Vice-Chairman of UCL Hospitals NHS Foundation Trust. He spent most of his career in HM Treasury where he focused latterly on policies towards growth, science funding and privatisation and private finance. He was UK Director at the European Investment Bank from 2001 to 2002. Harry left HM Treasury in 2002 to join the CAA Board as Group Director Economic Regulation responsible for the economic regulation of the designated airports and NATS, as well as the CAA's economic analysis generally. He was a member of Eurocontrol's Performance Review Commission from 2005 to 2009 and of the UK's Commission for Integrated Transport from 2006 to 2010. Since leaving the CAA in 2011, Harry has been a consultant on economic regulation, undertaking assignments across a range of industries in the UK and overseas. He is a Fellow of the Royal Aeronautical Society. Harry is a director of AG and NATS Employee Sharetrust, and a member of the Audit Committee.

Directors of NATS Holdings Limited

Director's biographies



Non-Executive Director

Will Facey

Will is the director for Network Operations at easyJet Airline Company. He joined easyJet in 2008 having previously worked for DHL Express for 20 years. His last role within DHL was as the Director of Network Control for the European overnight delivery network. Previous positions included a mix of operational leadership and European regional functional roles. He has spent most of his working career based in continental Europe – primarily in Denmark and Belgium and moved back to the UK to take up the role with easyJet. Will is a director of AG and a member of the Safety Review Committee.



Non-Executive Director

Mike Campbell

Mike has spent the last 11 years at easyJet initially as Group People Director and subsequently as Group Director Europe. During his time at easyJet he has also been Group Director, Transformation and has led on a series of strategic projects including the integration of GB Airways and the successful development of easyJet's presence in Europe.

Mike's early career has covered a range of sectors, from high end luxury goods to high volume, low margin electronics and he has direct experience across a number of disciplines. Mike has a Bachelor's degree in Mathematics and a Masters in Fluid Dynamics with a background in education and HR. He has operated in organisations across the world and has led businesses and change programmes across all of these. Mike is Chairman of AG and a member of the Technical Review Committee and Nomination Committee.



Non-Executive Director

Richard Keys

Richard is a non-executive director of Merrill Lynch International, Wessex Water Services Limited and the Department for International Development. He was previously a non-executive director of Sainsbury's Bank plc and a Council member of the University of Birmingham. He retired from PricewaterhouseCoopers in 2010 where he was a senior partner and Global Chief Accountant. Richard chairs the Audit Committee and is a member of the Nomination Committee and Technical Review Committee.

Directors of NATS Holdings Limited

Director's biographies



Non-Executive Director

Gavin Merchant

Gavin joined Universities Superannuation Scheme (USS) in 2011 as Senior Investment Manager with responsibility for sourcing, evaluating and monitoring co-investments within the infrastructure portfolio. Gavin serves on a number of portfolio company boards for USS as well as a number of advisory boards for infrastructure funds. Gavin has worked in the infrastructure sector in the UK and Australia for 15 years. Prior to joining USS, Gavin was a director at Equitix Limited. Gavin graduated with an honours degree in Law from the University of Edinburgh and is a member of the Institute of Chartered Accountants of Scotland. Gavin is a director of AG and a member of the Remuneration Committee.

Non-Executive Director

Iain McNicoll CB CBE

Iain served 35 years in the Royal Air Force, retiring in 2010 as an Air Marshal. In his last appointment he was responsible for generating and delivering all of the RAF's front line operational capability. He was a member of the Air Command main Board and co-chaired the principal Board sub-committee. He had RAF responsibility for all safety and environmental matters, and was the RAF's first Chief Information Officer. Iain is now an aerospace, defence and security consultant. He is a Fellow of the Royal Aeronautical Society and a Chartered Director Fellow of the Institute of Directors. Iain chairs the Safety Review Committee and, on an interim basis, is also chairing the Technical Review Committee.

Non-Executive Director

Derek Provan

Derek is Future Heathrow Director at Heathrow, responsible for the design and operating models for future Heathrow Airport under the expansion programme. His remit includes airfield, airspace, terminal, baggage, fuel, surface access, master planning and commercial design and development. He is active in numerous aviation forums within the UK and is a founding member of the Performance Based Regulation Industry Group working with the CAA to ensure that the industry forms an integral part of future regulation in UK Aviation. He is a member of the Safety Review Committee.

Officer

Richard Churchill-Coleman, Legal Director

Richard is Legal Director which includes the role of Company Secretary. He joined NATS in June 2007 from TUI Northern Europe Limited where he held the position of Group Legal Counsel. Richard has more than 30 years' experience in the aviation industry having begun his career as an undergraduate aerospace engineer with British Aerospace plc before qualifying as a solicitor with Norton Rose and subsequently as a Chartered Secretary. Richard has previously held positions at Thomsonfly, Virgin Atlantic Airways and DHL Worldwide Express and holds a private pilot's licence.

NATS Governance framework

Introduction

NATS was formed as a Public Private Partnership in July 2001. In addition to its memorandum and articles, a key element in its governance structure is the Strategic Partnership Agreement (SPA) between its main shareholders: the Secretary of State for Transport; The Airline Group Limited (AG); and LHR Airports Limited (LHRA) (previously BAA Limited).

The SPA sets out the relative responsibilities of the signatories and, in particular, requires the group and the directors to adhere to the UK Corporate Governance Code so far as reasonably practicable and save to the extent inconsistent with the other provisions of the SPA.

The Board and Directors

Ultimate responsibility for the governance of NATS rests with the Board of NATS Holdings Limited, which provides strategic direction and leadership and is responsible for ensuring that the NATS group is run safely, efficiently, effectively and legally, with appropriate internal controls to safeguard shareholders' investment and group assets.

The boards of the subsidiary companies within the group are accountable to the NATS Holdings Board for all aspects of their business activities.

As at the date of approval of the accounts, the NATS Holdings Limited Board comprised a non-executive Chairman and 11 directors, as follows:

Executive Directors

- > Chief Executive Officer (CEO); and
- > Finance Director.

Non-Executive Directors

- > a non-executive Chairman, appointed by AG, subject to the prior approval of the Crown Shareholder;
- > five further non-executive directors appointed by AG;
- > three non-executive Partnership directors, who are appointed by the Crown Shareholder; and
- > one non-executive director appointed by LHRA.

Changes to the Directors

From 1 April 2016 to the date of approval of the accounts, the following changes to the directors were made:

Non-Executive Directors

Baroness Dean of Thornton-le-Fylde	Resigned 28 July 2016
Tony Tyler	Resigned 28 July 2016
Andy Lord	Resigned 28 September 2016
Peter Read	Resigned 25 May 2017
Will Facey	Resigned 30 June 2017
Maria Antoniou	Appointed 1 August 2016
Andrew Barker	Appointed 28 September 2016
Mike Campbell	Appointed 26 May 2017

The roles of the Chairman, Chief Executive Officer and executive management

The Chairman of the NATS group is responsible for the leadership of the Board and for its governance. He has no day-to-day involvement in the running of the group. Day-to-day management of the NATS group is the responsibility of the CEO, Martin Rolfe, supported by the NATS executive team. The NATS executive team is responsible for delivering NATS' overall strategy. To achieve its strategic priorities the executive team has recently been structured as follows:

- > CEO;
- > Finance Director;
- > Operations Director;
- > Safety Director;
- > Commercial Director;
- > HR & Corporate Services Director;
- > Technical Services Director;
- > Communications Director; and
- > Legal Director.

NATS Governance framework

The responsibilities of the Board

The Board has adopted a schedule of matters reserved for its decision and has put in place arrangements for financial delegations to ensure that it retains overall control of the business. Matters reserved for the Board include the monitoring of NATS' safety performance, appointments to the NATS executive team, and issues with political, regulatory or public relations implications.

In addition to the schedule of matters reserved to the Board, specific matters are reserved for Partnership directors, AG directors and the LHRA director. These include the following:

Partnership and AG directors

- > adoption of the business plan;
- > entry into significant debts, charges or contingent liabilities;
- > major agreements outside the ordinary course of business;
- > significant litigation proceedings; and
- > external investments, and acquisition and disposal of material assets.

LHRA director

- > acquisition or disposal of any asset representing more than 10% of the total assets of the business;
- > any aspects of the business plan which could adversely affect NERL's service to UK airports; and
- > disposal of NATS Services shares by NATS.

Access to legal and professional advice

All directors have access to the advice and services of the Legal Director, Richard Churchill-Coleman, who acts as Secretary to the Board. If necessary, in furtherance of their duties, directors may take independent professional advice at the group's expense.

Board meetings

The Board routinely meets seven times per year in January, March, May, June, July, September and November, and supplements these scheduled meetings with additional meetings as business priorities require.

During this year, the Board met eight times with each member (who served as a director during the year) attending as follows:

	Number of meetings attended / Number of eligible meetings
Paul Golby	8/8
Martin Rolfe	8/8
Nigel Fotherby	8/8
Maria Antoniou	4/4
Andrew Barker	3/3
Harry Bush	7/8
Baroness Dean of Thornton-le-Fylde	3/4
Will Facey	8/8
Richard Keys	8/8
Andy Lord	5/5
Iain McNicoll	8/8
Gavin Merchant	7/8
Derek Provan	8/8
Peter Read	8/8
Tony Tyler	3/4

The non-executive directors meet with the Chairman, but without the executive directors present, before and after each Board meeting.

Reports and papers are circulated to Board members in a timely manner in preparation for meetings, and this information is supplemented by any information specifically requested by directors from time-to-time. The directors also receive monthly management reports and information to enable them to review the group's performance.

The group's performance is also reviewed monthly by the executive team. This includes reviewing performance against operational targets (including those relating to safety, delays, project performance and risk management) and against financial targets (including revenue and capital budgets).

NATS Governance framework

The Board's performance

Board effectiveness review

The Board is committed to continuous improvement and a performance evaluation of the Board, its committees, and the Chairman is conducted each year. This year, the Board Effectiveness Review was administered by the Company Secretarial Department using structured questionnaires. The results were assessed by the Board at its 30 March 2017 meeting and appropriate actions agreed.

Director induction

Following their appointment, the Company Secretary consults with new directors on the scope of induction to NATS which they require and a personalised induction programme is developed.

During the year, such a programme was started for Maria Antoniou and Andrew Barker. This programme included briefings on governance and the NATS business, presentations from relevant executive management, and visits to key operational centres. In addition to an induction programme, all Board members are briefed on a continuing basis on key business issues.

The Board's committees

The Board has established five standing committees which operate within approved terms of reference. The committee structure comprises the:

- > Audit Committee;
- > Nomination Committee;
- > Remuneration Committee;
- > Safety Review Committee; and
- > Technical Review Committee.

The terms of reference for the Board and its committees are available to all staff and shareholders and can be made available externally with the agreement of the Legal Director. Reports from each of the standing committees are set out on pages 49 to 63. However, in addition to the standing committees, from time-to-time the Board may form committees on an ad hoc basis to deal with specific business issues. During the year the Board formed a committee (comprising the Chairman and Chief Executive) to review non-executive director fees which will meet annually going forward.

The number of meetings held by the principal Board committees, and attendance by non-executive director committee members, is provided in the table below:

	Number of meetings attended / Number of eligible meetings				
	Audit	Nomination	Remuneration	Safety Review	Technical Review
Paul Golby	4/4	3/3			
Maria Antoniou		1/1	2/2		
Andrew Barker			1/1		
Harry Bush	4/4				
Baroness Dean of Thornton-le-Fylde			2/2		
Will Facey				4/4	
Richard Keys	4/4	3/3			8/8
Andy Lord			3/3		
Iain McNicoll				4/4	7/8
Gavin Merchant			4/5		
Derek Provan				4/4	
Peter Read		3/3			8/8

NATS Governance framework

Meetings with shareholders

A shareholders meeting is held once a year and provides the group with an opportunity to update the shareholders on the progress of the annual business plan and long term strategy. The meeting was the Annual General Meeting held on 28 July 2016. Shareholders may also meet informally with the Chairman, CEO, Finance Director and other members of executive management upon request.

Due to the manner in which non-executive directors are appointed by the shareholders under the SPA, there is no senior independent director.

Compliance with the UK Corporate Governance Code

NATS is committed to maintaining the highest standards of corporate governance. The SPA requires the group and the directors to adhere to the UK Corporate Governance Code so far as reasonably practicable and save to the extent inconsistent with the other provisions of the SPA. For the financial year ended 31 March 2017, the applicable standard is the 2014 UK Corporate Governance Code (the Code).

NATS has applied the principles of the Code to the extent considered appropriate by the Board throughout the year ended 31 March 2017. However, a number of principles and provisions in the Code are not relevant to the partnership nature of the NATS group's ownership and the principal areas where NATS did not comply are summarised below.

Corporate Governance Code A.3.1: Independence of the Chairman

The Chairman is nominated by AG, his appointment being subsequently approved by the Secretary of State for Transport. He therefore does not fully meet the independence criteria as set out in the Code and this affects NATS' compliance with a number of Code provisions.

Corporate Governance Code A.4.1, B.1: Independence of directors and appointment of Senior Independent Director

The arrangements for appointing non-executive directors, as set out in the SPA, are such that none of the directors meet the Code's criteria for independence. This affects NATS' ability to comply with a number of the Code's provisions, including the requirement to appoint a senior independent director.

Corporate Governance Code B.2.1, D.2.1: Composition of the Nomination and Remuneration Committees

Details of the work of the Nomination and Remuneration Committees are set out below. However, the manner in which directors are appointed, as noted above, means that these committees' processes do not fully comply with the Code as regards independence.

Corporate Governance Code B.3.2: The terms and conditions of non-executive directors

As noted in the Remuneration Committee report, the AG Nominee directors and Partnership directors do not have service contracts with NATS and, as a result, the terms and conditions of appointment cannot be made available for inspection. The Partnership directors are engaged on three-year fixed-term contracts and have letters of appointment from the Department for Transport. The Chairman has a service contract with NATS, details of which are set out in the Remuneration Committee report.

Corporate Governance Code B.7: Re-election of directors

The non-executive directors are appointed by the shareholding groups and are therefore subject to the relevant shareholding groups' selection processes, rather than those included in the provisions of the Code. They are therefore not subject to periodic re-election as stipulated by Section B.7 of the Code, although Partnership directors are appointed by the Government on three-year fixed-term contracts. This aligns with the recommendation in B.7.1 that the maximum period between re-election is three years.

NATS Governance framework

The tenure of non-executive directors at 31 March 2017 was as follows:

	Date of appointment	Years of service to 31/3/17*
Paul Golby	1/9/14	2 years 7 months
Maria Antoniou	1/8/16	8 months
Andrew Barker	28/9/16	6 months
Harry Bush	27/5/14	2 years 10 months
Baroness Dean of Thornton-le-Fylde**	24/7/06	10 years
Will Facey	27/11/14	2 years 5 months
Richard Keys	1/9/13	3 years 7 months
Andy Lord***	26/2/09	7 years 7 months
Iain McNicoll	1/9/13	3 years 7 months
Gavin Merchant	20/3/14	3 years
Derek Provan	28/1/16	1 year 2 months
Peter Read	23/9/02	14 years 6 months
Tony Tyler**	1/7/13	3 years

* Years of service to resignation, if earlier.

** Served until 28 July 2016.

*** Served until 28 September 2016.

The group is mindful of the principles behind the guidance in the Code relating to directors who have served longer than nine years.

Corporate Governance Code Section E: Relations with shareholders

Within the PPP structure, there are no institutional or public shareholders. However, the nature of the Strategic Partnership is such that the shareholders have representatives amongst the directors with whom they enjoy a close working relationship. All non-executive directors are invited to relay the views of their respective shareholders into Board discussions. The Board is therefore able to take decisions in the best interests of the group, having taken account of the views of the shareholders. The Chairman also has regular discussions with shareholders in addition to the formal meetings noted under the 'Meetings with shareholders' section above.

Reports from Board Committees

Audit Committee report

The role of the Audit Committee

The Audit Committee meets four times per year. It is chaired by Richard Keys; Paul Golby and Harry Bush are the remaining two members of the Committee. The Committee members all have wide-ranging commercial and management experience and Richard Keys, a former audit partner at PricewaterhouseCoopers LLP (PwC) has recent, relevant financial and audit experience. The Audit Committee members maintain their competence in the sector and on company specific issues (such as pensions) through targeted training and briefing at Committee meetings.

The CEO, Finance Director, Group Financial Controller, Head of Internal Audit, NATS Risk Manager and the external auditors are invited to attend each meeting by standing invitation.

Part of each meeting is set aside as required for members of the Committee to hold discussions without executive management present, including holding separate discussions with the external and internal auditors.

The duties of the Committee include:

- > monitoring the integrity and compliance of the group's financial statements;
- > reviewing the effectiveness of the external auditors and the Internal Audit department;
- > reviewing the scope and results of internal and external audit work; and
- > reviewing NATS' systems of internal controls and risk management.

The Committee makes recommendations to the Board on matters relating to the appointment, independence and remuneration of the external auditors and, to ensure independence, monitors the extent of non-audit services provided by the external auditors (as explained below). The Committee also reviews whistleblowing arrangements under which staff may confidentially report suspected wrongdoing in financial reporting or other matters.

Main activities of the Committee during the year

a. Financial reporting

The primary role of the Committee in relation to financial reporting is to review with both management and the external auditors the annual financial statements of the group and its subsidiaries and NERL's regulatory accounts, having regard as appropriate to:

- > the suitability of accounting policies adopted by the group;
- > the clarity of disclosures and compliance with Companies Act legislation and financial reporting standards, including the requirements of NERL's air traffic services licence; and
- > whether significant estimates and judgements made by management are appropriate.

In addition, the Committee assists the Board in its assessment of whether the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

To aid its reviews the Committee considers reports from the Finance Director and reports from the external auditors on the outcome of the annual audit.

The Committee considered the following significant accounting judgements and sources of estimation uncertainty in the year:

The carrying values of goodwill, other intangible and tangible assets

The group has goodwill of £198.3m, other intangible assets of £512.7m and tangible assets of £488.9m. As we explain in our accounting policies, goodwill, intangible and tangible assets are tested annually for impairment.

The judgement in relation to the carrying value of goodwill and other intangible and tangible assets relate to: the assumptions underlying the calculation of value in use, including the extent to which business plan cash flow projections are achievable taking account of the outcome of regulatory reference period reviews; and assessing fair values less costs of disposal, including the extent of any premium to regulatory asset values.

The Committee addressed these matters by having regard to the higher of value in use and fair value less costs of disposal and considering: NERL's revenue allowances from the Reference Period 2 (RP2) settlement and the cash flows implied by its latest business plan, for determining value in use; the cost of capital assumption used to discount value in use; the value of NERL's regulatory assets, including the scope for out-performance of regulatory settlements as well as premia to regulatory assets implied by market transactions in regulated entities, for determining value in use and also fair value less costs of disposal; the outcome of internal reviews of the carrying values of other intangible and tangible assets; and appropriate sensitivities. With respect to goodwill, the Committee considered value in use and fair value less costs of disposal and considered that an impairment charge of £11.0m was required. Further information is provided in notes 13, 14 and 15 to the accounts.

Retirement benefits

The pension funding position determined under international accounting standards requires a number of actuarial assumptions to be made, including judgements in relation to long term interest rates, inflation, longevity and salary growth. The Committee reviewed the basis for determining these assumptions. The final calculations in respect of the defined benefit pension scheme are performed by a qualified actuary, independent of the scheme. Note 30 sets out the main actuarial assumptions used, including sensitivity analysis.

Reports from Board Committees

Audit Committee report

The Committee had regard to the Trustees' triennial valuation as at 31 December 2015, which reported a larger deficit than the 2012 triennial valuation. The 2015 triennial valuation requires higher contributions from the company and the Committee considered the adequacy of the group's funding arrangements to meet the increase in contributions required by Trustees.

The Committee also considered the adequacy of the explanations for the different basis of valuation for the Trustees funding assessment and for the balance sheet position under international accounting standards.

Revenue recognition and the recoverability of revenue allowances

The economic regulatory price control for UK en route services allows for the recovery (or reimbursement) of revenue allowances where actual traffic volumes or inflation are different to the regulator's forecasts made at the start of the reference period, where actual service performance is different to the regulator's annual targets and for adjustments brought forward from the previous charge control period. NATS' policy is to recognise these revenue adjustments in the year of service, based on traffic, inflation and service performance experienced. Where regulatory revenue adjustments are assessed after the end of a reference period, their recoverability (or reimbursement) is dependent on the assessment of the economic regulator and recognised on this basis.

The Committee reviewed the nature and value of the regulatory revenue adjustments and considered the relevant EC Charging Regulations and the conditions of NERL's air traffic services licence for RP2 in determining whether their recognition was appropriate. The recoverable and the reimbursable revenue allowances are reported in notes 16 and 20 respectively.

Other matters

This year, the Committee also enquired as to the company's plans for assessing the impact of IFRS15: *Revenue from Contracts with Customers*, and the accounting impacts of contractual risks associated with joint ventures. The Committee also reviewed financial reports issued to shareholders under the terms of the Strategic Partnership Agreement.

b. Internal control

The Board is responsible for the group's system of internal control and for reviewing its effectiveness.

NATS' system of internal control is designed to ensure that the significant financial, operational, safety, legal, compliance and business risks faced by the group are identified, evaluated and managed to acceptable levels. This system was in place during the year and up to the date of approval of the Annual Report and Accounts and was specifically considered for the year under review at its June 2017 Audit Committee meeting. However, as with all such systems, internal controls can provide reasonable but not absolute assurance against misstatement or loss.

The Audit Committee's ongoing work in the area of internal control includes reviewing reports by the internal and external auditors, reviewing reports of any attempted or actual frauds, receiving reports from the management's Tax and Treasury Committees, and consideration of the circumstances of whistleblowing reports.

In particular this year the Committee reviewed the results of internal audits of anti-fraud controls in areas of highest risk, and is monitoring management actions designed to ensure that NATS' whistleblowing procedures continue to meet best practice and are understood throughout the company and amongst stakeholders and third parties. The Committee also considered cyber security risks including the establishment of an Executive Management Committee supported by independent advice which will assist all the Board's Committee's in their understanding and governance of cyber security aspects across all of NATS' top risks.

c. Risk management

Risk management is essential in seeking to minimise the threat that an event or action might have on the group's ability to achieve its objectives and to execute its strategies effectively. Successful risk management ensures that the group is able to consistently deliver services to its customers and meet the needs and expectations of its shareholders in a fast changing and uncertain environment.

The Board takes the management of risk very seriously, paying particular attention to areas such as safety, service delivery, operating efficiency, pension funding, financial control, project delivery, regulatory compliance, financing and IT systems.

Reports from Board Committees

Audit Committee report

This system for the identification, evaluation and management of risks is embedded within the group's management, business planning and reporting processes, accords with the UK Corporate Governance Code, and is aligned with the ISO 31000 risk management standard. Detailed risk identification is carried out at business unit and departmental levels and is recorded and measured in a controlled and managed enterprise-wide database. NATS' risks are mapped against risk tolerance statements which have been agreed by the Board. Risk update reports are submitted to the NATS Executive team which address changes in risk tolerance, business controls and the progress of mitigating actions associated with NATS' risks.

The Audit Committee reviews the processes in place to identify, assess, mitigate and manage risk in order to satisfy itself that they are appropriate and within the specified risk tolerance. The Board formally reviews the principal risks to NATS and the risk management processes and mitigations in place on a six monthly basis. The directors have carried out a robust assessment of the principal risks facing the business. In each monthly set of Executive reports to the Board, any changes in gross or residual risk of a 'top risk' will be highlighted by exception, but particularly if the change means a risk falls outside of the agreed tolerance. The Audit Committee and Board have assessed the group's principal risks and the performance against mitigation plans during the year ended 31 March 2017, and agreed the actions and mitigations in place for the principal risks as at the date of this report. The Audit Committee and the Board also review the extent of warranties and guarantees entered into by the company, with particular focus on any unlimited liability indemnities entered into as part of commercial arrangements.

d. Internal audit

The group's Internal Audit department reviews the controls in place to manage NATS' business risks, which includes reviews of internal financial control. In order to access the specialist skills required to perform assessments across the wide range of areas in which NATS operates, the Internal Audit function is operated as a co-source arrangement, primarily with PwC but with other providers if required.

The results of internal audits and agreed actions are reported as appropriate to relevant directors, executives and managers. The Audit Committee also oversees and monitors the actions taken by management to address Internal Audit findings and considers the ongoing independence of Internal Audit. The Audit Committee oversees the performance of Internal Audit through the receipt of a report on its work presented to each Audit Committee meeting and agrees the annual work plan in the context of the group's audit and assurance universe.

e. External audit

BDO LLP was re-appointed as external auditors at the Annual General Meeting on 28 July 2016. The Committee reviewed the performance and the continuing independence of BDO at its June meeting and recommended to the Board that BDO are re-appointed. Accordingly, a resolution recommending their re-appointment will be tabled at the AGM on 30 July 2017.

f. Non-audit work performed by the external auditors

From time-to-time the external auditors perform non-audit services for the group. Part of the Audit Committee's remit is to ensure that such engagements do not impair the auditors' objectivity or independence. The Committee does this by implementing a policy on non-audit services. It monitors the level of non-audit fees against a limit of 70% of the average statutory audit fee incurred over the prior three years and approves work by the external auditors in accordance with this policy.

The principal non-audit services performed by BDO in the year ended 31 March 2017 were an assurance certificate in respect of NERL's regulatory accounts and independent reviews of claims for European grant funding. The cost of non-audit services is disclosed in note 6 of the 'Notes forming part of the consolidated accounts'.

The Committee considered the nature and cost of these services and concluded that they did not impair the independence of the external auditor.

Richard Keys

Chairman of the Audit Committee

Reports from Board Committees

Nomination Committee report

The role of the Nomination Committee

The Nomination Committee is chaired by the Chairman Paul Golby and, during the year, comprised three further non-executive directors, Peter Read, Richard Keys and Maria Antoniou. The Committee meets when considered necessary by its members and may invite executives and advisors to attend meetings as appropriate.

Appointments to the Board are made by the relevant sponsoring shareholder under the terms of the SPA. The Committee has the task of evaluating the balance of skills, knowledge and expertise required on the Board and making recommendations to the shareholders with regard to Board appointments. It also reviews succession plans for executive directors and senior executives.

Main activities of the Committee during the year

During the year, the Committee met three times: in May 2016, September 2016 and February 2017 and considered Board and Committee composition and non-executive director appointment. The Committee also undertook a review of NATS' talent strategy and succession plan.

The appointment of Maria Antoniou by HMG as a Partnership Director and Andrew Barker by AG were made during the year. Peter Read announced his retirement as Chairman of the Airline Group and a director of NATS with effect from 25 May 2017. Mike Campbell was appointed by AG as his successor. Will Facey, an AG appointed director, resigned from the Board, on 30 June 2017. AG will begin the search for a successor.

The Committee's terms of reference require it to give due regard to the benefits of diversity, including gender on the Board.

Paul Golby

Chairman of the Nomination Committee

Reports from Board Committees

Remuneration Committee report

This report has been prepared by the Remuneration Committee and approved by the Board. The information in this report is not subject to audit.

Purpose and responsibilities

The Committee meets when necessary and is responsible for:

- > considering and approving, on behalf of the Board, the arrangements for determining the remuneration, benefits in kind and other terms of employment for the Chairman and executive directors and the company's Personal Contract Group (which comprises c.300 senior managers);
- > considering and approving company incentive targets for executive directors and other members of the wider executive team;
- > considering and approving a statement of remuneration policy;
- > confirming details of the remuneration of each executive director for inclusion in the Annual Report and Accounts;
- > confirming reward arrangements for all executive team members; and
- > considering exit arrangements for executive team members.

The terms of reference for the Committee require it to ensure the company's remuneration policy complies with the current Corporate Governance Code, as far as practicable under the SPA. No director is involved in decisions relating to his or her own remuneration.

Main activities of the Committee during the year

The Committee met five times in 2016/17 and its main activities during the year were to:

- > review and approve the annual performance related pay targets for executive directors, the executive team and Personal Contract Group;
- > review and approve achievement of the Long Term Incentive Plan (LTIP) cycle 3 targets and resulting payments;
- > review and update the terms of the executive team contracts in line with best market practice; and
- > agree remuneration for new executive team roles and termination payments for departing executive team members.

Membership

The Remuneration Committee of the Board is comprised entirely of non-executive directors. It is chaired by Maria Antoniou (who replaced Andy Lord as Chairman), Gavin Merchant and Andrew Barker (who replaced Brenda Dean). Paul Golby also attends the meeting (but is absent for discussion about his own remuneration).

Advisers and other attendees

As appropriate, the CEO and HR & Corporate Services Director are invited to attend Committee meetings.

The company also takes external advice on various aspects of remuneration policy and competitive pay levels from independent consultants. New Bridge Street (NBS), part of Aon Hewitt, are independent advisers to the Committee. NBS has no other commercial relationship with the company. NBS is a member of the Remuneration Consultants Group and is a signatory to its code of conduct.

Remuneration policy

It is the company's policy to establish and maintain competitive pay rates that take full account of the different pay markets relevant to its operations. In return, employees are expected to perform to the required standards and to provide the quality and efficiency of service expected by its customers. In fulfilling this policy, the company fully embraces the principles of and complies with the provisions of the UK Corporate Code on directors' remuneration as outlined below.

The level of executive directors' remuneration takes into account competitive practice across comparator companies (which are based on organisations, as agreed with the Committee, from which NATS might seek to recruit employees or which are similar to NATS in other respects) together with the need to attract and retain talent. Executive directors are rewarded on the basis of responsibility, competence and contribution, and salary increases take account of pay awards made elsewhere in the group. Performance-related elements form a substantial part of the total remuneration package and are designed to align the interests of directors with those of shareholders and other stakeholders and to promote the long term success of the company.

Performance is measured against a portfolio of key business objectives and payment is determined based on performance beyond that expected of directors as part of their normal responsibilities. In implementing this strategy the Committee adopts the principle that incentive scheme targets must be stretching and in line with the Board's agreed strategic growth and business plans.

Executive directors

The remuneration package for executive directors is reviewed each year and consists of, but is not restricted to:

- > annual salary;
- > pension, life assurance and income protection or ill health;
- > annual performance related incentive scheme;
- > long term performance related incentive scheme;
- > All-Employee Share Ownership Plan; and
- > other benefits: including company car or car allowance, financial advice, private medical cover and health screening.

Full details of directors' remuneration paid in relation to 2016/17 are set out on page 57.

Reports from Board Committees

Remuneration Committee report

Salaries

Salary policy summary

The Committee determines, where appropriate, annual increases to executive directors' salaries having regard to their experience, responsibility, individual contribution, market comparatives and pay increases elsewhere in the group.

Operation

Executive directors' salaries are normally reviewed annually and fixed for the 12 months commencing on 1 April. The Committee takes into consideration:

- > role, experience and performance of the individual;
- > internal and external relative positioning for total reward; and
- > the average budgeted increase in base salaries elsewhere in the group.

Implementation for 2017/18

In determining the base salaries for 2017/18, the Committee has determined that following a benchmarking exercise there will be an increase of £30,000 in Martin Rolfe's salary from 1 April 2017 in order to align more closely to the market position. His initial base salary, on appointment to the role in October 2015, was positioned below market median with a view to progression into the role. Nigel Fotherby's salary was increased by £2,042.

Salaries effective for the financial years	2016/17	2017/18
Martin Rolfe	£400,000	£430,000
Nigel Fotherby	£291,719	£293,761

Pensions and life assurance

Pension and life assurance policy summary

To provide income in retirement through either:

- > Defined Benefit Pension Scheme (pre April 2009) with 4 times final pensionable earnings, death in service and ill health arrangements; or
- > Defined Contribution Pension Scheme (post April 2009) pension scheme with 8 x basic salary death in service and income protection arrangements; or
- > A cash alternative in lieu of employer pension contributions (for those impacted by the lifetime allowance tax regime)¹⁷.

Operation

Executive directors' pensions and life assurance are based on salary only, with performance-related pay and other discretionary benefits excluded. There are two principal methods of securing pensions for executive directors:

- > the Civil Aviation Authority Pension Scheme (CAAPS), a defined benefit scheme. This scheme was closed to new participants on 1 April 2009; and
- > the NATS Defined Contribution Pension Scheme which came into operation on 1 April 2009.

NATS offers a company-wide cash alternative payment scheme in lieu of employer pension contributions for those with total pension savings close to the Lifetime Allowance, which is also available to eligible executive directors.

Implementation for 2016/17

The schemes will operate as described above. Martin Rolfe is a member of the Defined Contribution Pension Scheme in order to make employee pension contributions only. During April 2016, the company paid employer contributions of £20,346 relating to the financial year ended 31 March 2016, in line with employee entitlements for that year. In 2016/17 he was eligible for the cash alternative payment scheme in lieu of employer pension contributions. Cash alternative payments of £60,000 are included in his salary and fees in the directors' remuneration table.

Nigel Fotherby was a member of CAAPS during the year.

The salaries of both directors are reported net of employee pension contributions made under salary sacrifice arrangements.

Annual incentive scheme

An Annual Management Performance Related Pay Scheme (AMPRPS) is in place for the executive team and all staff in the Personal Contract Group.

AMPRPS policy summary

The AMPRPS is designed to reward on-going delivery and contribution to strategic targets during a one-year period. Targets are set annually and are a mix of financial and personal performance.

Operation

AMPRPS payouts are determined by the Committee after the year end, based on performance against pre-determined financial and personal objectives. The Committee may apply discretion as appropriate.

AMPRPS is paid entirely in cash. The Committee may determine that vesting should not be applied for any particular participant(s) should the Committee consider that individual performance or other circumstances makes this an appropriate outcome.

Reports from Board Committees

Remuneration Committee report

This power would only be exercised in circumstances when the Committee decides that there has been or could be significant damage to the reputation of the company either during the performance years or as a result of the award. In these cases, the decision would be referred to the non-executive directors of the Board for ratification.

In addition, a claw-back provision applies whereby individuals are liable to repay or forfeit some or all of their AMPRPS if there is a material misstatement of results.

Performance metrics

- > Company performance: 75% of maximum
- > Personal performance: 25% of maximum

Further details of the targets set for 2016/17 are provided in the outcome section on page 56.

Maximum AMPRPS opportunity

- > CEO: 70% of salary
- > Finance Director: 55% of salary

AMPRPS for 2017/18

The AMPRPS will run on an unchanged basis.

Performance targets are set in line with business strategy and will be set out, to the extent they are not commercially sensitive, in next year's report.

Long-term incentive plan

A Long-Term Incentive Plan (LTIP) is in place for members of the executive team. Following the review last year the LTIP is now aligned to the market, retaining market comparative maximum award levels combined with greater stretch in target values with an overall aim of retaining broadly similar total reward levels to the previous scheme. A full description of how the revised LTIP structure operates is set out below.

LTIP policy summary

The LTIP is designed to reward the achievement of a set of financial and strategic targets for rolling three-year periods.

Operation

Awards of notional shares are made annually with vesting dependent on the achievement of performance conditions over the three subsequent years.

To the extent that performance conditions are met awards will normally vest in three tranches, 50% in the third financial year, 25% in the fourth financial year and 25% in the fifth financial year. Transitional arrangements are in place for the cycle 5 award which creates a shorter performance window for this cycle to allow for a delay in implementation whilst considering scheme design.

Notional shares are linked to the NATS All-Employee Share Ownership Plan share price and participants receive cash payments in relation to the value at the time of vesting.

Recovery and withholding provisions apply to the LTIP at the discretion of the Committee in the event of material misstatement of results, an error in the calculation of outcome or in instances of individual gross misconduct.

Performance metrics

Profitability, growth and strategic targets will be set out (to the extent they are not commercially sensitive at the time an award vests). These will be subject to the overarching event clause and adjusted to take account of traffic levels.

Maximum LTIP opportunity

For cycles with a first performance year of 2016/17:

- > CEO: 110% of salary
- > Finance Director: 90% of salary

Active LTIP cycles

Cycle 4 - The cycle 4 award was made in April 2014 and covers a three-year performance period to 31 March 2017. Performance metrics are linked to financial and strategic targets and payout will be made following the end of the cycle and final audited results of these measures. The maximum LTIP opportunity for this cycle is as follows:

- > CEO: 75% of salary
- > Finance Director: 75% of salary

Cycle 5 - The cycle 5 award was made in April 2016. This award is subject to a two-year performance period, with 75% of the award vesting on the third anniversary of grant and 25% of the award vesting on the fourth anniversary of grant. Performance metrics are linked to profitability, growth and strategic targets.

Cycle 6 - The cycle 6 award was also made in April 2016. This award is subject to a three-year performance period, with 50% of the award vesting on the third anniversary of grant, 25% of the award vesting on the fourth anniversary of grant and 25% of the award vesting on the fifth anniversary of grant. Performance metrics are linked to profitability, growth and strategic targets.

Reports from Board Committees

Remuneration Committee report

All-Employee Share Ownership Plan

The NATS All-Employee Share Ownership Plan is designed to give every member of staff (including executive directors but not non-executive directors) an equal opportunity to acquire a stake in the future success of the company. The share plan holds 5% of the shares in NATS and is administered by a special trustee company with three directors – one each appointed by HM Government, AG and the Trades Unions (collectively known as the Trustee). Maria Antoniou chairs the Trustee meetings.

At the date of this report, Martin Rolfe holds 624 shares and Nigel Fotherby holds 3,101 shares.

The current HM Revenue and Customs approved valuation, for the period 1 January 2017 to 30 June 2017, values the shares at £3.95 each.

Employment contracts

The employment contracts of Martin Rolfe and Nigel Fotherby provide for 12 months' notice in the event of termination by the company or the executive director.

Non-Executive Directors

Charges for the services of non-executive directors are determined in agreement with the relevant sponsoring body - the Department for Transport in the case of the Partnership directors and AG in the case of AG directors.

The Partnership directors each received annual remuneration of £36,000 in the financial year. AG directors received no remuneration for their services to the NATS Board. However, a payment of £180,000 per annum is made to AG in lieu of remuneration for these directors. This sum is used to fund the activities of AG.

Derek Provan is employed and remunerated by LHRA as part of his contract.

During the year a sub-committee of the Board comprising the Chairman and Chief Executive, reviewed the fees paid to non-executive directors. It determined that the base fee of £36,000 p.a. should remain unchanged, but that a supplemental fee of £8,000 be paid (effective 1 April 2017) to those non-executive directors who chair the Audit, Remuneration, Safety Review and Technical Review Committees of the Board, to reflect the additional work involved in preparing and chairing the Committees. For AG appointed non-executive directors, it was agreed that the supplemental fee would be covered by fees paid to AG. It also agreed that the fees paid to AG be increased from £180,000 to £204,000 in recognition of the full employer cost of the AG directors and recommended that non-executive director fees be reviewed on an annual basis.

Paul Golby has a contract specifying the remuneration he receives from the company, being £160,000 on an annualised basis.

The Partnership directors are normally engaged on three-year fixed-term contracts and have letters of appointment from the Department for Transport.

Annual management performance related pay scheme outcome for 2016/17

Targets relating to the company element of the AMPRPS for 2016/17 were only partly achieved (yielding 52.8% out of an available 75% of the award).

The AMPRPS targets feature three key measures:

- > Group EBITDA – c.82% of the available weighting achieved;
- > Customer focus measures – year end delay performance was below threshold value, therefore no payout for this element;
- > Time Based Separation – savings created in excess of the stretch target, therefore full payout;
- > Operational measures relating to key airspace milestones were achieved; and
- > the Commercial milestone was not achieved.

The personal performance payouts for the executive directors were 22.5% (out of an available 25%).

Overall this resulted in a total payout 75.3% out of an available 100%.

Long-term incentive scheme outcome for LTIP Cycle 4 2016/17

This results in a total payout of 96.3% of the maximum achievable for cycle 4, which will be payable in June 2017.

Maria Antoniou

Chairman of the Remuneration Committee

Reports from Board Committees

Audited information

Directors' remuneration

Emoluments (excluding pension arrangements which are reported in the tables below) of the Chairman and directors were as follows:

Notes	Salary or fees (*)		Benefits (*)		Performance related payments (*)		Long term incentive plan (*)		Pay in lieu of notice (*)		Total (*)		
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Chairman													
Dr Paul Golby CBE	1	160	160	7	5	-	-	-	-	-	-	167	165
Executive directors													
Martin Rolfe	2, 3, 4	450	319	17	14	211	268	236	121	-	-	914	722
Nigel Fotherby	2, 4	281	281	13	13	121	147	210	129	-	-	625	570
Non-executive directors													
Maria Antoniou	5	24	-	-	-	-	-	-	-	-	-	24	-
Richard Keys		36	36	-	1	-	-	-	-	-	-	36	37
Iain McNicoll CB CBE	1	36	36	1	1	-	-	-	-	-	-	37	37
Andrew Barker	6	-	-	-	-	-	-	-	-	-	-	-	-
Dr Harry Bush CB	6	-	-	-	-	-	-	-	-	-	-	-	-
Will Facey	6	-	-	-	-	-	-	-	-	-	-	-	-
Gavin Merchant	6	-	-	-	-	-	-	-	-	-	-	-	-
Peter Read	6	-	-	-	-	-	-	-	-	-	-	-	-
Derek Provan	7	-	-	-	-	-	-	-	-	-	-	-	-
Former directors (at 31 March 2017)													
Baroness Dean of Thornton-le-Fylde	8	12	36	-	-	-	-	-	-	-	-	12	36
Andy Lord	6	-	-	-	-	-	-	-	-	-	-	-	-
Tony Tyler	6	-	-	-	-	-	-	-	-	-	-	-	-
Roger Cato		-	27	-	-	-	-	-	-	-	9	-	36
Richard Deakin		-	111	-	5	-	-	-	-	-	251	-	367
		999	1,006	38	39	332	415	446	250	-	260	1,815	1,970

*For year, or from date of appointment or up to date of resignation.

- Benefits paid to the Chairman and non-executive directors represent the reimbursement of travel costs.
- Martin Rolfe and Nigel Fotherby participate in the company's pension salary sacrifice arrangement. The salaries of both directors are reported net of employee pension contributions made under salary sacrifice arrangements. The contributions paid via salary sacrifice are included within the pension figures reported in the analysis of pensions below.
- Martin Rolfe was eligible for the cash alternative payment scheme in lieu of employer pension contributions. Cash alternative payments of £60,000 are included in his salary and fees for the financial year ended 31 March 2017 (2016: nil). With respect to his salary for the prior year, Martin Rolfe was appointed interim Chief Executive Officer (CEO) on 18 May 2015 and his annual salary increased from £241,904 to £300,000 on that date. On 13 October 2015 Martin was appointed CEO on an annual salary of £400,000 and received a bonus of £50,000 for his service as interim CEO, which is reported within performance related payments.

- Martin Rolfe and Nigel Fotherby participate in the Long-Term Incentive Plan. As explained in the report above, the outcome for cycle 4 resulted in a payout of 96.3% of the maximum achievable. The prior year LTIP reflects the outcome for cycle 3 which resulted in a payout of 60% of the maximum achievable. In Martin's case, the increase in his LTIP also reflects the increase in his salary following his appointment as CEO.

- Maria Antoniou was appointed to the Board on 1 August 2016.
- These directors are appointed by The Airline Group (AG) who charged NATS a total of £45,000 per quarter (2016: £45,000 per quarter) for the services of the directors. Andrew Barker was appointed to the Board on 28 September 2016. Andrew Lord resigned from the Board on 28 September 2016. Tony Tyler resigned from the Board on 28 July 2016. Peter Read resigned from the Board on 25 May 2017 and Mike Campbell was appointed effective 26 May 2017.
- Derek Provan is appointed to the Board by LHR Airports Limited (LHRA). He receives no fees from NATS for his services.
- Baroness Dean of Thornton-le-Fylde resigned from the Board on 28 July 2016.

Reports from Board Committees

Remuneration Committee report

Directors' remuneration (continued)

Interests of the directors in the Long-Term Incentive Plan (LTIP)

From April 2011, the company introduced a rolling three-year executive LTIP, entitling the executive directors to performance related pay contingent on achieving financial and strategic targets. Cycle 4 commenced in April 2014 and vested on 31 March 2017. From cycle 5 the maximum entitlement is changed into Notional shares and therefore the amount available will also be linked to the movement in the share price. Due to the timing of the review of the LTIP structure, a transitional award (cycle 5) was implemented in April 2016 with a reduced two-year performance period. Effective from April 2018, the LTIP schemes will vest 50% at the end of the performance period, and 25% per year for the following two years, resulting in an overall five-year term for each plan (with the exception of the transitional cycle 5 which will have a reduced four-year term).

The maximum entitlement of the executive directors for each cycle as a percentage of average annual salary is shown below:

	Cycle 4	Cycle 5 and 6
Martin Rolfe	75%	110%
Nigel Fotherby	75%	90%

The outcome of the LTIP is not known until the end of each cycle. Accordingly, the emoluments table will reflect amounts when qualifying conditions in relation to each cycle are met. The table values above reflect the outcome of LTIP cycle 4.

Pension benefits

Nigel Fotherby was a member of the CAA Pension Scheme, a defined benefit pension scheme, during the year. The value of his accrued pension benefit in the year was as follows:

	2017 £000	2016 £000
Nigel Fotherby	147	114

The pension value represents the additional benefit accrued in the year (excluding inflation as measured by the Consumer Prices Index (CPI)) multiplied by a factor of 20. The pension value includes contributions paid by the employer on behalf of Nigel via a salary sacrifice arrangement.

The principal terms of the company's defined contribution scheme (DC scheme) are explained in note 30 to the financial statements. Martin Rolfe is a member of the scheme in order to make employee pension contributions only. During April 2016, the company paid employer contributions of £20,346 relating to the financial year ended 31 March 2016, in line with employee entitlements for that year. Under the company's pension salary sacrifice arrangement, Martin sacrificed £10,173 of his salary in lieu of contributions to the DC scheme in the year.

Reports from Board Committees

Remuneration Committee report

Directors' remuneration (continued)

Directors' shareholdings and interests in shares

Aggregate emoluments disclosed above do not include any amounts for the value of shares awarded under the company's All-Employee Share Ownership Plan. The directors did not sell any shares during the year.

Details of the shares held by directors during the year are as follows:

	Date from which exercisable:				Total holding (number of shares)	Value at 31 March 2017 (at £3.95 each) £	Value at 31 March 2016 (at £4.20 each) £
	Exercisable (brought forward /granted in year)	25/09/2017 (brought forward)	29/05/2019 (brought forward)	30/10/2021 (granted in year)			
Martin Rolfe	312	-	150	162	624	2,465	1,260
Nigel Fotherby	2,739	200	-	162	3,101	12,249	11,663
	3,051	200	150	324	3,725	14,714	12,923

In October 2015 employees, including executive directors, were offered the option to participate in an award of 150 partnership shares at fair value (being the lower of the share price at the start of the accumulation period of £3.95 and the end of the accumulation period being £3.65 per share) by deductions from gross salary over a 12 month accumulation period which ended in September 2016. Due to the decrease in share price, under the terms of the scheme, 162 shares were awarded to staff members applying for 150 shares. Participants also received one free matching share for every partnership share purchased. Both of the executive directors participated in this offer and were awarded 324 shares on 31 October 2016.

The executive directors received dividends during the financial year based on their shareholdings at the distribution date.

Reports from Board Committees

Safety Review Committee report

The role of the Safety Review Committee

The Safety Review Committee supports the Board in discharging its accountabilities for the safe provision of air traffic services and for security arrangements across NATS. It meets quarterly as a formal committee and receives separate in-depth briefings as required.

Its remit includes the requirements to:

- > monitor and review the effectiveness of the safety arrangements in place in the group;
- > review the delivery of the group's safety and security objectives through its operations, structures and processes;
- > review the group's safety performance;
- > monitor the implementation of safety enhancement programmes; and
- > make recommendations to the Board for improving the group's safety and security management systems.

The Committee is chaired by Iain McNicoll and there were two other non-executive directors as members in the year: Will Facey and Derek Provan. The following are invited to attend each meeting by standing invitation:

- > Chairman of the NATS Board;
- > CEO;
- > Safety Director;
- > Operations Director;
- > Technical Services Director;
- > Commercial Director;
- > Directors Swanwick, Prestwick and Airports; and
- > Directors Safety Operations and Technical Services.

The Head of Facilities Management and the Chief Information Officer formally report to the Committee on the security arrangements in NATS twice per annum.

During the year, the Committee took advice from the following special advisers, who were invited to each meeting by standing invitation:

- > Dr Don Lloyd, Director Health & Safety and Environment for Genel Energy plc and Visiting Professor in Risk at Brunel University to September 2016;
- > Professor Don Harris, Professor of Human Factors, Faculty of Engineering and Computing at Coventry University; and
- > Captain John Monks, Head of Aviation Safety, British Airways.

The Committee would like to thank Dr Don Lloyd for his advice over the years and welcomes George Bearfield, Systems Safety Director, for the Rail Safety and Standards Board (RSSB) as the Committee's new advisor from February 2017.

Main activities of the Committee during the year

a. Operational safety

As part of its safety governance and oversight of the NATS operations, the Committee receives regular in-depth reports and briefings on safety performance and associated improvement activities. Key topics throughout the last year were:

Infringements of controlled airspace

The CAA has the lead responsibility and, whilst NATS can, and has, taken mitigating actions to protect aircraft operating within controlled airspace from infringing aircraft, solutions to the root causes require the inclusion of the regulator. The Committee has continued to support the NATS Board and Executive in engaging with the CAA.

The Solent Collaborative airspace trial was successfully completed. This proved the value of the Frequency Monitoring Transponder Codes in helping to reduce infringements.

We supported a CAA Infringements Seminar which had over 90 delegates from across the general aviation (GA) community. As a result of this and further NATS engagement with the CAA, a five-point plan is now in action covering the use of technology by GA pilots, improvements to navigation training, a review of airmanship skills, continuation of robust enforcement action by the CAA, and better use of the Airspace Infringement Working Group to deliver improvements.

We will continue to support these projects, and maintain a close dialogue with the CAA.

Safety Performance Targets Review

The Committee and the Safety and Airspace Regulation Group (SARG) requested that a review be conducted of the internal safety targets to confirm they remain fit for purpose. Whilst it was agreed that NATS' safety targets are challenging, the Committee and the Board fully supported the review recommendation to retain the existing targets and to introduce the monitoring of overall RAT points, and the addition of a count of NATS and overall A, B and C events as reported metrics. These changes will enable the Committee and the Board to continue to monitor the safety performance of NATS operations effectively.

Safety Strategy and Safety Plan

The delivery of the NATS Safety Strategy and Safety Plan has continued, with briefings on: Human Performance enhancement, particularly during change; the risks and benefits from the technology and airspace change programme; and the existing and developing procedural and technical mitigations to the risk of inadvertent entry onto an active runway.

Understanding safety performance

To ensure the Committee remains fully informed of new developments it receives regular briefings on emerging topics. Of specific interest this year has been a range of activities related to the evolving understanding of safety performance. Key developments that were shared with the Committee were three 'in house' initiatives: first, testing of hypotheses of the driving factors in our performance; secondly, forecasting benefits from our change programme; and thirdly, the prediction of where safety events are likely to occur in our operations. We were also briefed on the application of the European Accident Incident Model to NATS data. We were encouraged by these initiatives and will continue to monitor and promote the use and development of new methods.

Reports from Board Committees

Safety Review Committee report

European Regulation

As part of the Committee's assurance that future risks and opportunities are being managed, we have been briefed on emerging European aviation safety legislation. Whilst such changes are a longer term issue, the potential to affect the way in which we implement safety management in NATS is significant. The Committee will continue to monitor the developments in safety regulation.

b. Cyber security

As the sole provider of UK en route air traffic management, NATS is part of the UK's critical national infrastructure. NATS is also increasingly diverse in its business operations, with activities underway in the UK and expanding into overseas territories. NATS relies on effective digital operations to deliver all these services and therefore places a very high priority on cyber security. It is recognised that NATS must be prepared for a variety of threats from a multitude of sources. NATS remains committed to the active management of cyber security risks and has, over the past 12 months, kept the Committee informed of the continued progress in the following areas:

- > NATS has maintained ISO27001 certification, the international standard of information security management, for elements of our business and has plans to increase the scope during 2017;
- > The cyber-aware culture of NATS has continued to improve. Staff take mandatory security awareness training which is supported by innovative and engaging workshops, over 50 of which were run in calendar year 2016. In addition, the staff security culture and awareness level was evaluated as part of the organisation wide Safety Culture survey (with methodology developed and benchmarked by EUROCONTROL);
- > NATS continues to assess and improve the cyber security of all our services, including business, operational and airports;
- > NATS welcomed a variety of external reviews from experts such as top tier professional services firms and Her Majesty's Government. The reviews demonstrated NATS commitment to continual improvement of our cyber capabilities; and
- > NATS has taken opportunities to strengthen relationships with the National Cyber Security Centre, Department for Transport and the Civil Aviation Authority.

However, cyber security is a major challenge for all industries; threats constantly develop, and attacks, both targeted and non-targeted, are frequent. Security therefore requires constant improvement, investment and vigilance. Through regular review of the strategy, and progress of the detailed cyber plan, the Committee has assured that a high level of protection of people, data, infrastructure and operations has been maintained and that NATS has an active security management system.

c. Corporate/physical security (external threats)

NATS' Corporate Security department provides assurance reports, covering all aspects of physical security, internal and external threats to NATS, vetting, travel security, data protection and crisis management (incorporating business continuity). The principal focus for the Committee in the past year has been:

Governance

This ensures and maintains engagement at all levels of the business, from business area to Executive and Board level. Reporting to the Committee is on a bi-annual basis, in June and December, where confirmation is provided that governance processes are in place and are robust.

Travel Security

The Committee has been briefed on the NATS response to security events in Paris and Brussels, including appropriate travel restrictions, and on the established approval and escalation procedures following any major incident. Further assurance of the travel security risk assessments for locations that NATS staff travel to, the use of Hostile Environment training, and the development of an online travel risk tool that will quickly identify the location of NATS staff have been provided. The NATS Travel Security Governance Group and the NATS Travel Steering Group have been combined to form the NATS Travel and Travel Security Steering Group. Formal Terms of Reference for the new Steering Group have been approved.

Crisis/Incident Management

The Committee has supported the continued work of the Executive and operational leadership teams in fully embedding Crisis/Incident Management policies and procedures in the culture of the organisation. Detailed Gold, Silver and Bronze Team procedures are in place and regular exercising of Gold and Silver Teams has taken place. In addition, exercises are also undertaken with many outside agencies including the emergency services, DfT and CAA.

Vetting

Security vetting continues to be the foundation of our protection from the 'insider' threat. Vetting clearance times during calendar year 2016 averaged 26 days and, although a very slight increase on 2015, this is still significantly better than the majority of vetting agencies.

Security Awareness

Face to face security awareness presentations to staff and contractors have been conducted across NATS sites. Police and security agencies have commented favourably on the content and delivery. The RUN, HIDE, TELL methodology has been well received by staff. Corporate Security played an active part in the 'Safe in Everything We Do' campaign and received extremely positive feedback on both the content and method of message delivery.

Physical Security

Following the increase of the CPNI security status of CTC, Prestwick and Swanwick, considerable work was undertaken to ensure that all plans, procedures and response measures were up to date and fit for purpose. External validation of all physical security measures was undertaken by specialist staff from CPNI and fully endorsed by them. Work has continued to build on the excellent working relationships with Police and Security Agencies.

Iain McNicoll, CB CBE

Chairman of the Safety Review Committee

Reports from Board Committees

Technical Review Committee report

The role of the Technical Review Committee

The role of the Technical Review Committee is to support the Board in monitoring the development and introduction of cost effective technical systems and services in support of its operations. Its remit includes:

- > ensuring that business objectives are clearly reflected in the requirements laid on technology programmes;
- > reviewing the technical strategies proposed to meet the agreed requirements, with appropriate regard to other (European and worldwide) initiatives and developments, and the likely impact on service provided to customers;
- > reviewing the effectiveness of the operations, programmes, structures and processes employed in delivering the group's technical objectives; and
- > making recommendations to the Board on means for improving the group's technical systems, their implementation and performance.

The Committee is temporarily chaired by Iain McNicoll following Peter Read's retirement from the Board, until the appointment of a permanent chairman. There are two other non-executive directors as members: Mike Campbell and Richard Keys. The NATS Chairman, Paul Golby, also attends. The following are invited to attend each meeting by standing invitation:

- > Chief Executive Officer;
- > Technical Services Director;
- > Director Service Design and Transition;
- > Director Service Strategy and Transformation;
- > Director Strategic Assurance; and
- > Chief Systems Architect.

Main activities of the Committee during the year

As part of its governance and oversight of the NATS operations, the Committee receives regular in-depth reports and briefings on the existing and planned investment programmes, and the technical risk profiles. The following issues have received focus by the Committee.

Deploying SESAR

SESAR is the European-wide standard for future systems, designed to produce a step change in safety, performance, and efficiency. The main challenge in the years ahead is the introduction of SESAR compliant systems. Each of the main programme components represents a significant change to the operation and to the systems. The size and complexity of the composite programme brings an additional scale of risk to the business as a whole, which the Committee is committed to review on a continuing basis, in order to provide the necessary levels of reassurance to the Board.

At the heart of the programme is iTEC. This is the new generation of core flight data processing systems which will underpin all NATS future operations and will operate on a common modern architecture to support all of UK airspace.

Significant progress has been made this year in developing and refining the plans and improving the reporting and oversight of the programme. Key elements of the programme during RP2 are:

a. Prestwick Centre (PC) Upper Airspace

Transition into Full Operational Service (FOS) of iTEC within Prestwick Upper Airspace. This represents the first deployment of a new Flight Data Processing (FDP) System in UK upper airspace for over 40 years, and a key first step to roll out through NATS airspace.

b. Terminal Control (TC): Electronic Flight Strips

TC moves off paper flight strips onto electronic flight strips, providing safety and efficiency benefits and enabling the necessary stepping stones towards a full tool-based interface with iTEC and FourSight (advanced controller tools).

c. Area Control (AC): Voice Communications

AC moves over to a new Voice over IP communications system together with a higher performance backup system. This reduces the risk associated with the existing voice system which is end of life, provides increased resilience to failure and increases flexibility of operations.

d. En Route: AC and PC Upper

AC and military move into the combined operations room at Swanwick supported by iTEC and FourSight. Prestwick Upper Airspace moves onto the latest version of iTEC with FourSight, common across both centres.

This transition provides a 4D trajectory based FDP with the technology to support Free Route Airspace and more flexible airspace designs. Additionally, it provides improved resilience and contingency, and the capability to support new ATC concepts e.g. dynamic sectorisation. It also removes legacy assets from service.

Airspace Change

The second key element of NATS' investment programme is airspace change, which will allow the opportunity to deliver significant customer benefits by redesigning airspace routes and procedures whilst at the same time making use of the latest airborne and ground-based technology. However, a number of developments in the industry environment had given rise to challenges in the delivery of the airspace programme, particularly in lower level airspace. These include:

- > Unprecedented public reaction to a change in noise patterns;
- > Planned public consultation on both the Airspace Change process and the UK Government policies including the treatment of noise;
- > Government decision timeline on runways in the South East; and
- > Negative public reaction linked to uncertainty about runway expansion, severely limiting airports' willingness to support LAMP developments.

Reports from Board Committees

Technical Review Committee report

As a result NATS engaged with key stakeholders around the impact of these challenges and subsequently consulted customers around revisions to the planned delivery of major airspace changes. The new plan focuses on the inclusion of mainly higher level airspace changes during RP2 with the intention of delivering the necessary lower level airspace changes in RP3. The key aspects of the revised airspace programme during RP2 are identified below:

- > Delivery of a 'Point Merge' approach system for London City Airport and a number of related changes completed in February 2016;
- > The redesign of certain aspects of the London Area Control operation to optimise performance and reduce emissions/fuel usage;
- > A single vehicle to develop and deliver consistent and systemised airspace in the North of England and Scotland through the Prestwick Lower Airspace Project;
- > The delivery of Free Route Airspace, where traffic will not be constrained by existing route structures and will be able to fly user-preferred direct routes across large swathes of airspace to optimise route profiles; and
- > Independent Parallel Approaches at Heathrow, subject to HAL completing some key dependencies (i.e. successful outcome of public consultation and securing CAA approval of the Airspace Change Proposal).

Resilience

Resilience of operational systems results from a combination of reliability and powers of recovery. Over many years NATS has been successful in implementing highly resilient systems, necessary to the fulfilment of its mission. The Committee is considering the subject in more depth as a result of a small number of significant events in recent years. The objective is to balance the levels of investment against realistic expectations of resilience in a complex systems environment.

Iain McNicoll, CB CBE

Interim Chairman of the Technical Review Committee

Report of the directors

The directors present their annual report on the affairs of the group, together with the financial statements and the auditor's report for the year ended 31 March 2017.

The Governance report is set out on pages 44 to 48 and forms part of this report.

A review of the group's key business developments in the year and an indication of likely future developments is included within the Strategic report.

Information about the use of financial instruments by the group is given in note 19 to the financial statements.

Dividends

The company paid dividends of £24.0m (16.78 pence per share) in the year (2016: £81.7m). The Board recommends a final dividend for the year of £nil (2016: £nil).

In May 2017, the Board approved and the company paid an interim dividend of £28.5m (19.92 pence per share) for the year ending 31 March 2018.

Directors and their interests

The directors of the company at the date of this report are set out on pages 40 to 43. Details of changes in the Board during the year and to the date of this report are set out in the Governance report on page 44.

The interests of the directors in the share capital of the parent company, through their participation in the All-Employee Share Ownership Plan, are set out on page 56.

None of the directors have, or have had, a material interest in any contract of significance in relation to the group's business.

Directors' indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Employees

The group continues its commitment to the involvement of employees in the decision-making process through effective leadership at all levels in the organisation. Staff are frequently involved through direct discussions with their managers, cross company working groups and local committees. Regular staff consultations cover a range of topics affecting the workforce, including such matters as corporate performance and business plans. The NATS CEO maintains high visibility with staff through visits to NATS sites where he talks to them about current business issues and takes questions in an open and straightforward manner. Also, employees' views are represented through an open dialogue with Prospect and the Public and Commercial Services Union (PCS), the recognised unions on all matters affecting employees. This has been enhanced through the Working Together programme aimed at working towards partnership principles as the basis for our relationship. Formal arrangements for consultation with staff exist through a local and company-wide framework agreed with the Trades Unions.

It is the group's policy to establish and maintain competitive pay rates which take full account of the different pay markets relevant to its operations. In return, employees are expected to perform to the required standards and to provide the quality and efficiency of service expected by its customers.

The group is an equal opportunities employer. Its policy is designed to ensure that no applicant or employee receives less favourable treatment than any other on the grounds of sex, age, disability, marital status, colour, race, ethnic origin, religious belief or sexual orientation, nor is disadvantaged by conditions or requirements applied to any post which cannot be shown to be fair and reasonable under relevant employment law or codes of practice.

The group is also committed to improving employment opportunities for disabled people. The group will continue to promote policies and practices which provide suitable training and retraining, and development opportunities for disabled staff, including any individuals who become disabled, bearing in mind their particular aptitudes and abilities and the need to maintain a safe working environment.

The group strives to maintain the health and safety of employees through an appropriate culture, well-defined processes and regular monitoring. Line managers are accountable for ensuring health and safety is maintained and responsibility for ensuring compliance with both legal requirements and company policy rests with the HR & Corporate Services Director.

Report of the directors

Going concern, viability statement and subsequent events

The directors' assessment of going concern and their viability statement are set out on page 20. Subsequent events are disclosed in note 34 to the financial statements.

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and of the parent company, and of the profit or loss of the group and the parent company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- > properly select and apply accounting policies;
- > present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- > provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- > make an assessment of the group's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each person who is a director at the date of approval of these financial statements confirms that:

- > so far as the director is aware, there is no relevant audit information of which the group's auditors are unaware; and
- > the director has taken all the steps that he/she ought to have taken as director in order to make himself/herself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

This information is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- > the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group;
- > the Strategic report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces; and
- > the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the group's position and performance, business model and strategy.

Auditor

A resolution to re-appoint BDO LLP as statutory auditor will be proposed at the Annual General Meeting.

Approved by the Board of directors and signed on behalf of the Board by:



Richard Churchill-Coleman
Secretary

30 June 2017

Registered office
4000 Parkway, Whiteley, Fareham, Hampshire PO15 7FL

Registered in England and Wales
Company No. 04138218

Independent auditor's report to the members of NATS Holdings Limited

Opinion on financial statements of NATS Holdings Limited

In our opinion:

- > **the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2017 and of the group's profit for the year then ended;**
- > **the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union;**
- > **the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and**
- > **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.**

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated and company statement of changes in equity, the consolidated cash flow statement and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 2 to the financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the group has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

As a result of a contractual agreement between the company's shareholders requiring compliance with certain aspects of the UK Corporate Governance Code, the directors have included a corporate governance statement relating to the company's compliance with the UK Corporate Governance Code, a statement in relation to going concern, longer term viability and a directors' remuneration report and have asked us to report on these statements as if the company were listed.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Our assessment of risks of material misstatement and overview of the scope of our audit

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate

Our group audit was scoped by obtaining an understanding of the group and its environment, including the group's system of internal control, and assessing the risks of material misstatement in the financial statements at the group level.

We carried out full scope audits on all significant components which covered 99% of the group's revenue. We performed limited procedures on the remaining components. There has been no significant change in the group's operations nor in our assessment of materiality, therefore the assessed risks of material misstatement described below, which are those that had the greatest effect on the audit strategy, the allocation of resources in the audit and directing the efforts of the audit team, are the same risks as in the prior year.

We set out below the risks that had the greatest impact on our audit strategy and scope. The Audit Committee's consideration of these matters is set out on pages 49 to 51.

Independent auditor's report to the members of NATS Holdings Limited

Risk	How the scope of our audit responded to the risk
<p>Revenue recognition and the recoverability of the regulatory assets:</p> <p>The group generates revenue in relation to Airspace, Airports, Defence and other services.</p> <p>In determining the revenues recognised, management makes key judgements about material revenue allowances that are recoverable or payable in subsequent accounting periods.</p>	<p>We have reviewed each significant revenue stream to ensure that we concur with the accounting policies applied.</p> <p>We have reviewed and tested each of the revenue streams to ensure that the revenue is being recognised in line with the group policy and, in the case of Airspace, to ensure that it is in line with the provisions of the air traffic services licence, the regulatory charging mechanisms for the reference period and the RP2 settlement.</p> <p>We have specifically considered and challenged management over the amounts recoverable or payable as revenue allowances under the EC Charging Regulation.</p> <p>We have also reviewed individual judgements including the margin assumptions on Project Marshall, and contract accounting judgements in relation to percentage of completion and margin.</p>
<p>Pension scheme valuation:</p> <p>The NATS Holdings Limited group operates a defined benefit pension scheme, which is accounted for in accordance with IAS 19: <i>Employee Benefits</i> which requires complex calculations and disclosures.</p> <p>Management make a number of judgements and actuarial assumptions which have a significant impact on the valuation of pension scheme assets and liabilities shown in the balance sheet and hence on the amounts shown in the consolidated income statement and the consolidated statement of comprehensive income.</p>	<p>We have reviewed the pension scheme data and accounting treatment and disclosures and considered them in light of the pension assumptions made.</p> <p>We have worked with our pension specialists to assess the validity of assumptions applied, in particular discount and inflation rates and mortality assumptions and performed a detailed review of the scheme actuary's annual valuation report.</p> <p>In addition we have performed audit procedures in order to substantiate the value of the scheme assets. This included selecting a sample of investments held at the balance sheet date and comparing their value to supporting documentation.</p>

Independent auditor's report to the members of NATS Holdings Limited

Risk	How the scope of our audit responded to the risk
<p>Carrying value of goodwill:</p> <p>In accordance with the group's accounting policies, management has undertaken an impairment review of the carrying value of goodwill by comparison with the recoverable amount. This has resulted in a charge to the consolidated income statement of £11.0m.</p> <p>In calculating an appropriate valuation for the recoverable amount of the regulatory business, the premium applied to the Regulatory Asset Base (RAB) continues to be a key judgement, alongside the estimate of future cash flows.</p>	<p>We have reviewed and tested management's current assessment of the carrying amount of goodwill.</p> <p>We have reviewed, with the assistance of our own specialists, the overall methodology, cash flow forecasts, discount rate assumptions and benchmarking available to support the RAB premium applied in determining terminal values and the fair value less costs to dispose. Our audit testing of operating cash flows included comparing forecasts to recent financial performance and budgets approved by the Board.</p> <p>We tested the integrity of the model and considered the impact of management's sensitivity calculations.</p>
<p>Capital investment programme:</p> <p>The group invests significant sums in the sustainment and development of air traffic control infrastructure.</p> <p>A substantial proportion of the costs incurred are the amounts charged by staff employed by the group which are capitalised to specific projects.</p> <p>A key judgement is that either time is not appropriately capitalised or the quantum of the labour rate used could be misstated.</p> <p>In addition management makes judgements around the useful economic lives of currently deployed systems, assesses indicators of impairment and considers feasibility.</p>	<p>We have worked with the project managers outside of the group finance team in order to gain an understanding of the capital projects, and assessed them for impairment factors.</p> <p>We have tested a sample of capitalised projects which included reviewing the appropriateness of the labour rates being used and the amount of labour time being capitalised per project.</p> <p>We have assessed management's judgement of the useful economic lives of currently deployed systems to ensure that the position taken is reasonable.</p> <p>We have considered management's assessment of any indicators of impairment for a sample of current capital projects carried forward as either tangible or intangible fixed assets.</p> <p>In addition we have tested a sample of externally generated assets to test existence and that costs are materially accurate.</p>

Independent auditor's report to the members of NATS Holdings Limited

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the group financial statements as a whole was set at £9.1m. This was determined with reference to a benchmark of revenue of which it represents one per cent which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the group.

Performance materiality was set at seventy five per cent of the above materiality levels.

Materiality levels are not significantly different from those applied in the previous year.

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £273,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- > the information given in the Strategic report and the Report of the directors' for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- > the Strategic report and the Report of the directors' have been prepared in accordance with applicable legal requirements.

Opinion on other matters

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006 that would apply if the company was a listed company.

Statement regarding the directors' assessment of principal risks, going concern and longer term viability of the company

We have nothing material to add or to draw attention to in relation to:

- > the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- > the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; and
- > the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Report of the directors'.

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- > materially inconsistent with the information in the audited financial statements;
- > apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- > is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- > adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- > the parent company financial statements are not in agreement with the accounting records and returns; or
- > certain disclosures of directors' remuneration specified by law are not made; or
- > we have not received all the information and explanations we require for our audit.

Independent auditor's report to the members of NATS Holdings Limited

Other matters

We have also reviewed:

- > the directors' statements on page 20, in relation to going concern and longer term viability; and
- > the part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code for review by the auditor in accordance with Listing Rule 9.8.10 R(2) if the company was a listed company.

We have nothing to report in respect of these matters.



Malcolm Thixton
(senior statutory auditor)

for and on behalf of BDO LLP, statutory auditor
Southampton
United Kingdom

30 June 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

