

Governance report



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Director's biographies

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

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.



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, Chairman of the Technical Review Committee and a member of the Nomination and Remuneration Committees.

Directors of NATS Holdings Limited

Director's biographies



Non-Executive Director

Chris Hope

Chris has held a number of senior leadership roles during his career, which has spanned over 30 years in the aviation industry. He is currently responsible for easyJet's operation at London Gatwick. During his 10 years with easyJet, Chris has also been responsible for Flight Operations, Crew Planning and Operations Strategy. Chris started his career as a professional pilot and prior to joining easyJet he spent 19 years with Britannia Airways (later TUI Airways) latterly holding the post of Chief Pilot/Head of Flight Operations. Chris is an energetic leader, who is passionate about delivering business change through innovation and team work. He is a director of AG and a member of the Safety Review Committee.



Non-Executive Director

Richard Keys

Richard is a non-executive director of Merrill Lynch International, Wessex Water Services Limited, the Department for International Development and the Department for Transport. 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.



Non-Executive Director

Kathryn Leahy

Kathryn is currently Director of Operations at Heathrow Airport, where she holds functional responsibility for airside and airfield operations, as well as umbrella responsibility for the day-to-day management and operations of the Airport Operations Centre, resilience and emergency planning. Kathryn sits on the Sustainability Leadership Board and leads the Airspace Governance Board for Heathrow. She joined Heathrow Airport in 2010 as Risk and Safety Director and has held a number of senior operational roles.

Kathryn started her career in financial services working for AIG, and moved to the aviation industry in 1997. She spent 13 years at Virgin Atlantic Airways running their Risk and Safety Management team, as well as establishing the Internal Audit department and Board Audit Committee. She is a member of the Safety Review Committee.

Directors of NATS Holdings Limited

Director's biographies



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 is a member of the Technical Review Committee.



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.



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).

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, 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 Board comprised a non-executive Chairman and 10 directors, as follows:

Executive Directors

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

Non-Executive Directors

- > a Chairman, appointed by AG, subject to the prior approval of the Crown Shareholder;
- > four directors appointed by AG;
- > three Partnership directors, appointed by the Crown Shareholder; and
- > one director appointed by LHRA.

Changes to the Directors

From 1 April 2017 to the date of approval of the accounts, the changes to the directors were:

Non-Executive Directors

Peter Read	Resigned 25 May 2017
Will Facey	Resigned 30 June 2017
Andrew Barker	Resigned 29 September 2017
Derek Provan	Resigned 28 February 2018
Mike Campbell	Appointed 26 May 2017
Chris Hope	Appointed 27 July 2017
Kathryn Leahy	Appointed 31 May 2018

The roles of the Chairman, Chief Executive 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 is 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. The Board also has oversight of key business drivers and risks. 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, as follows:

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.

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

Name	Number of meetings attended / Number of eligible meetings
Paul Golby	10/10
Martin Rolfe	10/10
Nigel Fotherby	10/10
Maria Antoniou	9/10
Andrew Barker	2/5
Harry Bush	10/10
Mike Campbell	8/9
Will Facey	2/3
Chris Hope	6/6
Richard Keys	7/10
Iain McNicoll	10/10
Gavin Merchant	8/10
Derek Provan	7/8

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 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 28 March 2018 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 programmes were started for Mike Campbell, Chris Hope and Kathryn Leahy. These programmes 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. These are 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 employees 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 42 to 57. 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 two committees: the RP3 Subcommittee (comprising the Chairman, Nigel Fotherby, Martin Rolfe, Harry Bush, Richard Keys and Iain McNicoll) to consider the RP3 Initial Performance Plan; and the Brexit Subcommittee (comprising the Chairman, Nigel Fotherby, Martin Rolfe, Harry Bush and Richard Churchill-Coleman) to consider the implications of, and the company's position on, Brexit.

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	1/1			
Maria Antoniou		1/1	7/7		
Andrew Barker			2/3		
Harry Bush	4/4				
Mike Campbell		1/1	4/4		4/5
Will Facey				1/1	
Chris Hope				3/3	
Richard Keys	4/4	1/1			5/6
Gavin Merchant			5/7		
Iain McNicoll				4/4	6/6
Derek Provan				2/3	

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 27 July 2017. 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 2018, the applicable standard is the 2016 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 2018. 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.

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.

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.

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.

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.

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 2018 was as follows:

Name	Date of appointment	Years of service to 31/3/18*
Paul Golby	1/9/14	3 years 7 months
Maria Antoniou	1/8/16	1 year 8 months
Andrew Barker	28/9/16	12 months**
Harry Bush	27/5/14	3 years 10 months
Mike Campbell	26/5/17	10 months
Will Facey	27/11/14	2 years 8 months ^^
Chris Hope	27/7/17	8 months
Richard Keys	1/9/13	4 years 7 months
Iain McNicoll	1/9/13	4 years 7 months
Gavin Merchant	20/3/14	4 years
Derek Provan	28/1/16	2 years 1 month***
Peter Read	23/9/02	14 years 8 months^

* Years of service to resignation, if earlier

** Served until 29 September 2017

*** Served until 28 February 2018

^ Served until 25 May 2017

^^ Served until 30 June 2017

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

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 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 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 employees may confidentially report suspected wrongdoing in financial reporting or other matters with the objective of confirming that arrangements in place for their investigation and follow-up are appropriate. The Committee reviews its Terms of Reference annually and recommends any changes to the Board for approval.

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 value of goodwill

This is a focus for the Committee because of the materiality of the group's goodwill (£198.3m at 31 March 2018) and the inherent subjectivity in impairment testing. The judgements 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 value less costs of disposal, including the extent of any premium to the value of regulatory assets.

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 RP2 settlement and the cash flows implied by its latest business plan; the cost of capital assumption used to discount value in use; and the value of NERL's regulatory assets, including a premium to reflect the scope for out-performance of regulatory settlements and premia implied by market transactions in regulated entities. The Committee was satisfied with management's analysis and the explanations and disclosures provided in note 13 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.

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.

Reports from Board Committees

Audit Committee report

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

The Committee also received reports on the impact of IFRS 15: *Revenue from Contracts with Customers* and the method of its adoption in the financial year ending 31 March 2019, reviewed financial reports issued to shareholders under the terms of the Strategic Partnership Agreement, the group's tax strategy and relevant guidance on realised and distributable profits. The Committee will be reviewing the impact of new accounting standard IFRS 16: *Leases*, which will apply in 2019/20, during the 2018/19 financial year.

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 2018 Committee meeting. However, as with all such systems, internal controls can provide reasonable but not absolute assurance against misstatement or loss.

The 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 overseeing NATS' whistleblowing procedures, the Committee reviewed the appointment of an independent provider for NATS' whistleblowing hotline and was satisfied the associated procedures continue to meet best practice and are promulgated effectively throughout the company and to interested stakeholders and third parties.

Since its previous report, the Committee's reviews of internal audit work have included those on: cyber security arrangements, including a review of arrangements and processes at certain key suppliers as they impact services to NATS; group insurance arrangements; the operating and governance arrangements in place at a material joint venture in conjunction with the internal systems and processes of the joint venture partner; and GDPR readiness. The Committee also approved the internal audit programme for 2018/19 including the continuing review by internal audit of the assurance processes in place across the group audit universe through the operation of the 'three lines of defence', with particular focus on the first and second line activities and accountabilities. The Committee continues to monitor the follow-up by internal audit of management actions taken to address the internal audit recommendations arising from their work.

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 prepared to deal with events that could disrupt the business' ability 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.

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 ISO31000 risk management standard. Detailed risk identification is carried out at business unit and departmental levels and is recorded and measured in a structured and controlled 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 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. NATS 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' are highlighted by exception, but particularly if the change means a risk falls outside the agreed tolerance. The Committee and Board have assessed the group's principal risks and the performance against mitigation plans during the year to 31 March 2018. The Committee and the Board also review the extent of warranties and guarantees entered into by the group, with particular focus on any unlimited liability indemnities entered into as part of commercial arrangements.

Reports from Board Committees

Audit Committee report

d. Internal audit

The group's internal audit department reviews the controls in place to mitigate 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 Committee also oversees and monitors the actions taken by management to address internal audit findings and considers the ongoing independence of internal audit. The Committee oversees the performance of internal audit through the receipt of a report on its work presented to each 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 auditor at the Annual General Meeting on 27 July 2017. The Committee reviewed the performance and the continuing independence of BDO at its June meeting and recommended to the Board that BDO be re-appointed. Accordingly, a resolution recommending their re-appointment will be tabled at the AGM on 26 July 2018.

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 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 2018 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, Mike Campbell, 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 once in January 2018 to receive an update on talent strategy implementation and review the succession plan with a particular focus on successors into Executive roles. The Committee also received a progress update on the Safety Director appointment and reviewed its terms of reference. The appointment of Chris Hope as an AG appointed director was made on 27 July 2017 and Kathryn Leahy was appointed as LHRA appointed director on 31 May 2018.

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.375 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.

Activities in the year

The Committee met seven times in 2017/18 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 4 targets and resulting payments;
- > review the Independent Remuneration Committee Advisor role and undertake a full tender process to ensure good governance;
- > review NATS gender pay report and statutory declaration in line with the legal requirements and examples of best practice;
- > review the effectiveness of the current LTIP against market practice and consider alternative structures to better align with objectives of the plan; 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. Other members are Gavin Merchant and Mike Campbell (who replaced Andrew Barker in November 2017). 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, were reappointed in December 2017 following a tender process as 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.

Reports from Board Committees

Remuneration Committee report

Executive directors

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

- > annual salary;
- > pension or pension cash alternative, 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 2017/18 are set out on page 50.

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 2018/19, the Committee has determined that following a benchmarking exercise the following salaries will be applied with effect from 1 April 2018:

	Salaries effective 1 April (unless otherwise stated)	
	2017	2018
M Rolfe	£430,000	£450,000
N Fotherby	£293,761	£304,630

Executive salary increases were considered by the Remuneration Committee in line with the agreed principles and benchmarked against the agreed comparator groups. The increase applied for Martin Rolfe at 1 April 2018 takes into account performance against set targets and positions the new salary against appropriate benchmarks.

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) with 8 times 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)¹⁴.

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

Implementation for 2017/18

The schemes will operate as described above. Martin Rolfe is a member of the Defined Contribution Pension Scheme (in order to make employee only contributions) and continues to take the cash alternative in lieu of employer pension contributions. Nigel Fotherby opted out of CAAPS with effect from 31 March 2017, electing to take the pension cash alternative in lieu of employer pension contributions.

Annual incentive scheme

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

Reports from Board Committees

Remuneration Committee report

Operation

AMPRPS payouts are determined by the Committee after the performance 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. 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 2017/18 are provided in the outcome section on page 49.

Maximum AMPRPS opportunity

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

AMPRPS for 2018/19

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 scheme

A Long Term Incentive Plan (LTIP) is in place for members of the executive team.

The LTIP is benchmarked against the market and aligned to retain market comparative maximum award levels combined with clear stretch in target values. 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 2017/18:

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

Active LTIP Cycles

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 second anniversary of grant and 25% of the award vesting on the third anniversary of grant. Performance metrics are linked to profitability, growth and strategic targets.

Cycle 6 and 7 - These cycles were awarded in April 2016 (cycle 6) and April 2017 (cycle 7). The awards are 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 employee (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 2018 to 30 June 2018, values the shares at £3.40 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 received the following annual remuneration in the financial year: Maria Antoniou £44,000 (£36,000 salary and £8,000 as Chairman of the Remuneration Committee), Richard Keys £44,000 (£36,000 salary and £8,000 as Chairman of the Audit Committee), Iain McNicoll £49,333 (£36,000 salary, £8,000 as Chairman of the Safety Review Committee and £8,000 pro-rated as Chairman of the Technical Review Committee between June 2017 and January 2018). AG directors received no remuneration for their services to the NATS Board. However, a payment of £204,000 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 was employed and remunerated by LHRA as part of his contract. The same arrangements will apply for Kathryn Leahy.

Paul Golby has a contract specifying the remuneration he receives from the company, being £165,120 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 2017/18

Targets relating to the company element of the AMPRPS for 2017/18 were only partly achieved (yielding 67.5% out of an available 75% of the award) and personal performance ratings for the executive directors ranged between 22.5% and 25% (out of an available 25%).

The AMPRPS targets feature 3 key measures:

- > Group EBITDA – 81.2% of the available weighting achieved;
- > Customer focus measures – year end delay performance 100%;
- > Operational measures relating to: the start of transitional limited operational service for electronic flight strips in TC by January 2018; and completion of Swanwick site acceptance testing for London City Airport's digital tower capability, resulting in an overall 100% payout.

Long term incentive scheme outcome for LTIP Cycle 5 2017/18

The performance targets were partly achieved (yielding 80% of the maximum achievable for cycle 5). 75% of this award will vest following the share valuation results (around July 2018), after which participants will be able to exercise this portion of the award, and 25% will vest around a year later in July 2019, after which participants will be able to exercise the remaining portion of the award.

Maria Antoniou

Chairman of the Remuneration Committee

Reports from Board Committees

Remuneration Committee report

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*		Pension Cash Alternative*		Total*	
		2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Chairman													
Dr Paul Golby CBE	1	163	160	6	7	-	-	-	-	-	-	169	167
Executive directors													
Martin Rolfe	2, 3, 4	420	390	15	17	278	211	332	236	65	60	1,110	914
Nigel Fotherby	3, 4	294	281	30	13	145	121	198	210	63	-	730	625
Non-executive directors													
Maria Antoniou		44	24	-	-	-	-	-	-	-	-	44	24
Richard Keys		44	36	-	-	-	-	-	-	-	-	44	36
Iain McNicoll CB CBE	1	49	36	1	1	-	-	-	-	-	-	50	37
Michael Campbell	5	-	-	-	-	-	-	-	-	-	-	-	-
Dr Harry Bush CB	5	-	-	-	-	-	-	-	-	-	-	-	-
Chris Hope	5	-	-	-	-	-	-	-	-	-	-	-	-
Gavin Merchant	5	-	-	-	-	-	-	-	-	-	-	-	-
Former directors (at 31 March 2018)													
Baroness Dean of Thornton-le-Fylde		-	12	-	-	-	-	-	-	-	-	-	12
Peter Read	5	-	-	-	-	-	-	-	-	-	-	-	-
Andrew Barker	5	-	-	-	-	-	-	-	-	-	-	-	-
Will Facey	5	-	-	-	-	-	-	-	-	-	-	-	-
Derek Provan	6	-	-	-	-	-	-	-	-	-	-	-	-
		1,014	939	52	38	423	332	530	446	128	60	2,147	1,815

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

1 Benefits paid to the Chairman and non-executive directors represent the reimbursement of travel costs.

2 Martin Rolfe is a member of the defined contribution scheme in order to make employee pension contributions only. Under the company's pension salary sacrifice arrangement, Martin sacrificed £10,000 of his salary in lieu of contributions to the scheme in the year. The company did not make any employer contributions. The principal terms of the scheme are explained in note 30 to the financial statements.

3 Martin Rolfe and Nigel Fotherby were eligible for the pension cash alternative payment scheme in lieu of employer pension contributions. Under the pension cash alternative payment scheme, Martin Rolfe received £64,500 for the year (2017: £60,000) and Nigel Fotherby received £62,916 for the year (2017: nil).

4 Martin Rolfe and Nigel Fotherby participate in the Long Term Incentive Plan. The values for 2018 reflect the estimated value of Cycle 5 at 31 March 2018 (see below).

5 These directors are appointed by The Airline Group (AG) who charged NATS a total of £51,000 per quarter (2017: £45,000 per quarter) for the services of the directors. Peter Read resigned from the Board on 25 May 2017 and Mike Campbell was appointed effective 26 May 2017. Will Facey resigned from the Board on 30 June 2017 and Chris Hope was appointed 27 July 2017. Andrew Barker resigned from the Board on 29 September 2017.

6 Derek Provan was appointed to the Board by LHR Airports Limited (LHRA) and received no fees from NATS for his services. He resigned on 28 February 2018.

Reports from Board Committees

Remuneration Committee report

Directors' remuneration (continued)

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

From Cycle 5 onwards the maximum entitlement under the LTIP scheme is based on an award of notional shares and therefore the amount available is also linked to the movement in the value of an employee share. Due to the timing of the review of the LTIP structure, Cycle 5 was a transitional award implemented in April 2016 with a reduced two-year performance period. Cycles 6 and 7, vesting after April 2019, will vest 50% after the end of the performance period and following the determination of the value of an employee share (around July for each cycle), 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 overall four-year term).

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

	Cycles 5, 6 & 7
Martin Rolfe	110%
Nigel Fotherby	90%

The outcome of the LTIP is not known until the end of each cycle. Accordingly, the emoluments table will reflect amounts when qualifying performance conditions in relation to each cycle are met. The performance period for Cycle 5 ended 31 March 2018 with 75% of the award vesting around July 2018 and 25% one year later. The value of the LTIP included in the table above for 2018 reflects an estimate of the value of the award based on the share price at 31 March 2018 of £3.40. An adjustment may be necessary to the 2018 value in the 2019 annual report to reflect the actual share price at the vesting date. The previous year's LTIP value reflects the outcome of Cycle 4 which achieved a pay-out of 96.3%, and was paid on 30 June 2017.

Pension benefits:

Nigel Fotherby was a member of the CAA Pension Scheme, a defined benefit pension scheme, until he opted out on 31 March 2017. No pension benefits accrued from that date. The value of his accrued pension benefit in the previous year is shown below:

	2018 £000	2017 £000
Nigel Fotherby	-	147

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 shares held by directors during the year are as follows:

Name of Director	Date from which exercisable:			Total holding (number of shares)	Value at 31 March 2018 (at £3.40 each) £	Value at 31 March 2017 (at £3.95 each) £
	Exercisable (brought forward)	29/05/2019 (brought forward)	30/10/2021 (brought forward)			
Martin Rolfe	312	150	162	624	2,122	2,465
Nigel Fotherby	2,939	-	162	3,101	10,543	12,249
	3,251	150	324	3,725	12,665	14,714

In August 2017 employees, including executive directors, were offered the option to participate in an award of 200 partnership shares at fair value (being the lower of the share price at the start of the accumulation period of £3.30 and the end of the accumulation period) by deductions from gross salary over a 12 month accumulation period which ends in September 2018. Participants will also receive one free matching share for every partnership share purchased. Both of the executive directors are participating in this offer.

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

Role of the 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 three other non-executive directors as members in the year: Chris Hope, Will Facey and Derek Provan. Will Facey stepped down as a non-executive director in June 2017 after two and a half years of service to the Committee and was replaced by Chris Hope in July 2017. Derek Provan stepped down in February 2018 and was replaced by Kathryn Leahy in May 2018.

At least two of the following four members of NATS Executive team are required to attend routine meetings: CEO, Safety Director, Operations Director and Technical Services Director.

Director Swanwick, Director Prestwick, Director Airports, Director Operations & Commercial Safety, and Director Safety & Assurance Technical Services are invited to attend routine meetings, but may not be required. Attendance is coordinated through the Executive team.

The Head of Facilities Management and the Chief Information Officer formally report to the Committee on the security arrangements in NATS twice per annum. In addition, FerroNATS and Aquila provide an update on their safety performance once per annum.

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

- > George Bearfield, Systems Safety Director for the Rail Safety and Standards Board (RSSB);
- > Captain John Monks, Head of Aviation Safety, British Airways;
- > Professor Don Harris, Professor of Human Factors, Faculty of Engineering and Computing at Coventry University (to September 2017).

In addition to the quarterly meetings, the Committee may request briefing sessions on key topics. During the year the Committee has requested three such sessions. Topics for these workshop style meetings included: the NATS Training & Development Process for Air Traffic Controllers; Deploying SESAR Safety Assurance; and Safety Performance Target Setting for RP3. The sessions gave members and advisors the opportunity to receive detailed briefings, and to question and discuss topics in-depth with expert teams.

Main activities 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:

> Safety Performance

The Safety Review Committee has a major role in overseeing the company's safety performance. With safety performance in parts of the en route operation proving to be challenging during calendar year 2017 against the aspirational internal targets, the Committee and the Board have engaged in extensive discussions with the business. The discussions have provided the reassurance that, when compared to periods of equivalent traffic and taking a range of indicators into account, safety performance has improved over the last 10 years. Using RAT scoring methodology, the safety performance of calendar year 2017 was 28% better than that of calendar year 2007 at the same traffic levels.

> General Aviation Infringements and Drones

The Committee has continued to focus on actions which reduce safety risk from infringements of controlled airspace by general aviation (GA). Regrettably, there has not yet been a significant reduction in these incursions, but a large number of joint actions with the CAA and the GA community are in hand, encompassing regulatory, procedural and technical measures. One example is a technical improvement to NATS' surveillance capability, which increases the conspicuity to our controllers of air traffic nearing controlled airspace. In the medium term, requiring all airspace users to be visible through cooperative technology (just as all commercial air traffic is today) is the most promising way ahead; this will require a major regulatory change.

The number of drone Airprox and infringements of controlled airspace has continued to increase. The Committee has welcomed the legislative changes announced by the DfT in response to this problem. The Committee is keeping developments in the use of drones under close review and will continue to support regulatory and user community actions that reduce the risk to commercial aviation from drones, and also support NATS training and awareness activities that help mitigate the risks. For example, in partnership with a world leader in commercial drone-based inspection services and training, NATS has enhanced its ability to deliver training to the growing commercial drone sector and the emergency services.

> Safety Collaboration - Comparative Analysis

This year the Committee was briefed on a study that had compared London Terminal Control with a comparable terminal area in the United States. The study, which engaged operational and analytical experts from NATS and the Federal Aviation Authority (FAA), provided a new level of understanding for NATS of how safety is delivered in both operations, together with valuable insight into how a programme of technological change and systemisation needs to be delivered to ensure safety performance is maintained.

Reports from Board Committees

Safety Review Committee report

Main activities during the year (continued)

> Maintaining Safety in Light of Increased Traffic Growth

The Safety Review Committee and the Board have sought to understand the performance drivers and the plans in place to deliver improvements. We are entering a period of potentially unprecedented traffic levels; in anticipation of this and in preparation for a new Reference Period (RP3: 2020-2024) the Committee posed the business with a challenging question, to explore the interrelationships between system capacity and growth, workload and safety. We have already seen work that begins to explain the complexity of these relationships and the discussions will continue into the coming year with a view to ensuring that NATS can continue to deliver the safe operation, which remains its overriding priority, in an increasingly challenging environment.

> Digital Towers

The development of digital remote towers is the beginning of a new age in airport operations. In December the Committee was provided with a detailed brief on the new technology and was brought up to date with the plans to develop the capability. The briefing provided the Committee with safety assurance oversight, which included physical and cyber security considerations. NATS continues to engage closely with the Regulator on this programme and there is more to do. However, the Committee was fully reassured that safety is at the forefront of planning for this exciting new chapter for NATS.

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 expanded its ISO27001 certification, the international standard of information security management, to include all current operational systems. We believe NATS is one of a very few ANSPs globally to achieve this level of certification.
- > The arrival of new legislation, in the form of the NIS Regulation and GDPR has been a priority, and movement toward successful compliance has been prioritised and tracked by NATS.
- > NATS achieved compliance with Cyber Essentials Plus, a UK standard which is required to enable participation in UK Government and Defence commercial projects.
- > As the 'human firewall' remains a key control, the focus on NATS security aware culture continued. Employees take mandatory security awareness training which is supported by innovative and engaging workshops, interactive training and testing, and a regular communications campaign.
- > NATS continues to drive security into the heart of new systems, working with the National Cyber Security Centre (NCSC), CAA and trusted suppliers to ensure that the next-generation air traffic systems are cyber-secure at the point of design and delivery. Similarly, NATS has committed to continual improvement of existing cyber capabilities and programmes of work are in place to continue to assess and improve the cyber security of all NATS' services, including business, operational and airports.
- > NATS has continued to take opportunities to strengthen relationships with the NCSC, DfT and the CAA, liaising with functions as appropriate to share threat insights and best practice. Activities are also underway to establish a global network of security leaders within Air Traffic management.

Cyber security is a major challenge for all industries; threats constantly develop, and attempted 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 been assured that a high level of protection of people, data, infrastructure and operations has been maintained and that NATS has an appropriate, active security management system.

Reports from Board Committees

Safety Review Committee report

c. Physical Security

NATS' Corporate Security department provides assurance reports to the Safety Review Committee, 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. The Committee has confirmed that suitable governance processes are in place and are robust.
- > **Threat Level:** Following the increase in the UK National Threat level in May 2017, NATS undertook a complete review of all security procedures associated with such a change. When the UK National Threat level was raised in September 2017, the revised plans, which included a much better communication plan, were considered by the Committee to be sound at all levels.
- > **Vetting:** National security vetting within NATS has continued well. Although the average time to clear individuals has increased slightly (26 days in 2016 to 29 in 2017) this has been attributable to the transition of all Government vetting activities under one agency, UKSV, which formally became the lead agency in October 2017.
- > **Security Awareness:** Security awareness has continued to be delivered and Corporate Security has again played an active role in the 'Safe in Everything We Do' campaign. Face-to-face presentations have been the preferred delivery method, but this has been enhanced with online information. Feedback has been very positive.
- > **General Data Protection Regulation (GDPR):** Preparations for the implementation of the new EU-wide data protection legislation, GDPR, which came in to force in May 2018, have been monitored by the Committee and have progressed well. Comprehensive reviews of both online and hardcopy data have been undertaken, an independent assessment of all NATS data protection policies and procedures completed, and extensive briefings and specific training for employees who handle personal information given.
- > **Insider Threat:** The Committee have been briefed on the support given by Corporate Security to the 'Insider Threat' work that was conducted by Coventry University. The work, led by Professor Ros Searle, has now been completed and the final report and associated tool kits for managers and practitioners published. Work is now underway assessing the output to see how best the findings can be used within NATS.
- > **Incident Management/Business Continuity:** Work has continued to ensure that NATS is fully prepared should it be necessary to invoke its Incident Management Procedures. All employees involved in responding to any incident are required to undergo extensive training and annual refresher training to ensure competency. A number of people have undergone dedicated training with police agencies in order to further enhance the understanding of each other's requirements when responding to incidents. Joint training exercises with multi-agency partners have taken place; these have had participation which has included the NATS Executive, NATS Senior Leadership Teams, and senior Government (including MOD) and Emergency Services personnel.

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

- > CEO;
- > Technical Services Director;
- > Director Service Design and Transition;
- > Director Service Strategy and Transformation;
- > Director Strategic Assurance; and
- > Chief Engineer.

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 SESAR¹

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 which NATS will achieve through its Deploying SESAR Programme. Each of the main programme components represents a significant change to the operation and its 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.

Following significant progress in previous years in defining requirements and in developing delivery plans, this year has focused on a major period of delivery, including completing contracting of all major elements of the programme. During this time the TRC has maintained its high level oversight of all aspects of the programme including investment governance, programme delivery and lessons learned.

Additionally, during the last year the Committee has increased its focus on the business transformation approach that will be implemented with the system changes to ensure that the benefits of the programme can be fully realised. This included improved approaches to transition and training to assist implementation and new methods of working that will be in place once the transformation is complete.

Key elements of the programme delivered this year are described below:

Reports from Board Committees

Technical Review Committee report

a. Deployment Point Flight Strips

This deployment point moves London Terminal Control off paper flight strips onto electronic flight strips using the Extended Computer Display System (EXCDS) providing safety and efficiency benefits. The EXCDS product has been integrated into our existing operational systems as a stepping stone towards deployment of iTEC in lower airspace. During 2017 an extended period of configuration and evaluation took place to ensure that it could operate effectively leading to a phased transition which will run from November 2017 to June 2018. NATS has worked closely with airlines to minimise impact during transition and this process has worked very effectively to date.

b. Deployment Point Voice

This deployment point will introduce a modern voice over IP communications system initially into Area Control, together with a higher performance backup system. This will reduce the risk associated with the existing system which is nearing end of life and provides improved resilience and increased flexibility to operations. During the year, the Factory Acceptance Test (FAT) was completed for the second system while detailed development continued for the main system leading towards FAT planned for late 2018. Delivery of the new voice solution is a necessary pre-cursor to Deployment Point En Route.

c. Deployment Point En Route

This deployment point will transition Upper Airspace at both Swanwick and Prestwick onto a common ATM system based on iTEC and advanced tools called FourSight. For Swanwick this will move Area Control and military into a new common operations room based on the new systems, while for Prestwick this will mean an upgrade to the latest version of iTEC supported by FourSight. 2017/18 saw the culmination of the first phase of this programme with the creation of the Base Platform, an initial version of the whole platform (hardware and software) integrated in the newly created common operations room at Swanwick. While there is still much work to do this represented a critical milestone in the complex development, integration, testing and validation programme. This programme will lead to a system fully ready for use in early 2020, with the detailed transition timescale to be developed and agreed between customers and operations.

Airspace Change

The second key element of NATS' modernisation 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 gave rise to challenges in the delivery of the planned airspace programme during RP2, particularly in lower level airspace. These included:

- > Unprecedented public reaction to changes 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.

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 TRC continues to maintain high level oversight of the airspace programme, particularly in the light of the revised Airspace Change Process now in place and the continuing challenge to delivering lower level airspace change. Notably, several aspects of NATS' planned programme have been delayed by decisions at the affected airports in relation to the consultation process, including the Prestwick Lower Airspace Systemisation project and the plan for Independent Parallel Approaches at Heathrow.

Key aspects of the revised airspace programme delivered this year have included airspace changes in both Swanwick and Prestwick airspace as well as enhancements to the Arrival Management capability and Time Based Separation. All have delivered tangible benefits to customers and are the prelude to further enhancements during RP2 and RP3.

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 regularly reviews the approach taken to deliver and maintain resilience with the objective to balance the levels of investment against realistic expectations of resilience in a complex systems environment.

Mike Campbell

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 2018.

The Governance report is set out on pages 37 to 41 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 two interim dividends of £28.5m each (19.92 pence per share) during the year, totalling £57.0m (2017: £24.0m). The Board recommends a final dividend for the year of £nil (2017: £nil).

In May 2018, the Board approved an interim dividend for the year ending 31 March 2019 of 20.62 pence per share, totalling £29.5m, which was paid in June 2018.

Directors and their interests

The directors of the company at the date of this report are set out on pages 33 to 36. 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 37.

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 52.

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. Employees are frequently involved through direct discussions with their managers, cross company working groups and local committees. Regular employee 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 employees 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 with the Trades Unions. Formal arrangements for consultation with employees 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 employees, 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, safety and wellbeing 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 Safety 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 15. 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 (EU). 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 IFRS 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

5 July 2018

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

We have audited the financial statements of NATS Holdings Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2018 which 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 to the financial statements, including a summary of significant accounting policies as required by the ISA's. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (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.

In our opinion:

- > **the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit for the year then ended;**
- > **the group financial statements have been properly prepared in accordance with IFRSs as 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.**

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 2 to the consolidated financial statements, the group, in addition to preparing consolidated financial statements in accordance with IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the group financial statements give a true and fair view of the consolidated financial position of the group as at 31 March 2018 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- > the disclosures in the annual report set out on page 22 that describe the principal risks and explain how they are being managed or mitigated;
- > the directors' confirmation set out on page 15 in the annual report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- > the directors' statement set out on page 15 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- > whether the directors' statement relating to going concern is materially inconsistent with our knowledge obtained in the audit; or
- > the directors' explanation set out on page 15 in the annual report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key audit matter	How we addressed the matter
<p>Revenue recognition: Recoverability of the regulatory assets</p> <p>As detailed on pages 75 and 81, in determining Airspace revenues recognised, management makes key judgements about material revenue allowances that are recoverable or payable in subsequent accounting periods.</p> <p>Long term contracts</p> <p>As detailed on pages 77 and 81, the group has significant long term contracts which include material assumptions on margin and percentage completion.</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 to management calculations and tested against contract documentation, performance to-date and any subsequently agreed modifications, including the margin assumptions on significant long term projects, and contract accounting judgements in relation to percentage of completion and margin.</p>
<p>Pension scheme actuarial 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>As detailed on page 81 and in note 30, management makes a number of judgements and actuarial assumptions, with assistance from their actuaries, 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 third party asset confirmations and statements.</p>

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

Key audit matter	How we addressed the matter
<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 no impairment in the year.</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.</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, which in accordance with IAS 36 this year is based on fair value less costs of disposal, as it is higher than value in use. We have also reviewed benchmarking available to support the RAB premium applied in determining the fair value less costs of disposal.</p>
<p>Capital investment programme:</p> <p>As detailed on page 81 and notes 14 and 15, 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>By reviewing useful economic lives to prior years and working with project managers to assess performance to date and expected out turn 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

The materiality we applied to the group equates to 5% of profit before tax (2017: 1% of revenue). We consider profit before tax to be the most significant determinant of the group's financial performance used by shareholders. The materiality we applied to the parent company equates to 2% of total assets (2017: 2% of total assets).

Whilst materiality for the financial statements as a whole was £6.0 million (2017: £9.1 million), each significant component of the group was audited to a lower materiality of between £1.1 million and £5.7 million.

Performance materiality is set at a level lower than materiality, which was 75% of group materiality totalling £4.5million. In setting the level of performance materiality, we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments. Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.

We agreed with the Audit Committee that we would report to them all individual audit differences identified during the course of our audit above clearly trivial, which for significant components was in excess of £55,000 (2017: £67,500). We also agreed to report differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. 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. 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.

An overview of the scope of our audit

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, being NATS Holdings Limited, NATS Limited, NATS (En Route) plc, NATS (Services) Limited, which covered 99% of the group's revenue and 99% of the group's profit before tax. We performed both audit procedures and limited procedures on the remaining components. Together with the parent company, which was also subject to a full scope audit, these represent the four significant components of the group.

There has been no significant change in the group's operations, 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.

Audits of the four components were performed at a materiality level calculated by reference to a proportion of group materiality appropriate to the relative scale of the business concerned. The audits of each of these components were principally performed in the UK at both the Scottish Accounting Unit, Edinburgh, and Corporate Technical Centre, Whiteley. Each of the audits was conducted by the BDO LLP group audit team using a team with experience of auditing the business before, and large corporate entities.

The remaining components of the group were considered non-significant and these components were principally subject to analytical review procedures, together with audit procedures being completed on those components requiring a statutory audit opinion.

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.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- > **Fair, balanced and understandable** set out on page 59, the statement given by the directors that they consider the annual report and financial statements 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, is materially inconsistent with our knowledge obtained in the audit; or
- > **Audit Committee reporting** set out on page 42, the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- > **Directors' statement of compliance with the UK Corporate Governance Code** set out on page 40, the parts of the directors' statement relating to the company's compliance with the UK Corporate Governance Code do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions 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.

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 Report of the directors'.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters

Following the recommendation of the Audit Committee in 2014, we were appointed to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ending 31 March 2015 to 31 March 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Malcolm Thixton
(senior statutory auditor)

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

5 July 2018

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