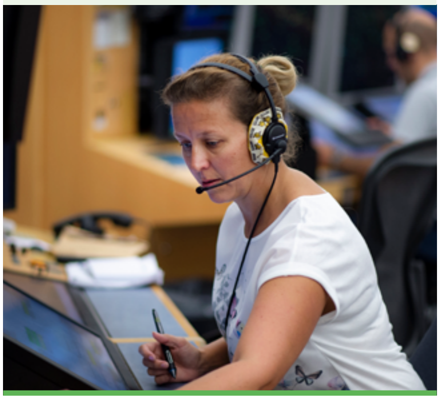
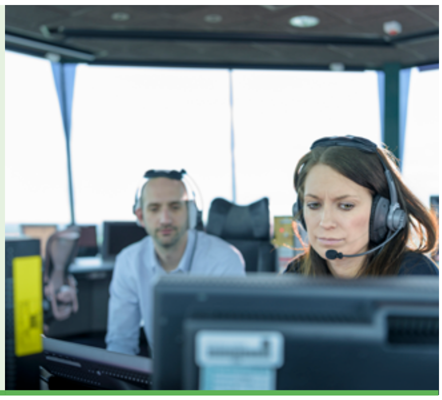
Annual Report and Accounts 2019

Governance report

Contents





Directors of NATS Holdings



Director's biographies

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 Chair of Costain Group plc and a non-executive director of National Grid plc and ERA Foundation. Paul is also a member of the Prime Minister's Council for Science and Technology. Paul chairs the Nomination Committee and was a member of the Audit Committee up to 31 March 2019. Paul also attends the Remuneration Committee, Safety Review Committee and Transformation Review Committee by invitation. Going forward he will also attend the Audit Committee.

Executive Directors

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 ATM programmes as well as UK Government business. Martin has also worked for the European Space Agency and Logica plc.

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, RP2 and RP3. 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



Director's biographies

Non-Executive Directors

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.

Dr Harry Bush CB

Harry is Vice-Chair 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 The Airline Group Limited (AG) and NATS Employee Sharetrust, and a member of the Audit Committee.

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 Chair of AG, Chair of the Transformation Review Committee and a member of the Nomination and Remuneration Committees.

Directors of NATS Holdings



Director's biographies

Non-Executive Directors

Richard Keys

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

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.

Hugh McConnellogue

With over 30 years' experience in the airline industry, Hugh has held senior leadership roles across engineering and airline operations functions. He is currently Group Head of Network Operations for easyJet Airlines, responsible for the operational delivery and performance for all three of easyJet's air operator's certificates. Hugh started his career as an apprentice engineer for Britannia Airways moving on to work in freight and passenger operations with airlines across Europe. In his time with easyJet he has been responsible for line and hangar maintenance, maintenance operations control, deputy post holder for engineering for easyJet Switzerland, airline network operations and emergency response management. During this time he led the merger of airline operations through acquisitions, implementation of new technologies and systems as well as managing large teams of people. Hugh is a director of AG and a member of the Safety Review Committee.

Directors of NATS Holdings

Director's biographies

Non-Executive Directors

Iain McNicoll CB CBE

Iain served 35 years in the Royal Air Force, retiring in 2010 as an Air Marshal. His military flight hours total over 4,300, the majority in fast-jet aircraft, but he also flew large multi-engine aircraft, light aircraft and helicopters. He commanded a Tornado squadron from 1992-1995, a Tornado station from 1998-2000, and was Air Officer Commanding No. 2 Group from 2005-2007. In his last appointment, Deputy Commander - Operations, he was responsible for generating and delivering all of the RAF's front line operational capability. He had RAF responsibility for all safety and environmental matters, and was the RAF's first Chief Information Officer. Since 2010, Iain has been an aerospace, defence and security consultant. He is a Fellow of the Royal Aeronautical Society. Iain chairs the Safety Review Committee and is a member of the Transformation Review Committee.

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.

Louise Street

Having completed a degree in Japanese and Business Management at Durham University, Louise joined British Airways on the graduate intake scheme in 1998. Her first eight years were in the commercial organisation specifically in Sales and Revenue Management. She then moved to the operational side of the business and has undertaken a number of senior management roles in Customer Service and Operations which included implementing a significant change programme to modernise working practices amongst the front line team at Heathrow; introducing and leading a 500 strong team responsible for serving British Airways Premium customers and being accountable for the running of the British Airways Heathrow operation on the day. Moving to Engineering in 2017, Louise's current role as Head of Planning and Business Development has accountability for planning the British Airways maintenance programme along with the fleet embodiment programme to deliver the customer investment set out in the British Airways business plan as well as the future strategy for British Airways Engineering encompassing facilities, resourcing, infrastructure and maintenance. Louise has recently completed further studies in Business Studies at IMD, Lausanne. Louise is a director of AG and a member of the Audit Committee.

Directors of NATS Holdings

Director's biographies

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 PPP 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 Chair and 11 directors, as follows:

Executive Directors

> Chief Executive Officer (CEO); and

> Finance Director.

Non-Executive Directors

> a Chair, appointed by AG, subject to the prior approval of the Crown Shareholder;

> five 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 2018 to the date of approval of the accounts, the changes to the directors were:

Non-Executive Directors	
Kathryn Leahy	Appointed 31 May 2018
Chris Hope	Resigned 4 October 2018
Hugh McConnellogue	Appointed 4 October 2018
Louise Street	Appointed 29 November 2018

The roles of the Chair, Chief Executive and executive management

The Chair 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 seven 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	7/7
Martin Rolfe	7/7
Nigel Fotherby	7/7
Maria Antoniou	7/7
Harry Bush	7/7
Mike Campbell	7/7
Chris Hope	3/4
Richard Keys	7/7
Kathryn Leahy	6/6
Hugh McConnellogue	3/3
Iain McNicoll	7/7
Gavin Merchant	7/7
Louise Street	3/3

The non-executive directors meet with the Chair, 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 Chair is conducted each year. This year, the Board Effectiveness Review was administered by an external provider, Board Evaluation Limited (as required under the 2016 UK Corporate Governance Code (the Code)). The results were assessed by the Board at its May 2019 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 Kathryn Leahy, Hugh McConnellogue and Louise Street. 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
> Transformation Review Committee (previously called the Technical Review Committee).

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	Transformation Review
Paul Golby	3/3	4/4			
Maria Antoniou		4/4	5/5		
Harry Bush	3/3				
Mike Campbell		4/4	5/5		7/7
Chris Hope				2/2	
Richard Keys	3/3	4/4			6/7
Kathryn Leahy				4/4	
Gavin Merchant			5/5		
Hugh McConnellogue				2/2	
Iain McNicoll				4/4	7/7

NATS governance framework

The Board's Committees (continued)

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 43 to 65. 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 continued two additional committees: the RP3 Subcommittee (comprising the Chair, Nigel Fotherby, Martin Rolfe, Harry Bush, Richard Keys and Iain McNicoll) to consider the RP3 Initial Performance Plan; and the Brexit Subcommittee (comprising the Chair, Nigel Fotherby, Martin Rolfe, Harry Bush and Richard Churchill-Coleman) to consider the implications of, and the company's position on, Brexit.

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 (AGM) held on 26 July 2018. Shareholders may also meet informally with the Chair, 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 2019, the applicable standard is the Code. The company will report in accordance with the Corporate Governance Code 2018 from 1 April 2019.

NATS has applied the principles of the Code to the extent considered appropriate by the Board throughout the year ended 31 March 2019. However, a number of principles and provisions in the Code are not relevant to the partnership nature of NATS' ownership and the principal areas where NATS did not comply are summarised below.

Code A.3.1: Independence of the Chair

The Chair 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 the Code's 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 DfT. The Chair 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

Compliance with the UK Corporate Governance Code (continued)

The tenure of non-executive directors at 31 March 2019 was as follows:

Name	Date of appointment	Years of service to 31/03/2019*
Paul Golby	1/9/14	4 years 7 months
Maria Antoniou	1/8/16	2 years 8 months
Harry Bush	27/5/14	4 years 10 months
Mike Campbell	26/5/17	1 year 10 months
Chris Hope	27/7/17	1 year 2 months**
Richard Keys	1/9/13	5 years 7 months
Kathryn Leahy	31/5/18	10 months
Hugh McConnellogue	4/10/18	6 months
Iain McNicoll	1/9/13	5 years 7 months
Gavin Merchant	20/3/14	5 years
Louise Street	29/11/18	4 months

* Years of service to resignation, if earlier
**Served until 4 October 2018

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 SPA 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 Chair 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. In line with the requirements of the Corporate Governance Code 2018, Paul Golby resigned as a member at the 20 March meeting and will be replaced by Louise Street.

The Chairman, CEO, Finance Director, Group Financial Controller, Head of Internal Audit and responsible partner from our co-source internal audit provider, 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 2019) 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 also considered the costs of a theoretical disposal of NERL's regulatory assets and appropriate sensitivities. The Committee was satisfied with management's analysis and the explanations and disclosures provided in notes 2, 3 and 13 to the accounts.

Reports from Board Committees

Audit Committee report (continued)

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 31 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.

Revenue recognition, including the adoption of IFRS 15: *Revenue from Contracts with Customers*

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 for pension costs 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 17 and 21 respectively.

The Committee reviewed the impact of IFRS 15: *Revenue from Contracts with Customers*, the method of its first time adoption and the additional disclosures provided in notes 4 and 35, having regard to the detailed analysis and assessments conducted by management.

Other matters

The Committee also considered: the carrying value of the group's investments, including the fair value of its interest in Aireon; received reports on the impact of IFRS 16: *Leases* and the method of its adoption in the financial year ending 31 March 2020; and reviewed financial reports issued to shareholders under the terms of the SPA.

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 during the year under review as part of the work being carried out by Internal Audit and, in particular, 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 progress since the appointment of an independent provider for NATS' whistleblowing hotline in 2017. The Committee was satisfied that the appointment of the independent provider and the associated whistleblowing procedures continue to meet best practice and are promulgated effectively throughout the company and to interested stakeholders and third parties. The Committee is satisfied that the company's response to whistleblowing reports received during the year has been appropriate and, if necessary, appropriate actions have been taken in line with the high standards of governance which the Board requires.

Since its previous report, the Committee's reviews of internal audit work have covered reports on the effectiveness of controls which manage key risks including General Data Protection Regulations (GDPR), Brexit readiness, pensions risk, and revenue generation. The Committee also approved the scope and phasing of activity for the internal audit function for 2019/20 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.

Reports from Board Committees

Audit Committee report (continued)

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.

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 Code, and is aligned with the ISO31000 risk management standard. Detailed risk identification is carried out at business unit, departmental, and executive 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, 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 2019. 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.

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. For the latter part of the year, the role of Head of Internal Audit was temporarily performed by the co-source engagement partner from PwC.

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 AGM on 26 July 2018. 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 25 July 2019. Under the FRC's Ethical Standard requirement on audit partner rotation, Malcolm Thixton completed his final year of tenure as audit partner at the date of approval of these accounts. His successor is Chris Pooles.

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 2019 were an assurance certificate in respect of NERL's regulatory accounts, agreed upon procedures relating to the adoption of IFRS 15 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 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 evaluates the balance of skills, knowledge and expertise required by the Board and makes 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 four times in June, November, January and February. It received an update on talent strategy, its implementation, and reviewed the succession plan with a particular focus on successors into executive roles including succession for the planned retirement of Nigel Fotherby as Finance Director. Harry Bush (an AG appointed non-executive director) attended the November 2018 meeting to provide input on economic regulation aspects of the Finance Director recruitment process and list of candidates. An external executive search firm, MWM Consulting Limited, was appointed to conduct the process for identifying an external replacement for the Finance Director. Alistair Borthwick, Group Finance Director of Regulated Networks & Enterprise, SSE plc, was appointed Chief Financial Officer following an extensive interview and assessment process. He joins on 5 August 2019.

The Committee also met on 1 April (without Richard Keys and Maria Antoniou, who were conflicted) to consider and make recommendations to the Secretary of State in relation to the re-appointment of all Partnership directors.

Kathryn Leahy was appointed as AG director on 31 May 2018. Chris Hope resigned as AG appointed director on 4 October 2018. The appointment of Hugh McConnellogue was made on 4 October 2018 and Louise Street on 29 November 2018 as AG appointed director.

The Committee's terms of reference require it to give due regard to the benefits of diversity, including gender, on the Board. Currently there are three female directors on the Board, representing 25%. There are two female members of the Executive, representing 22%.

Paul Golby
Chair of the Nomination Committee

Reports from Board Committees

Remuneration Committee report

Dear Shareholders,

I am pleased to present the directors' remuneration report for the year ended 31 March 2019. A key priority for NATS is to deliver a safe, efficient and reliable service to our key stakeholders (the airlines, the travelling public, Government and our shareholders) every day, and that we reward accordingly. In this context, we have incorporated safety overrides into our variable pay schemes to ensure that no additional reward is delivered to our executives if a safe and reliable service is not delivered.

Our remuneration policy's primary objective is to ensure we are able to attract, retain and motivate key executives to deliver strong sustainable business performance which is aligned with both the long-term success of the company and with the interests of our key stakeholders. This report highlights the remuneration decisions made by the Committee over the course of the year.

Key decisions made in 2019

The Committee undertook a detailed review of its variable pay incentives. It concluded that, while the Annual Management Performance Related Pay Scheme (AMPRPS) remained appropriate and aligned to the market, the Long Term Incentive Plan (LTIP) was perceived to be complex, difficult to communicate to participants and was not motivating over the long-term. The Committee concluded that, rather than an annual award as under the LTIP, a new LTIP should focus on delivering returns over and above that set by the regulator for the Reference Period as a whole.

During the year, executive directors were granted a cash-based award under the LTIP-RP2 which is designed to reward the achievement of group financial targets over the final two years of RP2 (i.e. calendar years 2018 and 2019). The Committee has also agreed in principle that a similar arrangement will be in place for RP3. Award levels for this five year period, and performance hurdles will be reported in next year's report, once the NPP for RP3 has been determined.

Reward for 2019

For this year, the AMPRPS for the executive directors reflects a year of good financial performance and delivery of some key operational milestones. Group EBITDA and customer focused targets were met in part, operational targets met in full and the personal performance of both executive directors was strong. The Chief Executive and Finance Director received AMPRPS awards of 89.8% and 88.6% of the maximum available, respectively.

Also, performance targets for LTIP cycle 6 were partly achieved (yielding 38% of the maximum): the NERL rate of return is forecast to achieve threshold value, NATS Services' EBITDA target was not met and strategic targets were met in part.

Remuneration for 2020

For the 2019/20 financial year, the Committee will operate the remuneration policy as set out over the following pages. The highlights include:

- base salary increases of 3% for the CEO and the Finance Director;
- an AMPRPS based on NATS Group EBITDA (40%); customer focus (15%); operational targets (20%); and personal performance (25%);
- no further LTIP award to existing executive directors under LTIP-RP2; and
- we anticipate a grant of an LTIP award at the start of 2020, aligned to the RP3 period.

Conclusion

We believe our policy delivers a robust link between reward and performance, that it is implemented in line with our stated objectives and the Group's strategic goals.

Maria Antoniou
Chair of Remuneration Committee

Reports from Board Committees

Remuneration Committee report (continued)

Purpose and responsibilities of the Committee

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 c375 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 five times in the year and its main activities 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 all active LTIP cycle targets and resulting payments;
- 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 members 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. 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.

Wholly independent advice on executive remuneration is received from the Executive Compensation practice of Aon plc. Aon is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct. Aon has no other commercial relationship with the company. Fees charged by Aon for advice provided to the Committee for 2018/19 amounted to £99,200 (excluding VAT).

Directors' 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 our customers and also in line with the NATS values and behaviours. In fulfilling this policy, the company adheres where possible to the principles and 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 (as agreed with the Committee, companies from which NATS might seek to recruit employees or are considered similar to NATS) together with the need to attract and retain talent. Executive directors are rewarded based on responsibility, competence and contribution, and salary increases take account of pay awards made elsewhere in the group. Performance-related reward forms a substantial part of the total remuneration package and is designed to align the interests of directors with those of 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.

The tables on pages 50 and 51 describe the key components of each element of the remuneration arrangements for the executive directors, and the company's policy in this respect. Actual pay and benefits are set out in the table of directors' remuneration on page 54.

Reports from Board Committees

Remuneration Committee report (continued)

Discretions retained by the Committee in operating the variable pay schemes

The Committee operates the group's various incentive plans according to their respective rules and, where applicable, in accordance with relevant legislation and HMRC guidance. In order to ensure efficient administration of these plans, certain discretions are reserved to the Committee, these include:

> determining who may participate in the plan;

> determining the timing of grants of awards and/or payments under the plans;

> determining the quantum of awards and/or payments (within the limits set out in the remuneration policy table);

> determining the performance measures and targets applicable to an award (in accordance with the remuneration policy table);

> where a participant ceases to be employed by the Company, determining whether 'good leaver' status applies;

> determining the extent of vesting of an award based on assessment of the performance conditions, including discretion as to the basis on which performance is to be measured if an award vests in advance of normal timetable (on cessation of employment as a 'good leaver' or on the occurrence of corporate events);

> whether recovery and/or withholding shall be applied to any award and, if so, the extent to which they shall apply; and

> making appropriate adjustments to awards on account of certain events, such as major changes to the constitution of the company.

Approach to recruitment remuneration

In the event that the Company recruits a new executive director (either from within the organisation or externally), when determining appropriate remuneration arrangements, the Committee will take into consideration all relevant factors to ensure that arrangements are in the best interests for the Company and its shareholders. This will include the application of the policy described in the policy table. In exceptional circumstances for externally recruited directors, the Committee may offer additional cash awards to compensate an individual for remuneration forfeited on leaving a previous employer. The awards would not exceed what is felt to be a fair estimate of the remuneration forfeited and would reflect (as far as possible) the nature and time horizons attached to that remuneration and the impact of any performance conditions.

For an internal appointment, any remuneration terms awarded in respect of the previous role may either continue on its original terms or be adjusted to reflect the new appointment.

When recruiting non-executive directors, the remuneration arrangements offered would normally be in line with those paid to existing non-executive directors, details of which are set out in the Annual report on remuneration.

Reports from Board Committees

Remuneration policy table:

Component	Link to strategy	Operation	Maximum opportunity	Framework to assess performance	Recovery and withholding
Base salary	To provide fixed remuneration for each role which reflects the size and scope of executive directors' responsibilities and their individual skills and experience.	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.		Not applicable	Not applicable
Benefits	To provide flexible, market aligned benefits on a cost-effective basis.	May include private health cover for the executive and their family, life insurance cover of up to eight times annual base salary, income protection and a car allowance. Relocation support and any associated costs or benefits may also be provided if considered by the Committee to be appropriate and reasonable to meet the requirements of the business. Other benefits may be offered from time to time broadly in line with market practice. Executive directors may participate in any all-employee share plan offers which may be operated by the company on the same terms as other employees.	The overall value of benefits will depend on the individual's circumstances and therefore there is no formal maximum. Participation in the all-employee share plan will be subject to the scheme's rules and in line with any relevant statutory limits.	Not applicable	Not applicable
Pension	To provide cost-effective and competitive post-retirement benefits.	Executive directors' pensions and life assurance are based on salary only, with performance-related incentive payments and other discretionary benefits excluded. The principal method of securing pensions for executive directors is auto-enrolment into the NATS Defined Contribution Pension Scheme (DC). NATS also offers a company-wide pension cash alternative in lieu of employer pension contributions for those with total pension savings close to the Lifetime Allowance, which is also available to eligible executive directors.	Maximum employer contributions are: > 18% for members of the DC; or > 15% of base salary as a pension cash alternative in lieu of employer contributions to the DC; or > for legacy members of the defined benefit pension scheme who have transferred out of that scheme, 25% of base salary as a pension cash alternative in lieu of employer contributions to the DB scheme.	Not applicable	Not applicable

Reports from Board Committees

Remuneration policy table:

Component	Link to strategy	Operation	Maximum opportunity	Framework to assess performance	Recovery and withholding
Annual incentive	To reward and incentivise the achievement of annual financial and strategic goals which are selected to align to the strategy of the business.	An Annual Management Performance Related Pay Scheme (AMPRPS) is in place for the executive team and all employees in the Personal Contract Group. AMPRPS is paid entirely in cash. As per the rules of the scheme, 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.	Maximum opportunity is capped at 70% of base salary. The AMPRPS starts accruing from threshold levels of performance. The current maximum potential for each executive director is set out in the Annual report on remuneration.	Targets are set annually and are a mix of corporate and personal performance. They are determined by the Remuneration Committee each year taking into account the group's key strategic priorities and the approved budget for the year and are set out in the Annual report on remuneration. The Committee may apply discretion as appropriate.	The rules of the AMPRPS include a recovery provision whereby individuals are liable to repay or forfeit some or all of their AMPRPS if there is a material misstatement of the results.
Long-term incentive	To incentivise executives to achieve the company's long-term strategy and enhance shareholder value.	Cash awards based on the achievement of financial targets over the relevant regulatory reference period. Transitional arrangements are in place for RP2. Any vesting under RP2 will translate into three distinct Payment Opportunities (PO): PO1: 20% at 1 June 2020; PO2: 30% at 1 June 2021; and PO3: 50% at 1 June 2022. The RP3 award shall have performance calculation dates of 1 April 2023 and 1 April 2025 and shall comprise up to four POs in 2023, 2024, 2025 and 2026 respectively.	110% of salary for each of the remaining two-years of RP2, covering the two calendar years 2018 and 2019. 110% of salary for each of the five years of Reference Period 3 (RP3: 2020 – 2024).	Awards vest based on performance measuring the weighted return performance of NERL and NATS Services over the applicable measurement and regulatory periods.	The rules of the current LTIP include provisions for recovery and withholding to apply if the Committee concludes that: > the performance on variable pay awards, that have been made or vested, was materially misstated or should have been assessed materially differently; > the assessment of any performance condition was based on an error, or inaccurate or misleading information or assumptions; > the relevant individual has committed serious misconduct; or > there is a major safety or operational incident resulting in serious consequences for the organisation, its customers or air passengers. Recovery and withholding may be applied for up to the third anniversary of the end of the LTIP award's performance period.
Legacy arrangements: **Long-term incentive (Cycles 5-7)**	To incentivise executives to achieve the company's long-term strategy and enhance shareholder value.	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 were in place for Cycle 5. 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 and dividends paid in the period, representing a total shareholder return.	Maximum annual opportunity is capped at 110% of salary. Outstanding awards are set out in the Annual report on remuneration.	The LTIP is designed to reward the achievement of a set of financial and strategic targets for rolling three-year periods.	

Reports from Board Committees

Remuneration Committee report (continued)

Service contracts

Executive Directors

The employment contracts of the Chief Executive and Finance Director provide for 12 months' notice in the event of termination by the company or 6 months' notice from the Executive Director.

Exit payment policy

The Committee is committed to ensuring that it does not pay more than is necessary when executives leave NATS. The table below sets out the key provisions for executive directors under their service contracts and the Incentive Plan rules.

For all leavers, the Committee may also determine to make a payment in reimbursement of a reasonable level of outplacement and legal fees in connection with a settlement agreement.

Non-Executive Directors

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

Partnership directors are normally engaged on three-year fixed-term contracts and have letters of appointment from the DfT. The Chairman has a contract which will conclude on 31 August 2020 (unless renewed by agreement).

Exit payment policy table:

Element	Termination policy
Base salary, benefits and pension	Payment will be made up to the termination date in line with relevant contractual notice periods and will not exceed contractual entitlements.
Annual incentive	Unless otherwise provided in the service contract, executives are not entitled to accrued AMPRPS payments unless the individual is determined by the Committee to be a 'good leaver'. A 'good leaver' is any individual who leaves due to death, agreed retirement or for any other reason if the Committee so decides.
Long-term incentive plan-RP2	Unvested payment opportunities will generally lapse at the time of exit. Unpaid vested payment opportunities will remain payable. For individuals determined by the Committee to be a 'good leaver' (defined above), existing payment opportunities shall continue under the plan on existing terms save that the Committee may adjust down the size and/or life of such payment opportunities on such basis as it determines appropriate (for example, on account of assessment of performance conditions over curtailed periods and by reference to time elapsed into normal vesting periods) and retains discretion for early vesting.
Legacy arrangements: LTIP Cycles 5 – 7	Unvested tranches will generally lapse at the time of exit. Vested tranches will remain exercisable for a period of one month following the date of cessation. For individuals determined by the Committee to be a 'good leaver' (defined above), unvested tranches shall continue under the plan on existing terms save that the Committee may adjust down the size and/or life of such tranches on such basis as it determines appropriate (for example, on account of assessment of performance conditions over curtailed periods and by reference to time elapsed into performance periods) and retains discretion for early vesting.

Reports from Board Committees

Remuneration Committee report (continued)

Consideration of employee remuneration arrangements elsewhere in the group

When setting the policy for directors' remuneration, the Committee takes into account the pay and employment conditions elsewhere in the group. The Committee is informed of salary increases for the general employee population and is kept informed of pay negotiations. It takes these into account when determining salary increases for executive directors.

Where relevant, the Committee seeks to align the remuneration policy for executive directors with that of other senior managers. Selected employees are able to share in the success of the group through participation in the AMPRPS. Executive Directors and other members of the Executive management team are eligible for participation in the LTIP.

Consideration of the views of shareholders in setting the Remuneration Policy

The Committee is mindful of the views of the DfT and AG and the Regulator in determining the appropriate levels of remuneration and ensuring that shareholder, Regulator and director interests are aligned.

Illustrations of the application of the Remuneration Policy in 2019/20

A significant proportion of remuneration is linked to performance. The chart below shows the annualised value of pay for the executive directors under NATS' current remuneration policy under different performance scenarios. The following assumptions have been made:

- Minimum (performance below threshold): fixed pay only with no vesting under any of NATS' incentive plans;
- Target: fixed pay plus AMPRPS of 70% of the maximum and vesting of 70% of the annualised maximum under the LTIP-RP2;
- Maximum (performance meets or exceeds maximum): fixed pay plus maximum AMPRPS (CEO: 70%; FD: 55%) and annualised maximum vesting under the LTIP-RP2 (CEO: 110%; FD: 90%).

Fixed pay comprises:

- Salaries – effective 1 April 2019;
- Benefits – amount received in the 2018/19 financial year;
- Pension – 15% of salary contribution for the CEO; 25% of salary contribution for the Finance Director.

The remuneration policy enables executive directors to earn a long term incentive with an annualised value up to a maximum of 110% salary per year. The performance periods for outstanding LTIP plans end in the 2019/20 financial year and will be paid over the three years ending 31 March 2023 (according to the terms of each plan). As a result, actual payments to executive directors during this period may vary from the illustration given above.

Reports from Board Committees

Annual report on remuneration

This part of the directors' remuneration report summarises the emoluments of executive and non-executive directors for the 2019 financial year, including the outcomes of incentive schemes for executive directors, and sets out how the remuneration policy will be applied for the financial year ending 31 March 2020.

Remuneration received by directors for the year ended 31 March 2019 (audited)

The table below sets out the emoluments of the Chairman and directors for the year ended 31 March 2019. It shows all remuneration that was earned by each individual during the year and reports a single total remuneration figure for the year.

		Salary or fees*		Benefits*		Performance related payments*		Long term incentive plan*		Pension Cash Alternative*		Total*	
	Notes	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Chairman													
Dr Paul Golby CBE	1	**168**	163	**8**	6	**-**	-	**-**	-	**-**	-	**176**	169
Executive directors													
Martin Rolfe	2, 3, 4	**450**	430	**15**	15	**283**	278	**197**	391	**68**	65	**1,013**	1,179
Nigel Fotherby	2, 3, 4	**305**	294	**17**	30	**148**	145	**118**	233	**69**	63	**657**	765
Non-executive directors													
Maria Antoniou		**44**	44	**-**	-	**-**	-	**-**	-	**-**	-	**44**	44
Richard Keys		**44**	44	**-**	-	**-**	-	**-**	-	**-**	-	**44**	44
Iain McNicoll CB CBE	1	**44**	49	**1**	1	**-**	-	**-**	-	**-**	-	**45**	50
Michael Campbell	5	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Dr Harry Bush CB	5	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Gavin Merchant	5	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Hugh McConnellogue	5	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Louise Street	5	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Kathryn Leahy	6	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Former directors (at 31 March 2019)													
Chris Hope	5	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
		1,055	1,024	**41**	52	**431**	423	**315**	624	**137**	128	**1,979**	2,251

* 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 pension scheme in order to make employee contributions only and sacrificed £10,000 (2018: £10,000) of his salary under the company's salary sacrifice arrangements. These contributions are reported in his salary above. The company did not make any employer contributions. Nigel Fotherby was a member of the defined benefit pension scheme, until he transferred out on 31 March 2017. No pension benefits have accrued since that date.

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 £67,500 for the year (2018: £64,500) and Nigel Fotherby received £68,674 for the year (2018: £62,916).

4 Martin Rolfe and Nigel Fotherby participate in the Long Term Incentive Plan. The values for 2019 reflect the estimated value of Cycle 6 at 31 March 2019. The comparative value for 2018, which was previously an estimate for Cycle 5, has been restated to reflect the award paid in August 2018 and an estimate of the balance payable around August 2019.

5 These directors are appointed by The Airline Group (AG) who charged NATS a total of £54,320 per quarter (2018: £51,000 per quarter) for the services of the directors. Chris Hope resigned on 4 October 2018, Hugh McConnellogue was appointed on 4 October 2018 and Louise Street was appointed on 29 November 2018.

6 Kathryn Leahy was appointed by LHRA on 31 May 2018 and received no fees from NATS for her services.

Reports from Board Committees

Annual report on remuneration (continued)

AMPRPS award for the year ended 31 March 2019 (audited)

For 2018/19, the Committee measured performance against each target. Performance resulted in an AMPRPS of 64.8% out of an available 75.0% of the award. Personal performance is based on the NATS Personal Performance Rating System and the ratings for the executive directors ranged between 23.8% and 25.0% (out of an available 25.0%).

	Weighting	Outcome	Threshold	Stretch	% Payable
NATS Group EBITDA (£m - see below)	40%	£250.7m	£238.2m	£297.8m	30.5%
NERL C3 delay (impact score)	10%	17.0	24.0	16.0	9.3%
Minutes of staff and engineering delay at UK airports where NATS provides ATC	5%	2,946	15,540	14,060	5.0%
NERL Operational	20%	Fully achieved	Not applicable	Not applicable	20.0%
Total	**75%**				**64.8%**

EBITDA represents earnings before interest, tax, depreciation, amortisation and goodwill impairment. The measure was neutral to specified variances to budget including for: traffic volumes; IAS 19 pension costs; staff redundancy, relocation and share scheme costs; foreign exchange gains or losses; gains on the disposal of fixed assets; and above the line tax credits.

Vesting of LTIP Cycle 6 for the year under review (audited)

Performance targets were partly achieved (forecast 38% of the maximum achievable for Cycle 6).

	Weighting	Outcome	Threshold (20% vests)	Stretch (100% vests)	% Payable
NERL rate of return (%)	40%	5.76	5.76	6.9	8%
NSL EBITDA (£m - defined above)	20%	18.4	28.3	34.0	0%
Strategic targets	40%	Partially	Not applicable	Not applicable	30%
Total	**100%**				**38%**

50% of this award will vest following the outcome of the next independent valuation of employee shares (around July 2019), after which participants will be able to exercise this portion of the award, 25% will vest around a year later in July 2020 and the remaining 25% will vest around a year later in July 2021 after each respective share valuation.

Reports from Board Committees

Annual report on remuneration (continued)

Outstanding LTIP Cycles (audited)

Under the LTIP, awards of notional shares are made annually with vesting dependent on the achievement of performance conditions over the three subsequent years. Notional shares are linked to the price of employee shares and participants receive cash payments in relation to the total shareholder return at the time of vesting.

	Cycle	Date of award	% of salary awarded	Value of notional shares awarded	Share price at award	Vesting schedule
Martin Rolfe	Cycle 5*	April 2016	110%	£440,000	£4.20	75% July 2018; 25% July 2019
	Cycle 6	April 2016	110%	£440,000	£4.20	50% July 2019; 25% July 2020; 25% July 2021
	Cycle 7	April 2017	110%	£473,000	£3.95	50% July 2020; 25% July 2021; 25% July 2022
Nigel Fotherby	Cycle 5*	April 2016	90%	£262,547	£4.20	75% July 2018; 25% July 2019
	Cycle 6	April 2016	90%	£262,547	£4.20	50% July 2019; 25% July 2020; 25% July 2021
	Cycle 7	April 2017	90%	£264,385	£3.95	50% July 2020; 25% July 2021; 25% July 2022

* Transitional arrangements were in place for the Cycle 5 award, which created a shorter performance window for this Cycle to allow for a delay in implementation while considering scheme design. As disclosed in last years' report the performance targets for Cycle 5 were partly achieved (80% of the maximum). 75% of this award vested at the share valuation in July 2018 and the participants exercised this part of their award then. The total shareholder return value used to determine the award value was £4.57. The remaining 25% will vest around July 2019 at the next valuation date.

LTIP–RP2 awards granted in the year (audited)

The executive directors were both granted awards under the LTIP-RP2 in the year as follows. The award covers the remaining two years of RP2 and it is envisaged that no further awards to these executives will be made during this regulatory reference period.

> Chief Executive: 110% of salary for each of the remaining two years of RP2;

> Finance Director: 90% of salary for each of the remaining two years of RP2.

Any vesting under the plan will translate into three distinct payment opportunities (PO) as follows:

> PO1: 20% at 1 June 2020;

> PO2: 30% at 1 June 2021; and

> PO3: 50% at 1 June 2022.

Reports from Board Committees

Annual report on remuneration (continued)

Statement of directors' interest in shares (audited)

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

Director	Date from which exercisable: Exercisable (brought forward)	Exercisable (granted in year)	29/05/2019 (brought forward)	30/10/2021 (brought forward)	30/10/2023 (granted in year)	Total holding (number of shares)	Value at 31 March 2019 (£3.90 per share) £	Value at 31 March 2018 (£3.40 per share) £
Martin Rolfe	312	200	150	162	200	1,024	**3,994**	2,122
Nigel Fotherby	2,939	200	-	162	200	3,501	**13,654**	10,543
	3,251	**400**	**150**	**324**	**400**	**4,525**	**17,648**	12,665

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 ended in September 2018. Participants received one free matching share for every partnership share purchased. Both of the executive directors participated in this offer and each received 200 partnership and 200 matching shares in October 2018.

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

Pay ratio of the Chief Executive to UK employees

Although the requirement to disclose the pay ratio is not a statutory requirement for NATS, the Committee felt that it would be appropriate to include the relevant disclosures on an entirely voluntary basis as it helps to demonstrate the link between the Chief Executive's pay and the remuneration of the wider workforce.

Date	Method of calculation adopted	25th percentile pay ratio (Chief Executive : UK employees)	Median pay ratio (Chief Executive : UK employees)	75th percentile pay ratio (Chief Executive : UK employees)
April 2018	Option B	18:1	13:1	9.3:1

The median, 25th percentile and 75th percentile figures used to determine the above ratios were calculated by reference to option B, which uses the most recent pay information available from the NATS gender pay report data to allow us to make best estimates on the 25/50/75th centile pay data for comparison. The Committee selected this calculation methodology as it was felt to produce the most statistically accurate result. The Committee considers that the median pay ratio disclosed above is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole.

Reports from Board Committees

Annual report on remuneration (continued)

Five-year history of Chief Executive remuneration

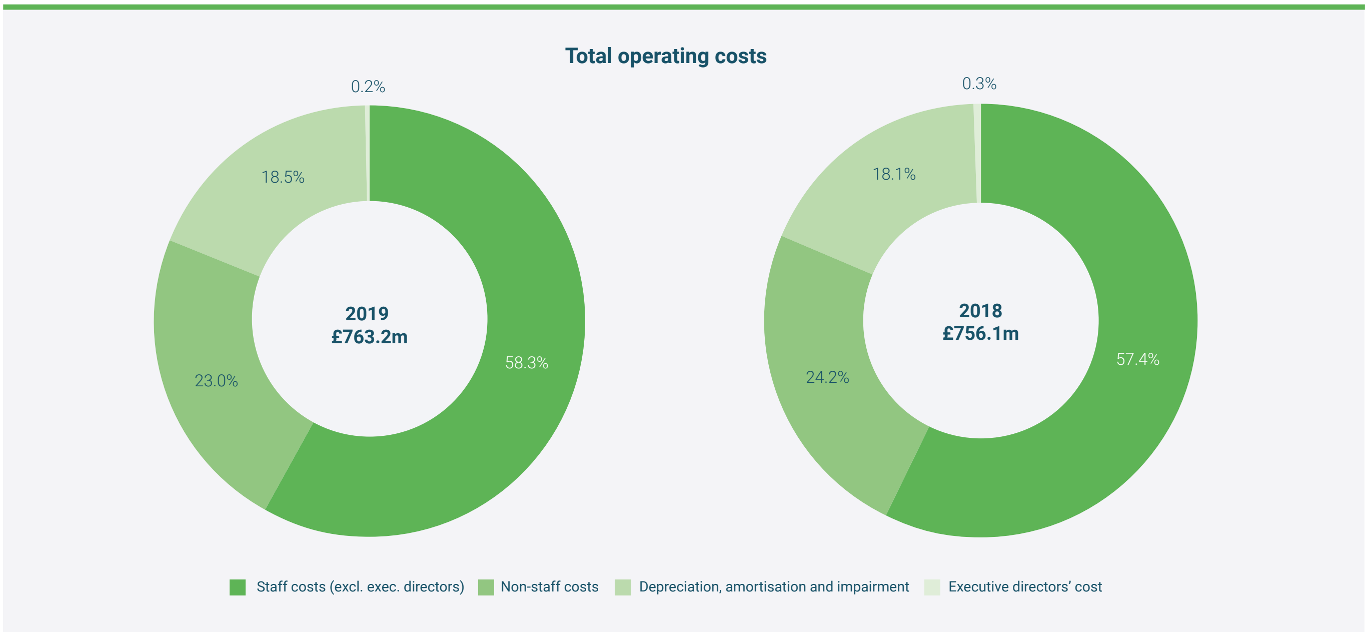
The following table sets out a five-year history of the total remuneration of the Chief Executive:

Financial years	2015	2016	2017	2018	2019
Total remuneration(£'000s): Martin Rolfe	-	748	944	1,179	1,013
Total remuneration(£'000s): Richard Deakin	1,075	444	-	-	-
AMPRPS (% of maximum entitlement): Martin Rolfe	-	91.6%	75.3%	92.5%	89.8%
AMPRPS (% of maximum entitlement): Richard Deakin	60.0%	-	-	-	-
LTIP (% of maximum entitlement): Martin Rolfe	-	Cycle 3 60.0%	Cycle 4 96.3%	Cycle 5 80.0%	Cycle 6 38.0%
LTIP (% of maximum entitlement): Richard Deakin	Cycle 2 60.0%	-	-	-	-

Richard Deakin resigned as a director on 18 May 2015 and left the company on 30 June 2015. His emoluments in the 2016 financial year included a contractual entitlement to six months pay in lieu of notice in addition to his contractual pay from 1 April to 30 June 2015. Martin Rolfe was appointed interim CEO on 18 May 2015, and his remuneration as CEO is shown from this date.

Relative importance of executive directors' remuneration to NATS operating costs

The Committee considers the cost of remuneration in relation to other factors such as total operating expenses. The chart below show how staff costs (excluding executive directors) makes up more that 55% of total operating costs, with executive costs representing around 0.2% of the total in 2019 compared to 0.3% in 2018.



Reports from Board Committees

Annual report on remuneration (continued)

Relative importance of spend on pay

The table below shows the relative importance of total employee remuneration compared with dividends to shareholders, profit before tax and capital expenditure:

	2019 £m	2018 £m	% change
Staff costs (incl. executive directors)	446.4	436.4	+2.3%
Dividends	59.0	57.0	+3.5%
Profit before tax	98.2	132.8	-26.1%
Capital expenditure	156.5	185.6	-15.7%

Implementation of the remuneration policy for the year ending 31 March 2020

Executive directors

Base salaries

	Salary effective 1 April		
	2019	2018	**% increase**
Martin Rolfe	**£463,500**	£450,000	3%
Nigel Fotherby	**£313,769**	£304,630	3%

Pension and benefits

Martin Rolfe receives a pension cash alternative of 15% of his base salary in lieu of employer contributions to the DC scheme. As a former member of the DB scheme, Nigel Fotherby receives a pension cash alternative of 25% of his base salary in lieu of employer contributions to the DB scheme.

Annual incentive scheme

For 2019/20 the maximum potential under the AMPRPS for the executive directors will be unchanged at 70% of salary for the CEO and 55% of salary for the Finance Director. It will be based on the achievement of a mixture of company performance measures and personal performance (based on the NATS Personal Performance Rating System) as follows:

> 40% NATS Group EBITDA (defined above);

> 15% customer focus;

> 20% operational; and

> 25% personal performance.

The performance elements are measured and calculated independently of each other and any payment is made entirely in cash. While the Committee has chosen not to disclose in advance the performance targets for the forthcoming year as these include items which the Committee considers commercially sensitive, retrospective disclosure of the targets and performance against them will be presented in next year's annual report on remuneration.

Reports from Board Committees

Implementation of the remuneration policy for the year ending 31 March 2020 (continued)

Long-term incentive plan – RP2

The objective of the LTIP-RP2 is to align the longer-term aspects of total remuneration with company performance over the course of the remaining two years of RP2 ending on 31 December 2019 for NERL and 31 March 2020 for NATS Services. Awards covering RP2 period were granted in January 2019 and we do not envisage any further awards relating to the RP2 period to be made during the 2019/20 financial year to current executive directors.

The awards comprise a cash payment. Under the LTIP-RP2, awards vest based on performance against the weighted pre-tax return for the performance period as follows:

Weighted return %	Award value
Below 3.3%	0% of grant value
3.3%	20% of grant value
6.5%	100% of grant value
Between 3.3% and 6.5%	Pro rata between 20% and 100% of grant value

Non-Executive Directors

The Company's approach to setting the fees of non-executive directors is by reference to those paid by similar companies. Fees are reviewed annually by the NATS CEO and HR & Corporate Services Director.

Chairman

The Chairman has a contract specifying the remuneration he receives, being £165,120 on an annualised basis. This will be considered by the Committee in January 2020 ahead of potential renewal in August 2020.

Partnership directors

	2019	2018	**% increase**
Base fee	**£36,900**	£36,000	2.5%
Fee for chairs of Board sub-committees *	**£8,200**	£8,000	2.5%

*Remuneration Committee; Audit Committee; Safety Review Committee; Transformation Review Committee

Airline Group (AG) appointed directors

AG Directors receive no remuneration for their services to the NATS Board. However, a payment of £217,280 for 2019/20 (2018/19: £204,000) will be made to AG in lieu of remuneration for these directors. This sum is used to fund the activities of AG.

LHR Airports (LHRA) appointed director

The LHRA Director is employed and remunerated by LHRA.

Maria Antoniou
Chair of the Remuneration Committee

Reports from Board Committees

Safety Review Committee report

The role of the Safety Review Committee

The Safety Review Committee (SRC) 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 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 (at the start of the year this included cyber security but, with the formation of the NATS executive Cyber Security Governance Group, responsibility for any more detailed examination of cyber aspects has recently been transferred to the Transformation Review Committee).

The Committee is chaired by Iain McNicoll and there were four other non-executive directors as members in 2019: Chris Hope, Derek Provan, Kathryn Leahy and Hugh McConnellogue. In addition, the NATS Chair regularly attends the Committee. Derek Provan stepped down in February 2018 and was replaced by Kathryn Leahy in May 2018. Chris Hope stepped down in October 2018 and was replaced in the same month by Hugh McConnellogue.

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

> George Bearfield, Director of Health and Safety, Rock Rail and Professor of Railway System Safety at the University of Huddersfield; and

> Captain John Monks, Head of Aviation Safety, British Airways.

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 formally reports 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.

The CAA's Head of Airspace, ATM and Aerodromes has an annual invitation to meet and brief the Committee. These briefings provide the Committee and the regulator with the opportunity to review progress on joint areas of work and priorities. This year the conversations with the regulator have focused on airspace change, electronic conspicuity, airspace infringements and drones. The Committee acknowledges that progress has been made in these areas, agrees that more needs to be done, and fully supports the effort required in the coming years.

As noted, in addition to the standing items on the Committee's quarterly agenda, the Committee may also request specific briefings. Subject briefings may take place outside the meetings in dedicated workshop sessions. This year the Committee has received specific briefings from subject matter experts on the safety assurance of deploying the SESAR programme, how NATS will meet the performance challenges for RP3, developing the NATS safety strategy and drone safety risk.

A workshop for the SRC members and the Board took place during the summer. This and other activities carried out during the year are described below.

Safety Governance and Oversight of the NATS Operations

> Safety Performance

For RP2 the EU/CAA set, for all European ANSPs, a target to achieve a level of Safety Management System (SMS) maturity. NATS did not believe that this target alone would drive our expectations for safety behaviours and safety performance. Therefore, appropriately challenging internal targets were set to ensure a continuous improvement safety culture. NATS has continued to meet the EU/CAA RP2 target during the financial year. Notwithstanding the higher than anticipated increase in air traffic over RP2, our safety performance has also improved, bringing us close to or even bettering the NATS internal targets. Some of that improvement is due to the introduction of electronic flight strips in TC: a well-managed project that has given confidence in NATS' ability to introduce major technological change safely and efficiently. There has also, crucially, been a clear focus on incremental improvement, in every aspect of our business. These twin factors have provided reassurance that, even before the full technological and airspace changes are achieved during and beyond RP3, NATS is on track to maintain or improve its high level of safety in a period of rapid traffic growth.

The Committee has compared NATS performance with international peers (the Civil Air Navigation Services Organisation, CANSO, has been instrumental in increasing transparency in safety statistics) and has been reassured that NATS is at the forefront of European and North American safety practice and outcomes. However, there is no complacency and effective efforts have been made to share and learn from best practice.

Reports from Board Committees

Safety Review Committee report (continued)

During the planning for RP3 the Committee reviewed the internal safety performance targets. The Board agreed a recommendation to widen the scope from a single measure, currently the NATS RAT score. The Committee and the Board therefore now receive a safety performance scorecard that sets out a range of metrics, including: the number of category A and B Airprox events; the number of losses of separation minima; the number of NATS' RAT A and B events; the NATS RAT score per 100,000 movements, and the overall RAT score per 100,000 movements for en route and airports. This gives a more comprehensive view of safety risk. The CAA has been consulted on new internal targets based on these metrics and is supportive.

> Meeting the Performance Challenges for Reference Period 3

The Committee has reviewed the predictive methodologies used by NATS to estimate future performance. The methods take into account how strategic and tactical safety improvements, as well as traffic predictions, are likely to influence the ability to reach the safety targets set for RP3. Central to this innovative methodology is the use of specialist operational knowledge to assess the benefits associated with the NATS transformation programme.

> Board Safety Workshop

A safety workshop in July provided an opportunity for the Board and SRC members to engage directly with representatives from across the business and operational teams on the topic of safety performance and the relationship between safety and service. The session gave insight into enhancing performance in the high-intensity environment of TC and an understanding of how the network is proactively managed to ensure a cycle of continuous improvement in terms of both safety and efficiency.

> General Aviation Infringements

NATS continues to support the CAA's implementation of the five point plan to reduce airspace infringements. Promoting the use of technology is critical to the plan and NATS is actively engaged in influencing the national adoption of electronic conspicuity technology. NATS also continues to work with local airspace infringement teams and with the CAA aircrew inspectors and enforcement team on pursuing infringing pilots.

> Managing Drone Safety Risk

The number of drone Airprox and infringements of controlled airspace has continued to increase year-on-year. Safety measures to help mitigate the risk from drones have therefore been ramped up, including education campaigns, online training for drone users and development of the UK Drone Assist safety application, for which we now have over 100,000 registered users. There has also been a focused, high-priority effort on the development of Unmanned Traffic Management (UTM) solutions that can safely integrate with existing ATM operations. During the year NATS has engaged with industry, UK and international regulators and wider stakeholders to promote the safe development of the drone and unmanned traffic market. Towards the end of the year Operation Zenith proved to be a highly successful demonstration, showing how drones can be flown safely alongside manned aircraft in controlled airspace. In the coming year the Committee will maintain its oversight of NATS' strategic direction for the development of UTM, with the aim of ensuring that during this period of rapid industry and technological development the protection of existing commercial and General Aviation users is maintained.

> NATS Safety Strategy

This year has seen a refresh of the NATS Safety Strategy, which the SRC has input to and fully supported. However, the four themes of the strategy - people create safety, safety intelligence, tailored and proportionate, and challenging and learning - remain unchanged, not least because these themes have been widely adopted internationally and are becoming the de facto industry standard. The purpose of the refresh was focused on making the safety strategy more tangible, and directly connected to business actions, through a set of safety capabilities. These safety capabilities form the foundation for a programme of strategic work, which will provide the means to identify new risks and opportunities, and which is closely aligned with NATS' work on its long term strategy and vision.

Reports from Board Committees

Safety Review Committee report (continued)

Physical Security

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

- **Independent Physical Penetration Testing:** Independent testing was conducted at Prestwick, Swanwick and Whiteley. Tests involved attempted covert entry, social engineering and direct attacks. Overall the uniformed security teams performed very well. Where potential weaknesses were identified, remedial actions/training have been undertaken.
- **Independent Audits – Physical Security & Incident Management:** Corporate Security has been subject to independent audits by both DNV and PwC (twice). The audits have covered Incident Management, Physical Security and the Security/Incident Management aspects associated with Operational Contingency. No major findings were identified, and a number of laudatory comments were made.
- **Vetting:** National security vetting within NATS has continued. There has been a notable increase in the average time taken to clear individuals (29 days in 2017 to 38 days in 2018). This was attributable to a number of factors, including the UK Security Vetting prioritising vetting activities associated with Brexit. Another major factor was a delay in candidates providing appropriate reference sources. Planned process improvements include the outsourcing of reference checking to a specialist third party supplier.
- **Centre for the Protection of National Infrastructure (CPNI):** Close liaison has been maintained with CPNI and they have been extremely supportive in discussions with both the Scottish Government and Police Scotland, as we mirror in Prestwick the security response work already undertaken in Swanwick and Whiteley.
- **General Data Protection Regulations (GDPR):** Following the introduction of the GDPR in May 2018, work has continued to ensure continued compliance. A formal Steering Group is now well established, and a programme of audits scheduled. Work has also been focused on ensuring employees have a good understanding of their individual rights under the new legislation. Since June 2018, NATS has received over thirty Subject Access requests, a number of which have been very complex and time consuming. Work is now in progress to recruit a dedicated GDPR professional to build on the work done to date.
- **Insider Threat:** Work aimed at mitigating the potential risk of an insider threat, including early recognition of counter-productive work behaviours, has continued. A CPNI generated Personnel Security Maturity Model has been completed for NATS. The initial assessment was very favourable (a detailed analysis by CPNI is awaited). A working group has been formed, consisting of representatives from key business areas (including Trades Unions representation) to drive the awareness and education aspects forward across the business, including all overseas entities.
- **Incident Management:** Work has continued to ensure that NATS is fully prepared should it be necessary to invoke our incident management procedures. Exercising at all levels (Gold, Silver and Bronze) has continued with diverse scenarios including a mid-air collision, cyber incidents, operational outages and weather events. Initial and refresher training has continued together with a detailed review of all associated plans, processes and documentation.

Iain McNicoll, CB CBE
Chair of the Safety Review Committee

Reports from Board Committees

Transformation Review Committee report

The role of the Transformation Review Committee

The Transformation Review Committee (TRC) (previously the Technical Review Committee) is a sub-committee of the Board established in 2008 to improve oversight of NATS' technology programmes and to provide the Board with increased assurance on the quality of the strategy, planning and delivery of relevant technology programmes. The Committee has increasingly recognized that delivering the technology programmes requires a broader transformation including people, organisation, procedure and operational changes. For this reason, during the year the Board approved a change to the terms of reference of the Committee, widening its remit to transformation, and changing its name.

The role of the TRC is to support the Board in monitoring the planning and delivery of effective business transformation within NATS. This includes, but is not limited to, development of plans and the provision of adequate and cost-effective technical systems and services to support NATS' operations together with the people and procedure changes required to realise the operational and commercial benefits. Its remit includes:

- ensuring that business objectives are clearly reflected in the requirements for technology and associated transformation programmes;
- reviewing the technical and transformation 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 through programmes and their performance.

The Committee is chaired by Mike Campbell with two other non-executive directors as members: Iain McNicoll and Richard Keys. The NATS Chair, Paul Golby, also attends. The following are invited to attend each meeting by standing invitation:

- CEO;
- Technical Services Director;
- NATS' Operations Director*;
- HR & Corporate Services Director*;
- Director Service Design and Transition;
- Director Service Strategy and Transformation;
- Director Strategic Assurance; and
- Chief Engineer.

* Added in recognition of the wider transformation remit.

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 and organisational risk profiles. The following issues have received significant focus by the Committee.

Deploying SESAR

SESAR is the European wide standard for future systems, designed to produce a step change in safety, performance, and efficiency. The main challenge in the years ahead is the introduction of SESAR compliant systems 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 Factory Acceptance Testing (FAT) and Site Acceptance Testing (SAT) of many aspects of the programme. During this time the TRC has maintained its 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:

a. Deployment Point Flight Strips

This deployment point moved London TC from 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 took place from November 2017 to June 2018. NATS worked closely with airlines to minimise impact during transition and this process worked very effectively to date receiving positive feedback from customers. The TRC reviewed both lessons learned from the programme that will support future developments and benefits delivered which are now forecast to be better than originally planned. The ExCDS project was awarded Project of the Year: Transformation 2018 and the Overall Project of the Year award at this year's APM Project Management awards.

Reports from Board Committees

Transformation Review Committee report (continued)

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 initial SAT was completed for the second system while detailed development continued for the main system leading towards FAT which took place in 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. During 2018 we saw a number of significant milestones achieved in preparation for this deployment point, including completion of the new combined operations room at Swanwick[14] and validation completed on a key build of iTEC. Also during 2018 we experienced delays to delivery of our core infrastructure which is the computing and storage capability required to support our new operations. While we worked hard with our supplier to first avoid and then mitigate this delay it will have an impact on the deployment dates for the programme. We envisage we will be able to commence early transition activities in April 2020 as planned but the programme will now deliver a system fully ready for use in autumn 2020 with full operation service achieved for Prestwick in November 2020. The detailed transition timescale and approach will be developed and agreed between customers and operations building on experience gained through ExCDS deployment.

Airspace Change

The second key element of NATS' modernisation programme is airspace change, which will 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 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 necessary lower level airspace changes now included in our plan for RP3.

The TRC continues to maintain high level oversight of the airspace programme, particularly in 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 airports relating 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.

In preparation for planned changes during RP3 NATS continued to highlight the need for an industry-wide approach and has supported DfT by producing a Feasibility Report on how to modernise airspace to meet anticipated airport growth. Subsequently the CAA/DfT has asked NATS to establish an ACOG which will create and maintain a single delivery plan in support of the UK Airspace Modernisation Strategy.

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. This year the Committee has conducted a review of the NERL Resilience Plan (required under the terms of the NERL Licence) as well as continuing to look at the resilience of new systems being developed under the DSESAR Programme.

Mike Campbell
Chair of the Transformation 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 2019.

The Governance report is set out on pages 31 to 73 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 are included within the Strategic report.

Information about the use of financial instruments by the group is given in note 21 to the financial statements.

Dividends

The company paid two interim dividends of £29.5m each (20.62 pence per share) during the year, totalling £59.0m (2018: £57.0m). The Board recommends a final dividend for the year of £nil (2018: £nil).

In May 2019, the Board approved and the company paid an interim dividend for the year ending 31 March 2020 of 20.97 pence per share, totalling £30.0m.

Directors and their interests

The directors of the company at the date of this report are set out on pages 33 to 37. 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 38.

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 57.

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.

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 36 to the financial statements.

Report of the directors

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 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 by order of the Board by:

R C-Cole

Richard Churchill-Coleman
Secretary

27 June 2019

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 2019 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 notes to the financial statements, including a summary of significant accounting policies. 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 2019 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 2019 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 key audit matter in the audit
Revenue recognition: IFRS 15	
IFRS 15 is applicable for the first time in the financial statements to 31 March 2019 and includes detailed changes to the principles of revenue recognition and will require changes to disclosures and additional notes on the impact of transition to the new standard. The group has applied transitional adjustments as described in note 35 and has chosen not to restate comparatives. The main changes are detailed in note 35. Recoverability of the regulatory assets As detailed on page 89, in determining airspace revenues recognised, management makes key judgements about material revenue allowances that are recoverable or payable in subsequent accounting periods. Long-term contracts As detailed on page 89 the group has significant long-term contracts which include material assumptions on margin and percentage completion.	We reviewed each significant revenue stream to ensure that we concur with the accounting policies applied and that it is accounted for in accordance with IFRS 15 including those relating to the transition to the new standard. 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. We have specifically considered and challenged management over the amounts recoverable or payable as revenue allowances under the EC Charging Regulation. 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.
Pension scheme actuarial valuation:	
The NATS Holdings Limited group operates a defined benefit pension scheme, which is accounted for in accordance with IAS 19: *Employee Benefits* which requires complex calculations and disclosures. As detailed on page 89 and in note 31, 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.	We have reviewed the pension scheme data and accounting treatment and disclosures and considered them in light of the pension assumptions made. 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. 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.

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

Key audit matter	How we addressed the key audit matter in the audit
Carrying value of goodwill:	
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. 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.	We have reviewed and tested management's current assessment of the carrying amount of goodwill. 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.
Capital investment programme:	
As detailed on page 89 and notes 14 and 15, the group invests significant sums in the sustainment and development of air traffic control infrastructure. A substantial proportion of the costs incurred are the amounts charged by staff employed by the group which are capitalised to specific projects. A key element is that either time is not appropriately capitalised or the quantum of the labour rate used could be misstated. In addition management makes judgements around the useful economic lives of currently deployed systems, assesses indicators of impairment and considers feasibility.	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. 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. 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. 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. In addition we have tested a sample of externally generated assets to test existence and that costs are materially accurate.

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

Our application of materiality

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

The materiality we applied to the group equates to 5% of profit before tax (2018: 5% of profit before tax). 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 (2018: 2% of total assets).

Whilst materiality for the financial statements as a whole was £4.7 million (2018: £6.0 million), each significant component of the group was audited to a lower materiality of between £0.8 million and £4.2 million.

Performance materiality is set at a level lower than materiality, which was 75% of group materiality totalling £3.5 million. 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 £94,000 (2018: £55,000). We also agreed to report differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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 above, 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.

We also gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group that were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focussed on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to the Companies Act 2006 and tax legislation.

Our tests included agreeing the financial statement disclosures to underlying supporting documentation, enquiries with management and enquiries of those charged with governance. There are inherent limitations in the audit procedures described above and, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Opinion on other matters

In our opinion the part of the directors' remuneration report on pages 54 to 57 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 67, 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, performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** set out on page 43, 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 41, 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.

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.

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

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 ended 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement is five years, covering the years ended 31 March 2015 to 31 March 2019.

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

27 June 2019

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