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 chairs the Nomination Committee. Paul also attends the Audit Committee, Remuneration Committee, Safety Review Committee and Transformation Review Committee by invitation.

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.

Alistair Borthwick, Chief Financial Officer

Alistair joined NATS as CFO in August 2019. In addition to his responsibilities for finance Alistair leads NERL's regulatory affairs team.

Previously he worked for SSE plc, most recently as Group Finance Director for its Regulated Networks and Enterprise divisions, as well as being responsible for Group Reporting, Tax and Treasury. He also spent time as Acting Managing Director for the Enterprise division.

Having qualified as a Chartered Accountant with Deloitte, working in both audit and corporate finance, Alistair subsequently held a number of senior roles in practice and industry focused on transport and infrastructure, including positions with John Menzies plc and FirstGroup plc.

Non-Executive Directors

Maria Antoniou

Maria was Senior Vice President HR/Executive HR based in E.ON's headquarters in Germany.

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. Before that Maria was global HR Director for Jaguar, Land Rover and Aston Martin. Maria is Chair of Trustees of Transport for London's Pension Fund. Maria chairs the Remuneration Committee and is a member of the Nomination Committee. She is also a director and chairs the NATS Employee Sharetrust. Maria is also the designated non-executive director for workforce engagement with the Board.

Dr Harry Bush CB

Harry 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 was vice chair of UCL Hospitals Foundation Trust for six years until August 2019. 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.

Richard Keys

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

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 8 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.

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. 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, ensuring it delivers value to shareholders and fulfils its wider role as a provider critical national infrastructure.

The Board plays an important leadership role in promoting the desired culture of the organisation. Through governance activities in the year it monitored and input to key aspects of culture including:

- the highest governance and ethical standards reflecting the aspirations of the PPP;
- a prominent safety culture through 'Just Culture' reflecting the company's purpose of advancing aviation and keeping the skies safe;
- consultation with customers on service performance, capital investment and plans for RP3;
- a cost efficient, service oriented and commercially smart organisation, requiring best in class performance of its workforce and partners; and
- diversity and inclusion and fair treatment of its workforce, valuing the contributions of Trades Unions.

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
- Chief Financial Officer (CFO).

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 2019 to the date of approval of the accounts, the changes to the directors were:

Executive Directors	
Nigel Fotherby	Resigned 30 June 2019
Alistair Borthwick	Appointed 3 October 2019

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. The executive team is structured as follows:

- CEO;
- CFO;
- Operations Director;
- Safety Director;
- Commercial Director;
- HR Director;
- Technical Services Director;
- Communications Director; and
- Legal Director.

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) as set out in the table on page 37. Ad hoc meetings have also taken place since the outbreak of Covid-19 to review the impact on the business and management's response.

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 and financial targets.

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 internally. The results were assessed by the Board at its 21st May 2020 meeting and appropriate actions agreed.

Director induction

Following their appointment, the Company Secretary consults with new directors on the scope of induction to NATS which they require and a personalised induction programme is developed. During the year, such a programme was undertaken for Alistair Borthwick.

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.

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

	Number of meetings attended / Number of eligible meetings					
	Board	Audit	Nomination	Remuneration	Safety Review	Transformation
Paul Golby	7/7		1/1			
Martin Rolfe	7/7	4/4	1/1	4/5	5/5	5/5
Nigel Fotherby	3/3	1/1				
Alistair Borthwick	4/4	3/3				
Maria Antoniou	7/7		1/1	5/5		
Harry Bush	7/7	4/4				
Mike Campbell	7/7		1/1	5/5		5/5
Richard Keys	7/7	4/4	1/1			5/5
Kathryn Leahy	6/7				4/4	
Gavin Merchant	5/7			3/5		
Hugh McConnellogue	6/7				4/4	
Iain McNicoll	7/7				4/4	5/5
Louise Street	7/7	4/4				

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 40 to 67. 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 with the RP3 sub-committee comprising the Chair, Alistair Borthwick (who replaced Nigel Fotherby from August 2019), Martin Rolfe, Harry Bush and Richard Keys, to consider the RP3 plan, the CMA review and the subsequent impact and response to Covid-19.

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. Meetings were held on 25 July 2019 and on 30 July 2020. Shareholders may also meet informally with the

Chair, CEO, CFO and other members of executive management upon request.

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. The company applied the principles of the Corporate Governance Code 2018 from 1 April 2019, to the extent considered appropriate by the Board. A number of the 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.

Provision 9: 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.

Provisions 11 and 12: 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.

Provisions 17 and 32: 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.

Provision 39: Notice or contract periods for non-executive directors

As noted in the Remuneration Committee report, the AG nominee directors and Partnership directors do not have service contracts with NATS. The Partnership directors are typically engaged on three-year fixed-term contracts and have letters of appointment from the DfT. Currently Richard Keys and Maria Antoniou have letters extending their appointments to 31 May 2021. The Chair has a service contract with NATS, details of which are set out in the Remuneration Committee report.

Provision 18: 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 annual re-election as stipulated by Provision 18, although Partnership directors are appointed by the Government on three-year fixed-term contracts. The tenure of non-executive directors at 31 March 2020 was as follows:

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

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

The group is mindful of the Code principle that the board and its committees should have a combination of skills, experience and knowledge, with consideration of the length of service of the board as a whole and its membership and of the provision relating to the nine year tenure of the Chair.

Provision 3: Engagement with major 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.

Audit Committee report

The role of the Audit Committee

The Committee has met six times since the publication of the 2019 Annual Report and Accounts. It is chaired by Richard Keys; Louise Street and Harry Bush are the remaining two members of the Committee. The Committee members all have wide-ranging commercial and management experience and Richard Keys, a former audit partner at PricewaterhouseCoopers LLP (PwC) has recent, relevant financial and audit experience. The Committee members maintain their competence in the sector and on company specific issues (such as pensions) through targeted training and briefing at Committee meetings.

The Chairman, CEO, CFO, Director Group Financial Control, Head of Internal Audit and the 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 main 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' risk management and internal controls.

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 and third parties dealing with NATS 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 CFO 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:

Impact of Covid-19

The Committee considered the financial reporting implications of Covid-19 including the significant judgements, sources of estimation uncertainty and other assumptions made in the preparation of the financial statements and the adequacy of disclosures. In particular, the Committee considered: the carrying values of the group's investments, including Aireon and Searidge; the carrying value of goodwill (see below); the recoverability of other assets; and onerous contracts.

The Committee also reviewed the evidence supporting the assessments of going concern and viability, including the significant judgements and assumptions in the company's forecasts of the recovery in air traffic volumes and the timing and likelihood of mitigating actions in the form of cost savings, eligibility for government support measures and additional sources of credit. The committee was satisfied with the approach being taken and the reasonableness of the judgements made together with the relevant disclosures (see going concern and viability statements and note 3 to the financial statements).

The carrying value of goodwill

This is a focus for the Committee because of the materiality of the group's goodwill (£149.3m at 31 March 2020) and the inherent subjectivity of judgements made in impairment testing. The key judgements relate to: the assumptions underlying the calculation of value in use, including the extent to which cash flow projections are achievable taking account of the regulatory reference period reviews by the CAA and the CMA; and assessing fair value less costs of disposal, including the extent of any premium which may be realised in excess of 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 both the CAA's RP3 performance plan together with the CMA's review of CAA's performance plan and the cash flows implied by a Covid-19 traffic scenario; the cost of capital assumption used to discount value in use; and the value of NERL's regulatory assets, including the extent to which a premium to reflect the scope for out-performance of regulatory settlements and as implied by market transactions in regulated entities was appropriate given the impact of the Covid-19 pandemic. 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.

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 Committee also considered the material uncertainty reported by the valuer of the pension scheme's property portfolio due to the impact of Covid-19 (see note 3 of the financial statements). The final calculations in respect of the defined benefit pension scheme are performed by a qualified actuary, independent of the scheme. Note 3 summarises critical judgements and key sources of estimation uncertainty and note 33 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

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, value and basis of the regulatory revenue adjustments, having regard to the reduction in air traffic volumes due to the impact of Covid-19, and considered the relevant EC Charging Regulations and the conditions of NERL's air traffic services licence for RP2 and the CAA's performance plan for RP3 in determining whether their recognition was appropriate. The committee also discussed the risk of recovery of revenue allowances in the event of changes to the regulatory framework in future to support the recovery in the aviation sector, and concluded that it was appropriate to rely on the existing framework and with the general duty placed on the CAA and the Secretary of State for Transport to secure that NERL will not find it unduly difficult to finance its licenced activities.

The recoverable and the reimbursable revenue allowances are reported in notes 18 and 23 respectively.

Other matters

The Committee also reviewed the method of first time adoption of IFRS 16: *Leases* and the additional disclosures provided in notes 20 and

37, and financial reports issued to shareholders under the terms of the SPA.

b. 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 and risk management. In order to access the specialist skills required to perform assessments across the wide range of areas in which NATS operates, the internal audit function is operated as a co-source arrangement, primarily with PwC but with other providers if required.

The results of internal audits and agreed actions are reported as appropriate to relevant directors, executives and managers. The Committee also oversees and monitors the actions taken by management to address internal audit findings and considers the ongoing independence of internal audit. The Committee oversees the performance of internal audit through the receipt of a report on its work presented to each Committee meeting and agrees the annual work plan in the context of the group's audit and assurance universe. Whilst mindful of achieving the longer-term overarching assurance objective, internal audit's work plan is reviewed at each Committee meeting to ensure that assurance work is directed in the most beneficial manner, for example in response to exceptional circumstances. This has been the case as a result of Covid-19, where internal audit have reviewed the unprecedented measures undertaken by the company in response to the pandemic.

c. External audit

BDO LLP was re-appointed as external auditor at the AGM on 25 July 2019. The Committee reviewed the performance and the continuing independence of BDO at its October 2020 meeting and recommended to the Board that BDO be re-appointed. Accordingly, a resolution recommending their re-appointment will be considered by shareholders.

d. Risk management

The Committee reviews the policies and processes for identifying, assessing and mitigating emerging and principal risks and assessing risk appetite, including the receipt of reports from management and the internal auditor on the effectiveness of systems for internal financial control, financial reporting and risk management.

During the last 12 months the committee has increased its oversight of risk by conducting a detailed review of top risks at each meeting as appropriate supplementing the pre-existing regular risk reporting. The Committee has also reviewed changes to the risk management process and its reporting.

In conjunction with the review of internal controls, commented on further below, the Committee reviews the processes in place to identify, assess, mitigate and manage risk, including strategic risk, in order to satisfy itself that they are appropriate and within the specified risk tolerance agreed by the Board or where that is not the case, to ensure that the Board is aware and that appropriate steps are in place to manage and mitigate the exposure.

On the basis of this work, the Committee is satisfied that the directors have carried out a robust assessment of the emerging and principal risks facing the business. The Committee also reviews 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.

The Committee specifically considered the risk management and controls aspects arising as a result of the Covid-19 pandemic and the response to it with management and internal audit including those arising from changes in working practices and the widespread adoption of working from home.

To ensure adequate and timely risk-based decisions during the pandemic the Audit Committee endorsed an enhanced programme of board meetings and management reporting. These changes were implemented and continue to date.

e. Internal control

The Board is responsible for the group's system of internal control and risk management 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. The Committee receives regular reports from internal audit concerning the results of their work and also agrees their annual programme of work.

During the year work was completed on a top down assessment of the Group Assurance Framework against the key areas of accountability of the CEO and the executive committee. This has and will assist in further informing the ongoing programme of internal audit work and assist in the review of the different sources of assurance in place and their effectiveness.

The Committee's reviews of internal audit work have covered reports on the effectiveness of controls which manage key risks including financial and information technology controls, key aspects of the technology investment programme, and commercial processes. The Committee also approved the scope and phasing of activity for the internal audit function for the first half of 2020/21 which is focussed on key aspects of NATS' response to the Covid-19 outbreak and the associated risks. 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.

In addition, to the work of internal audit, the Committee also reviews reports from the external auditors, reports of any attempted or actual frauds, reports from the management's Tax and Treasury Committees and considers the circumstances of whistleblowing reports.

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

On the basis of the foregoing, the Committee believes that the directors review the effectiveness of internal controls on an ongoing basis during the year.

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.

Richard Keys
Chairman of the Audit Committee

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 once in March 2020 and received a talent, succession and leadership update.

Following an extensive interview and assessment process, Alistair Borthwick was appointed as Chief Financial Officer on 5 August 2019 and appointed to the Board on 3 October 2019.

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 is one female member of the Executive, representing 11%.

Paul Golby
Chair of the Nomination Committee

Remuneration Committee report

Dear Shareholders,

I am pleased to present the directors' remuneration report for the year ended 31 March 2020. A key priority for NATS is to deliver a safe, efficient and reliable service to our customers, every day, and that we reward the management team 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.

Response to Covid-19

In particular, the Remuneration Committee and the Board have had regard to the impacts of Covid-19 on the company and the wider aviation sector. Since the severity of the pandemic became clear, pay across the company has remained at 2019 levels. In addition, executive and non-executive directors volunteered for salary and fee reductions of 20% for April to June 2020, with executive directors contributing half of this to the NHS Covid relief fund (directors' pay reductions will be reflected in the emoluments table for year ending 31 March 2021). Other members of the executive team and many senior managers volunteered for salary reductions of 10% for the same period.

Given the current circumstances, Martin Rolfe (CEO) has asked the company to defer any long-term incentive payments due to him until a more appropriate time. The company has agreed this as a personal decision by the CEO.

Furthermore, the executive proposed to the Remuneration Committee that the Annual Management Performance Related Pay Scheme (AMPRPS) payments relating to 2019/20 that would have been paid in June 2020 be deferred. This deferral was proposed as part of a range of cash preservation measures despite a year of good financial and operational performance up to mid-March (prior to the financial impact of the Covid-19 pandemic). The Committee fully concurred with the executive's recommendation. Payments under this scheme will not be made until it is deemed appropriate by the Committee.

Key decisions made in 2019/20

Following a full review of NATS variable pay incentives during 2019, the Committee concluded at the time that the structure of both the Annual Management Performance Related Pay Scheme (AMPRPS) and the Long-Term Incentive Plan (LTIP) remained appropriate and aligned to the market.

Nigel Fotherby retired from his role as Finance Director in June 2019 and was replaced in August by Alistair Borthwick as Chief Financial Officer (CFO). Exit and joiner remuneration arrangements were reviewed and approved by the Committee during the year in line with the policy set out in this report. During 2019, 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), therefore no new grants have been made in the last 12 months. The Committee also agreed that a similar arrangement will be in place for RP3, and this cycle will be granted once the regulatory performance plan for NERL has been finalised. Award levels for this five-year period, and performance hurdles, have been deferred due to Covid-19 and will be reported in next year's report, once the performance plan for RP3 has been determined.

Reward for 2019/20

The Remuneration Committee assessed performance under the AMPRPS and determined that a number of key operational milestones were successfully delivered in the year. Group EBITDA and customer focussed targets were met in part and operational targets were met in full. Performance targets for LTIP cycle 7 were partly achieved (yielding 71.7% of the maximum): the NERL rate of return exceeded stretch value, NATS Services' EBITDA target was not met and strategic targets were met in part. The performance targets for the LTIP for RP2 were met in full. As for AMPRPS above, payments of LTIPs have been deferred.

Remuneration for 2020/21

For the 2020/21 financial year, in light of the Covid-19 pandemic, the Committee will operate the remuneration policy as set out over the following pages. The highlights include:

- No base salary increases for the CEO, CFO and wider Executive and management teams;
- Three month voluntary reductions in remuneration for all Board and Executive members during 2020
- Deferral of all incentive payments relating to the 2019/20 financial year;
- Deferral of the AMPRPS scheme for 2020/21;
- A suspension of the grant of an LTIP covering RP3 until such time that it is appropriate to make a grant.

Conclusion

Whilst we continue to ensure that our policy delivers a robust link between reward and performance, this year we are in extremely unusual circumstances and it is important that our reward strategy appropriately reflects the challenging external environment our customers are facing and the additional work the executive team is undertaking to deal with Covid-19.

Maria Antoniou,
Chair of Remuneration Committee

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 (around 415 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;
- agree remuneration for new executive team members and termination payments for departing executive team members. This activity included reviewing and approving the remuneration package for the CFO role, based on market data from the committee advisors and in line with the remuneration policy set out in this report. Good leaver status was also agreed for the former Finance Director on termination, setting out the incentive payments that will remain due based on pro rata service to the point of leaving.

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 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 2019/20 amounted to £35,740 (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 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 the average budgeted increase in salaries 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 52 and 53 describe the key components of each element of the remuneration arrangements for the executive directors, and the company's policy in this respect. Earnings and benefits are set out in the table of directors' remuneration on page 60.

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.

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 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
Pensions	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 (DB) who have transferred out of that scheme, 25% of base salary as a pension cash alternative in lieu of employer contributions to the DB.	Not applicable	Not applicable
Annual Incentive	To reward and incentivise the	An Annual Management Performance Related Pay Scheme (AMPRPS) is in place for the executive team and all	Maximum opportunity is capped at 70% of base salary.	Targets are set annually and are a mix of corporate and personal	The rules of the AMPRPS include a recovery provision

Component	Link to strategy	Operation	Maximum opportunity	Framework to assess performance	Recovery and withholding
	achievement of annual financial and strategic goals which are selected to align to the strategy of the business.	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 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.	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.	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.	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 were in place for RP2. Subject to participants remaining eligible under scheme rules, vesting under RP2 translates 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 both performance-measuring the weighted return performance of NERL and NATS Services over the applicable measurement and regulatory periods, and also based on the payment opportunity dates linked to approved share valuations.	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 mis-leading 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, subject to remaining eligible under scheme rules, 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.	

Service contracts

Executive Directors

The employment contracts of the CEO and CFO 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's contract was renewed on 1 September 2020 for a three-year term.

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

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-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.

when determining salary increases for executive directors.

Where relevant and appropriate, the Committee seeks to align the remuneration policy for executive directors with that of other senior managers, or exercise upward or downward discretion where appropriate. 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.

Annual Report on Remuneration

This part of the directors' remuneration report sets out how the remuneration policy will be applied for the financial year ending 31 March 2021 and summarises the emoluments of executive and non-executive directors for the 2020 financial year.

Implementation of the remuneration policy for the year ending 31 March 2021

Executive directors

Base salaries

	Annual salary with effect from 1 April			Effective annual salary after voluntary pay reduction from 1 April		
	2019	2020	% change	2019	2020	% change
Martin Rolfe	£463,500	£463,500	0%	£463,500	£440,325	-5.0%
Alistair Borthwick	£300,000*	£300,000	0%	£300,000	£285,000	-5.0%

* equivalent annual salary at date of joining the company in August 2019.

The effective salaries of both Martin Rolfe and Alistair Borthwick reflect their decision to elect for a 3-month voluntary 20% reduction in basic pay for the period April to June 2020 in response to the Covid-19 pandemic. Of this reduction, half was donated to the NHS Covid relief fund.

Pension and benefits

Martin Rolfe and Alistair Borthwick both receive a pension cash alternative of 15% of base salary in lieu of employer contributions to the DC scheme.

Annual incentive scheme

The AMPRPS scheme for 2020/21 has been suspended until such time that the global pandemic, and our industry shows signs of recovery.

Long-term incentive plan (LTIP)– RP3

The grant of the LTIP RP3 cycle has been deferred until the price control for this period is agreed.

Long-term incentive plan (LTIP) – CEO entitlement to payments

Given the current circumstances, Martin Rolfe (CEO) has asked the company to defer any long-term incentive payments due to him until a more appropriate time. The company has agreed this as a personal decision by the CEO.

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 Director. All non-executive directors elected for a three-month voluntary pay reduction of 20% for the period April to June 2020.

Chairman

The Chairman's contract was renewed on 1 September 2020. He has a three year contract specifying the remuneration he receives. This is £165,120 on an annualised basis, which represents no increase from his previous contract period. The Chairman's effective salary for 2020/21, reflecting his voluntary 20% reduction in pay is £156,864, equivalent to an annual pay reduction of 5%.

Partnership directors

Fees with effect from 1 April	2019	2020	% change
Base fee	£36,900	£36,900	0%
Effective base fee after voluntary pay reduction	£36,900	£35,055	-5.0%
Fee for chairs of Board sub-committees *	£8,200	£8,200	0%
Effective fee for chairs after voluntary pay reduction	£8,200	£7,790	-5.0%

*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. Fees are reviewed on annual basis by the NATS CEO and HR Director. The Airline Group has elected to take a 20% reduction in fees to cover the period April to June 2020. As a result the annual fee for 2020/21 will be £206,416, which is a 5% reduction for the year (2019/20: £217,280).

LHR Airports (LHRA) appointed director

The LHRA Director is employed and remunerated by LHRA. LHRA does not charge NATS for the services of its director.

Directors' remuneration for the year ended 31 March 2020

Base salaries of executive and non-executive directors and AG fee for AG appointed directors (audited)

	Annual salary with effect from 1 April or date of appointment		
	2018	2019	% increase
Martin Rolfe	£450,000	£463,500	3%
Nigel Fotherby (retired June 2019)	£304,630	£313,769	3%
Alistair Borthwick (joined NATS in August 2019)	n/a	£300,000	n/a
Partnership directors: Base fee Fee for chairs of Board sub-committees	 £36,000 £8,000	 £36,900 £8,200	 2.5% 2.5%

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) was made to AG in lieu of remuneration for these directors. This sum is used to fund the activities of AG.

AMPRPS award for the year ended 31 March 2020 (audited)

The maximum potential award under the AMPRPS for 2019/20 for executive directors was unchanged from the prior year at 70% of salary for the CEO and 55% of salary for the CFO and former Finance Director. AMPRPS awards are determined based on company performance and personal performance. Company performance resulted in an AMPRPS of 63.4% out of an available 75.0% of the award (see table below). Personal performance is based on the NATS Personal Performance Rating System and this resulted in 22.5% of an available 25% for the 2019/20 performance year. As noted above, the Committee accepted the executive's recommendation to defer payment of the AMPRPS, which would otherwise have been settled in June 2020.

	Weighting	Outcome	Threshold	Stretch	% Payable
NATS Group EBITDA (£m - see below)	40%	250.0	224.5	280.7	33.4%
NERL C3 delay (impact score)	10%	15.8	24.0	16.0	10.0%
Minutes of staff and engineering delay at UK airports where NATS provides ATC	5%	21,886	15,540	14,060	0.0%
NERL Operational	15%	Fully achieved	Not applicable	Not applicable	15.0%
NSL Operational	5%	Fully achieved	Not applicable	Not applicable	5.0%
Total	75%				63.4%

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 asset; above the line tax credits and expected credit losses and impairment charges made for Covid-19.

Long term incentive payments

Long term incentive payment (LTIP) arrangements are established for executive directors and other members of the NATS Executive in order to incentivise long term performance and align performance with shareholder interests, and reward exceptional performance. Performance conditions are generally established for LTIPs for periods of three years (LTIP RP2 was for a two year period). Payments under LTIP arrangements are made according to a predetermined vesting schedule covering a period of three years following completion of each LTIP scheme. Payments are subject to eligibility criteria under scheme rules. These require participants to be employed at the vesting date or to be good leavers under the scheme rules.

Given the current circumstances, Martin Rolfe (CEO) has asked the company to defer any long-term incentive payments due to him until a more appropriate time. The company has agreed this as a personal decision by the CEO.

Outstanding LTIP Cycles (audited)

LTIP schemes (Cycles 5, 6 and 7) awarded up to April 2017 were based on awards of notional shares made annually with performance conditions measured over a period of three years. LTIP RP2 was based on performance conditions measured over a two year period, and was not based on notional shares. No further awards were granted to the executive directors during this regulatory reference period.

Performance conditions relating to Cycle 5 and Cycle 6 were determined in previous years and achieved 80.0% and 46.4% of target respectively. The Committee determined that performance against LTIP Cycle 7 targets achieved 71.7%.

Amounts paid under these LTIP Cycles 5, 6 and 7 is based on the value of notional shares at each vesting date, which is linked to the price of an employee share and the total shareholder return since the award date. The value of vesting payments under these LTIP cycles is determined at the vesting dates indicated in the table below and are reported in the directors' emoluments table when paid. The values of Cycle 6 and 7 tranches vesting from July 2020 onwards remain undetermined, being dependent on an HMRC approved employee share price at the vesting date. The Cycle 6 tranche vesting in July 2020 was deferred due to Covid-19 and additionally was not capable of being determined following suspension of the employee share scheme.

Director	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 year's report the performance targets for Cycle 5 were partly achieved (80% of the maximum). 75% of this award vested and was settled following the share valuation in July 2018 based on a total shareholder return value of £4.57. Martin Rolfe received £287,257 and Nigel Fotherby received £171,405 for this tranche, which is reported within 2018/19 earnings from long term incentives in the table on page 60. 25% of Cycle 5 and 50% of Cycle 6 vested and was settled in July 2019 based on a total shareholder return value of £5.11. Martin Rolfe received £107,067 for Cycle 5 and £124,197 for Cycle 6 and Nigel Fotherby received £63,886 for Cycle 5 and £74,108 for Cycle 6. These amounts, together with the RP2 award, are reported within 2019/20 earnings from long term incentives in the table on page 60.

LTIP Cycle 7 (audited)

	Weighting	Outcome	Threshold (20% vests)	Stretch (100% vests)	% Payable
NERL rate of return (%)	40%	6.77	4.55	6.5	40.0%
NSL EBITDA (£m - defined above)	20%	11.0	19.8	22.6	0.0%
Strategic targets	40%	Partially	Not applicable	Not applicable	31.7%
Total	**100%**				**71.7%**

50% of this award will vest following the outcome of the next independent valuation of employee shares (which has been delayed due to the suspension of the share plan as a result of Covid-19), after which participants will be able to exercise this portion of the award, 25% will vest around a year later (originally anticipated in July 2021) and the remaining 25% will vest around a year later (originally anticipated in July 2022) after each respective share valuation.

LTIP RP2 (audited)

The CEO and the former Finance Director were both granted awards under the LTIP RP2 in April 2018. The performance period covered the remaining two years of RP2 to 31 December 2019 for NERL and the two financial years ended 31 March 2020 for NATS Services. The earning potential under this award was as follows:

Director	% of salary awarded per annum	Maximum award value per annum	Performance outturn	Total award value
Martin Rolfe	110%	£495,000	100%	£990,000
Nigel Fotherby	90%	£274,167	100%	£411,251*

*pro-rated to date of retirement

Subject to executive directors meeting the eligibility criteria under scheme rules, payments under the scheme are made at three distinct payment opportunities (PO) as follows:

- PO1: 20% at 1 June 2020 (payment suspended due to Covid-19);
- PO2: 30% at 1 June 2021; and
- PO3: 50% at 1 June 2022.

Estimated future payments under long-term incentive plans

Payments under LTIP schemes are made to executive directors who remain in service at the vesting date or who are considered good leavers under the scheme's rules. Estimated future payments to Martin Rolfe and Nigel Fotherby are set out below. The values for Cycle 6 and Cycle 7 are estimates only and remain undetermined. Final amounts are based on the value of an employee share and on a total shareholder return calculation since the award date, which can only be ascertained at the payment date. Given the current circumstances, Martin Rolfe (CEO) has asked the company to defer any long-term incentive payments due to him until a more appropriate time. The company has agreed this as a personal decision by the CEO.

Director	Outstanding LTIP schemes	Financial year ending 31 March		
		2021[a] £'000	2022 £'000	2023 £'000
Martin Rolfe	Cycle 6[b]	48	48	-
	Cycle 7[b]	165	83	83
	RP2	198	297	495
	Total	**411**	**428**	**578**
Nigel Fotherby	Cycle 6[b]	29	29	-
	Cycle 7[b]	61	31	31
	RP2	82	123	206
	Total	**172**	**183**	**237**

[a] due to Covid-19, payments due July 2020 have been deferred [b] following suspension of the employee share scheme due to Covid-19, the values have been estimated based on total shareholder return values of £3.99 per share for Cycle 6 and £3.85 for Cycle 7.

Remuneration earned by directors for the year ended 31 March 2020 (audited)

The table sets out the emoluments of the Chairman and directors. It shows all of the remuneration earned by an individual during the year and reports a single total remuneration figure. Amounts actually paid to directors during a financial year will be different reflecting the timing of annual bonus payments and the vesting schedule of long-term incentive schemes explained above.

		Salary or fees*		Benefits*		Performance related payments*		Long term incentive plan*		Replacement award*		Pension Cash Alternative*		Total*	
		2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
	Notes	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Chairman															
Dr Paul Golby CBE	1	**165**	168	**8**	8	**-**	-	**-**	-	**-**	-	**-**	-	**173**	176
Executive directors															
Martin Rolfe	2, 3, 4, 5	**464**	450	**13**	15	**279**	283	**1,221**	287	**-**	-	**70**	68	**2,047**	1,103
Alistair Borthwick	4, 6	**150**	-	**19**	-	**106**	-	**-**	-	**87**	-	**23**	-	**385**	-
Non-executive directors															
Maria Antoniou		**45**	44	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**45**	44
Richard Keys		**45**	44	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**45**	44
Iain McNicoll CB CBE	1	**45**	44	**1**	1	**-**	-	**-**	-	**-**	-	**-**	-	**46**	45
Michael Campbell	8	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Dr Harry Bush CB	8	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Gavin Merchant	8	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Hugh McConnellogue	8	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Louise Street	8	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Kathryn Leahy	9	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Former director (at 31 March 2020)															
Nigel Fotherby	4, 7	**107**	305	**4**	17	**34**	148	**549**	171	**-**	-	**18**	69	**712**	710
		1,021	1,055	**45**	41	**419**	431	**1,770**	459	**87**	-	**111**	136	**3,453**	2,122

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

Notes to the table of directors' emoluments:

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

2 The table sets out Martin Rolfe's earnings during the financial year and includes future long term incentive payments which are conditional, as explained in note 4 to this table below. Actual payments made to Martin Rolfe, including for long term incentives to which he was entitled in the financial year, amounted to £1,061,000 as shown on page 61.

3 Martin Rolfe is a member of the defined contribution pension scheme in order to make employee contributions only and sacrificed £10,000 (2019: £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.

4 Martin Rolfe, Alistair Borthwick 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 £69,525 for the year (2019: £67,500), Alistair Borthwick received £22,500 for the period since his appointment (2019: nil) and Nigel Fotherby received £17,881 for the period until his resignation (2019: £68,674).

5 Martin Rolfe participates in the Long Term Incentive Plan. The value for 2020 reflects amounts paid in the year following vesting of Cycle 5 and Cycle 6 tranches, together with the RP2 award which completed at 31 March 2020. Payments under the RP2 award, which are conditional on Martin being in service at the payment dates (or a good leaver under scheme rules), are intended as follows: 20% in June 2020 (deferred due to Covid-19), 30% in June 2021 and 50% in June 2022. The comparative value for 2019 reflects a vesting payment for a Cycle 5 tranche. Given the current circumstances, Martin Rolfe (CEO) has asked the company to defer any long-term incentive payments due to him until a more appropriate time. The company has agreed this as a personal decision by the CEO.

6 Alistair Borthwick was appointed an executive director on 3 October 2019 and his emoluments from this date are reported in the table above. The Committee agreed that he would be partially compensated for performance related remuneration that he forfeited on leaving his previous employer. His entitlement of £261,063 is payable in three equal annual instalments. The first of these contractual payments, which he has volunteered to defer receipt of given current challenges, is reported above as a replacement award.

7 Nigel Fotherby retired on 30 June 2019 and was deemed a good leaver on retirement. His entitlement to annual performance related pay and earnings under the Long Term Incentive Plan for the 2020 financial year is included in the table above. The value for 2020 reflects amounts paid in the year following vesting of Cycle 5 and Cycle 6 tranches, together with the RP2 award which completed at 31 March 2020. Payments under the RP2 award are made under good leaver conditions and are intended as follows: 20% in June 2020 (deferred due to Covid-19), 30% in June 2021 and 50% in June 2022. The comparative value for 2019 reflects a vesting payment for a Cycle 5 tranche.

8 These directors are appointed by The Airline Group (AG) who charged NATS a total of £54,320 per quarter (2019: £54,320 per quarter) for the services of the directors. There were no resignations or appointments in the period to 31 March 2020.

9 Kathryn Leahy is appointed by LHRA and received no fees from NATS for her services.

Ratio of the Chief Executive's pay 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. The ratio calculated at April 2019 remained unchanged from the previous year.

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 2019	Option B	18 : 1	13 : 1	9.5 :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.

Five-year history of Chief Executive remuneration

The following table sets out a five-year history of the remuneration of the Chief Executive. It also details amounts actually paid in each financial year, reflecting the timing of annual bonus and long- term incentive payments.

Financial years ended 31 March	2016	2017	2018	2019	2020	
Earned for the year (£'000s)	748	944	1,179	1,103	2,047	
Paid in the year (£'000s)	586	836	956	1,098	1,061	
AMPRS (% of maximum entitlement)	91.6%	75.3%	92.5%	89.8%	86.0%	
LTIP (% of maximum entitlement)	Cycle 3 60.0%	Cycle 4 96.3%	Cycle 5 80.0%	Cycle 6 46.4%	Cycle 7* 71.7%	RP2* 100%

* Given the current circumstances, Martin Rolfe (CEO) has asked the company to defer any long-term incentive payments due to him until a more appropriate time. The company has agreed this as a personal decision by the CEO.

Statement of directors' interest in shares

Aggregate emoluments disclosed above do not include any amounts for the value of shares awarded under the company's all-employee share ownership plan. 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 set out in the table below. The value of Martin Rolfe's shareholding at 31 March 2020 is indicative only. For the purpose of this report this indicative value is based on market comparable benchmarks in the absence of an HMRC approved valuation since Covid-19 and the temporary suspension of the employee share scheme. Proceeds from the disposal of employee shares can only be realised and therefore ascertained based on an HMRC approved valuation.

Director during the year	Date from which exercisable			Exercised (returned to plan)	Holding (number of shares)	Indicative value at 31 March 2020 (estimated at £2.85 per share)	Value at 31 March 2019 (at £3.90 per share)
	Exercisable (brought forward)	30/10/2021 (brought forward)	30/10/2023 (brought forward)				
Martin Rolfe	662	162	200	-	1,024	2,918	3,994
Nigel Fotherby	3,139	162	200	(3,501)	-	-	13,654
	3,801	324	400	(3,501)	1,024	2,918	17,648

There were no awards of employee shares during the 2020 financial year. The executive directors received dividends in cash during the financial year based on their shareholdings at the distribution date. Under the rules of the employee share plan, Nigel Fotherby's shares are deemed to have vested when he was required to return them to the plan on retiring from NATS. He received £13,654 for his shares.

Maria Antoniou

Chair of the Remuneration Committee

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 and security 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.

The Committee is chaired by Iain McNicoll and there were two other non-executive director members in 2020: Kathryn Leahy and Hugh McConnellogue. In addition, the NATS Chair regularly attends the Committee.

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

- Dr George Bearfield, Director of Health and Safety, Rock Rail, and Professor of Railway System Safety at the University of Huddersfield; and
- Captain John Monks, Director of Safety and Security, 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 Brexit negotiations have been important to both organisations as it became clear that the UK would no longer be a member of EASA. The risk caused by airspace infringement also continues to be a shared topic of concern and NATS supports the progress being made towards the identification of all aircraft in UK airspace through the mandating of electronic conspicuity. Towards the end of the year the regulator's and NATS' focus was on the impact of the Covid-19 pandemic on the aviation industry and on managing the associated potential aviation safety risks.

As noted, in addition to the standing items on the Committee's quarterly agenda, this year the Committee received specific briefings on oceanic flight data systems, new tools to enhance the understanding of operational safety risk and how NATS can learn from other organisations' safety critical experiences.

- Safety Performance

The SRC carefully monitors the group's safety performance and progress towards its targets. The regulatory targets set for RP2 were met but NATS's own internal ambitious targets were not met, with higher severity incidents associated mainly with London Terminal Control. The Committee reviewed the factors contributing to this performance and the Swanwick Enhancement Plan developed to support long term sustained improvement, and which is now embedded in the 2020 Swanwick Unit Safety Plan. The Committee also considered the inevitable limit to continuous improvement which was possible ahead of essential technology and airspace change.

This year the UK Airprox Board (UKAB) concluded that NATS had either contributed to, or could have influenced better, the outcome for two risk-bearing Category B Airprox events. One of these events occurred at Stansted airport in February 2019. NATS immediately implemented its own safety improvement actions from these events and when the UKAB findings were formally published in December 2019 had already taken all the necessary actions.

I reported last year that, in preparation for RP3, internal measures of safety performance were being broadened. The safety performance scorecard received by the Committee now covers the KPIs for RP3 together with trend data on NATS' top safety risks with leading indicators on investment in safety, our safety processes and the effect activities have on our people. This drive to move from hindsight to foresight will continue in the year ahead.

The SRC reviewed the results of an investigation and recommendations following a technical engineering incident affecting LTC in July 2019, which resulted in a loss of separation. The report provided reassurance that a comprehensive programme of improvement activities was in place to support the current operation, while also encompassing future systems and the need to establish the appropriate balance between resilience and safety.

- Safety Risk Management

The risk of an accident involving aircraft under NATS control is NATS' top safety risk and the Committee regularly reviews an assessment of this risk. Information on safety occurrences together with models to estimate the probability of different accident scenarios, including runway incursions, controlled airspace infringements, aircraft leaving controlled airspace and drone encounters, provides the Committee with oversight of event types, trends and, importantly, associated safety improvement activities. For example, runway incursions, primarily low severity events reported at Heathrow, increased during the year as a result of better detection methods. The reporting of these events has allowed NATS to put focused improvement actions in place which will provide long term safety benefits.

While controlled airspace infringements remain high, there has been an encouraging downward trend observed in the number of events occurring towards the end of the year. Support for safety improvement initiatives which sustain this trend and reduce the risk of infringements, including the drive for mandating electronic conspicuity and work with the general aviation community, will continue.

NATS uses the Outside Controlled Airspace Tool (oCAT) at LTC to provide automated alerts on airspace excursions. The number of alerts detected by the system reduced during the year. Considering this improvement, it was disappointing that an event involving the descent of an aircraft outside of controlled airspace was attributed to NATS as a risk bearing B Airprox. This event and airspace excursions more generally has led to bespoke improvement activity at Swanwick.

Reversing the unwelcome trend reported in previous years, there was a reduction in the number of reported drone encounters in the year. This improvement reflects a combination of measures including new regulations and procedures, enforcement and education. Over the last 12 months, NATS received approximately 2,600 requests for airspace approval from drone users across our centres and airports. NATS continues to work with commercial drone operators to enable Beyond Visual Line of Sight (BVLOS) operations in our airspace, whilst at the same time encouraging a just culture and open reporting via tools such as CHIRP (Aviation and Maritime Confidential Incident Reporting).

- Board Safety Workshop

A safety workshop in June provided the Board and SRC members with an overview of how NATS' safety performance and safety culture compared to benchmark ANSPs from around the world. The workshop also explored some of the top current safety risks, with subject matter experts outlining the challenges being faced and the improvement actions taking place. In addition, moving from today's safety risks to managing the future risks caused by new entrants into the airspace, the Board was briefed on how NATS is preparing for the advances in commercial space operations.

- NATS Safety Strategy

Last year I reported on how the NATS Safety Strategy had been developed to connect directly to the business through a set of safety capabilities and associated capability outcomes. These capability outcomes capture how we want our business to evolve towards 2030. They cover a wide-ranging set of aspirations from our safety culture to our future safety management system. This year I am pleased to report progress on working towards these goals. A 'single point of truth' has been developed for entering, managing and reviewing all unit safety plans together with other programme and project activities. This is enabling the business to see how all the planned activities are contributing to achieving the outcomes and delivering the safety strategy.

- Physical Security

The SRC oversees the range of physical security risks and its focus in the past year has been:

External Threat and Incident Management: extensive work has been undertaken to support NATS' Incident Management efforts. The close links that already exist with the emergency services have been further strengthened with a number of joint training exercises, including a major multi-agency exercise at Prestwick.

Insider Threat Activities: work has continued to ensure that NATS takes all reasonable steps to mitigate the risk from potential insider threat activities, including establishing an Insider Threat Working Group assessing the company's personnel security maturity using a CPNI model and now developing risk assessments for all roles in NATS.

Overseas Support and Travel Security: a focus this year was Corporate Security support to teams overseas, including briefings and updates during the mass public demonstrations in Hong Kong and following theCovid-19 outbreak.

Security Vetting: work has continued to align the vetting service with the recruitment process in order to help provide a much better experience for those joining NATS.

Data Protection: GDPR is now well established within the organisation and a recent Internal Audit made no major observations.

Iain McNicoll, CB CBE,

Chair of the Safety Review Committee

Transformation Review Committee report

The role of the Committee

The Committee's objective is to provide the Board with oversight of NATS' transformation programmes and assurance on the quality of the strategy, planning and delivery of those programmes.

This includes the development of plans and the delivery of adequate and cost-effective technical systems and services to support NATS' operations, as well as the people and procedure changes required to realise the operational and commercial benefits.

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;
- Operations Director;
- Human Resources Director;
- Director Service Design and Transition;
- Director Service Strategy and Transformation;
- Director Strategic Assurance; and
- Chief Engineer.

Main activities of the Committee during the year

As part of its governance and oversight of the NATS operations, the Committee receives regular in-depth reports and briefings on the existing and planned investment programmes, and the technical 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.

During the last year the TRC maintained oversight of all aspects of this programme including investment governance, programme delivery and lessons learned.

Several challenges have arisen during the year including delays by a key supplier and identification of a safety risk in a planned interim solution which was not considered acceptable to deploy. The TRC provided oversight and scrutiny of these challenges, reviewing the options and analysis brought forward in order to make recommendations to the Board as to the preferred way forward.

As well as receiving regular updates on the overall status of the programmes and the challenges faced, the committee has focused this year on oversight of key elements of the transformation programme including:

- Core infrastructure
- Voice communications and
- Surveillance strategy

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, new methods of working that will be in place once the transformation is complete and the approach being taken to assurance throughout the programme to ensure the effectiveness of the solutions created.

Lessons learned activities this year included review of the Slaughter & May report into issues surrounding TSB's migration onto a new IT platform in April 2018 in order to provide assurance that NATS had appropriate controls in place to avoid similar challenges during technology deployments.

People

In recognition of the wider transformation remit of the TRC, an increased focus was placed on the people and organisational aspects of the programme this year. In the operations area, the TRC has reviewed the controller supply chain - specifically the recruitment and training as well receiving a briefing on the plans to deliver unified processes and procedures across our centres. The TRC also provided oversight of NATS' evolution from an asset - based to a service-based organisation including a new training approach for engineers.

Cyber Security

The TRC plays a key role in providing Board oversight of cyber security and receives updates from the Chief Information Security Officer (CISO) on all aspects of cyber security assurance, including technical compliance, monitoring and reporting on events as well as people and cultural aspects designed to improve awareness and reduce risk.

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 reviewed NERL's incident management approach to understand how the business operates through key stages of response to an event, including initiation, escalation and recovery.

Covid-19

The effects of Covid-19 were beginning to be felt across the business at the very end of the financial year and the TRC received an initial briefing on the immediate impact of this on the investment programme. During the summer, the TRC received further updates which have informed consultation with customers on priorities for capital investment since Covid-19, recognising that it will be some time before demand returns to pre-pandemic levels. More detailed reviews will take place in 2020/21 as the business continues to develop revised transformation and investment plans.

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 2020.

The Governance report is set out on pages 31 to 79 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 22 to the financial statements.

Dividends

The company paid interim dividends of £30.0m (20.97 pence per share) in May 2019 and £29.0m (20.27 pence per share) in November 2019. The Board recommends a final dividend for the year of £nil (2019: £nil).

Directors and their interests

The directors of the company at the date of this report are set out on pages 31 to 34. 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 35.

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 58.

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.

Employee engagement

The directors are committed to the involvement of employees in the decision-making process through effective leadership at all levels in the organisation, including engagement with the Board through a designated non-executive director. 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 directors encourage the involvement of employees in the company's performance through the All-Employee Share Ownership Plan. Following the outbreak of Covid-19, the directors had regard to the health and well-being of employees and consulted on and implemented adjustments to the working environment, including social distancing measures and home working, to protect the workforce and the company's operation. 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. As a result of coronavirus travel restrictions, the NATS CEO and the Executive team provided regular updates to staff through the company's internal media. Such actions enable employees to achieve a common awareness of those factors affecting the performance of the company. 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.

The group pay policy is explained in the Remuneration Committee's report. 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.

Business relationships

We explain on pages 28 to 30 how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and other stakeholders, and the effect of that regard, including on principal decisions taken during the financial year.

Going concern, viability statement and subsequent events

The directors' assessment of going concern and their viability statement are set out on page 18. Subsequent events are disclosed in note 38 to the financial statements.

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the 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

At the meeting to approve the financial statements, the Board resolved to re-appoint BDO LLP as statutory auditor.

Approved by the Board of directors and signed by order of the Board by:

Richard Churchill-Coleman
Secretary
22 October 2020

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

Registered in England and Wales
Company No. 04138218

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 2020 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated and company statement of changes in equity, the consolidated cash flow statement and the related notes to the financial statements, including a summary of significant accounting policies. 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 2020 and of the group's loss 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 2020 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 directors' confirmation set out on page 20 to 23 in the annual report that they have carried out a robust assessment of the group's emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated;

- the directors' statement set out on page 69 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 pages 18 and 19 in the annual report and accounts 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 judgment, 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.

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 a £49m impairment due to the impact of Covid-19 at the balance sheet date. As detailed on pages 110 and 111, the premium applied to the regulatory asset base (RAB) in determining the Fair Value Less Costs of Disposal at 31 March 2020 was assessed by management to be 0% (31 March 2019: 5-6%). Management disclose there is significant estimation uncertainty in respect of that judgement assumption due to the impact of Covid-19.	We have obtained and tested management's current assessment of the carrying amount of goodwill. We have reviewed, with the assistance of our valuation specialists, the impairment review methodology. In accordance with IAS 36, the carrying value of goodwill is based on Fair Value Less Costs of Disposal (FVLCD), being higher than Value In Use (VIU). We tested the FVLCD by agreeing the underlying RAB value to the carrying value of the RAB at 31 March 2020. We reviewed the comparison with VIU given the lack of alternative observable market data. We also ensured that costs to dispose were appropriately deducted in the FVLCD calculation. We considered and challenged the reasonableness of management's alternative VIU scenarios, which included varying traffic forecast assumptions. These scenarios gave a range of values which assisted management in determining that a recoverable amount based on FVLCD, using a 0% RAB premium, was an appropriate estimate. We reviewed this judgement and confirmed that it was appropriate and in accordance with IFRS 13. Key observations We consider the disclosures in the financial statements relating to goodwill, including the critical judgements and estimates, are in line with accounting standards.

Key audit matter	How we addressed the key audit matter in the audit
Going concern The Covid-19 pandemic has had a significant impact on air traffic and the group's operations. This is a new risk. There has been a significant impact on the UK economy and the demand for air travel, and therefore the demand for the group's air traffic control services. Refer to the directors' Going Concern statement on page 18 and 19 and the judgement arising from COVID-19 in note 3 on page 98 of the financial statements. The group's financial statements are prepared on the going concern basis of accounting.	We have assessed the going concern assumption adopted by the directors and obtained and reviewed management's forecast cash flows and covenant calculations covering the review period from the date of signing to at least 12 months from the date of approval of the financial statements. We obtained and reviewed management's reverse stress testing on forecasts to understand how severe downside scenarios would have to be to result in the elimination of liquidity headroom or a covenant breach, and have considered management's assessment of the likelihood of such circumstances arising in determining their conclusion related to going concern. We performed a detailed review of all the borrowing facilities to assess their continued availability to the group and to ensure completeness of covenants identified by management. We reviewed the accuracy of management's financial model by testing the mechanical accuracy of forecasts, assessing the historical forecasting accuracy and assessed management's future air traffic assumptions by comparing these to third party forecasts and actual air traffic data from April 2020 through to September 2020. We reviewed management's assessment of controllable mitigations available to the group to reduce cash flow spend in the going concern period in order to determine whether such mitigations are realistic. We considered the adequacy of the disclosures in the financial statements against the requirements of the accounting standards. Key observations Our key observations are set out in the Conclusions relating to principal risks, going concern and viability statement section of our audit report.
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 100 and in note 33 management make a number of judgements and actuarial assumptions, with assistance from their actuary. These have a significant impact on the valuation of pension scheme assets and liabilities and on the amounts shown in the consolidated income statement and the consolidated statement of comprehensive income.	We have reviewed the accounting treatment of the defined benefit pension scheme and considered this in light of the pension assumptions made ensuring that they are in accordance with IAS 19. We have worked with our pension experts to assess the validity of assumptions applied, in particular discount rates, inflation rates and mortality assumptions and performed a detailed review of the scheme actuary's annual valuation report. In addition, we agreed a sample of member information to source data to ensure it was accurate.

Key audit matter	How we addressed the key audit matter in the audit
The scheme assets included £242.2m of property assets at the balance sheet date. As a result of the impact of COVID-19 at the balance sheet date the third party property asset manager reported a material valuation uncertainty in respect of this valuation. This represents a significant estimation uncertainty in relation to the valuation of pension scheme property assets.	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, statements and, in the case of property assets, an independent property valuation. We assessed the adequacy of the disclosures within note 33 to the financial statements to ensure these are in line with IAS 19. We considered the adequacy of the disclosures made in note 3 – *Critical judgements and key sources of estimation uncertainty*. This note explains that the valuer reported on the basis of a material valuation uncertainty and consequently that less certainty and a higher degree of caution should be attached to the pension scheme property valuations as at 31 March 2020. We discussed this clause with management and our own property experts and obtained sufficient appropriate audit evidence to demonstrate that management's assessment of the suitability of the inclusion of the valuation in the consolidated balance sheet and disclosures made in the financial statements are appropriate. Key observations We consider the pension scheme accounting treatment and disclosures, including the critical judgements and estimates, are in line with accounting standards.
Revenue recognition and recoverability of regulatory assets As detailed on pages 100 and 101, in determining airspace revenues recognised, management makes key judgements about the recognition of licence fee revenue and material revenue allowances that are recoverable or payable in subsequent accounting periods in respect of regulatory assets and liabilities.	We have reviewed the airspace revenue stream to ensure that it is accounted for in accordance with IFRS 15. We have completed a test in total on the NERL revenue, corroborating each of the underlying revenue streams to supporting contract documentation, to ensure that the revenue is recognised in line with the group policy. In the case of airspace revenue, we ensure that it is being accounted for in line with the provisions of the air traffic services licence, the regulatory charging mechanisms for the reference period, the RP2 settlement and RP3 requirements. We have considered the regulatory amounts recoverable and payable as revenue allowances under the EC Charging Regulation. We did this by assessing when the net regulatory payable at 31 March 2020 amount would be paid or recovered. We confirmed that any recoverable amounts will be offset in full by regulatory amounts payable.

Key audit matter	How we addressed the key audit matter in the audit
	We also considered and challenged management over the basis for recognising licence revenue in the period when UK air traffic volumes fell below normal operating levels due to the impact of COVID-19. We confirmed that this revenue was recognised in accordance with IFRS 15. Key observations We consider management's judgements in respect of the accounting treatment of revenue allowances to be appropriate and the disclosures within the financial statements to be in line with accounting standards.
Long term contracts As detailed on page 101 the group has significant long-term contracts that include material assumptions on margin and percentage completion.	We have audited all material contracts by recalculating core service charges; challenging and understanding estimated pass through costs against actual costs; and understood key variances in revenue from the prior year. We have obtained management calculations and tested a sample against contract documentation, performance to-date and any subsequently agreed modifications. This included the margin assumptions on significant long-term projects and contract accounting judgements in relation to percentage of completion and margin. Key observations We consider the assumptions made by management in respect of the margin and percentage completion of long-term contracts to be appropriate.
Capital investment programme: As detailed on pages 98 and 99 and in 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 judgement 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 met and discussed with 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 testing the appropriateness of the labour rates being used and the amount of labour time being capitalised per project to supporting payroll information. By comparing useful economic lives to prior years and our own expectations and challenging 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. We ensured that a detailed project by project review had been completed and that the review process was appropriately documented.

Key audit matter	How we addressed the key audit matter in the audit
	In addition, we have agreed a sample of externally generated assets to supporting documentation to test existence and that costs are materially accurate. Key observations We consider the judgements made by management in respect of the capital investment programme to be appropriate.

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 and goodwill impairment (2019: 5% of profit before tax). We consider profit before tax and goodwill impairment 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 (2019: 2% of total assets). This was considered the most appropriate benchmark as the parent company does not trade. Whilst materiality for the financial statements as a whole was £3.7 million (2019: £4.7 million), each significant component of the group was audited to a lower materiality of between £0.8 million and £4.2 million. Audits of the four components noted below were performed at a materiality level calculated by reference to a proportion of group materiality appropriate to the relative scale of the business concerned. Performance materiality is set at a level lower than materiality, which was 75% of group materiality totalling £2.8m. 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 £74,000 (2019: £94,000). 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 analytical review 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, other than the significant impact as result of COVID-19, 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 with the addition of going concern.

The audits of the four components were principally performed in the UK and remotely in light of Covid-19, with people from 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 previously and large corporate entities.

Extent to which the audit is capable of detecting irregularities, including fraud

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, tax legislation, the licence granted under the Transport Act 2000 and economic regulation regulated by the CAA.

Our tests included agreeing the financial statement disclosures to underlying supporting documentation, enquiries with management, enquiries of those charged with governance and a review of board meeting minutes from throughout the period and post year end. 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.

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 70 – the statement given by the directors that they consider 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, performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on page 40 – 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 38 – the parts of the directors' statement relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor as if the company was a fully listed company do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinion on other matters

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

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

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.
Auditor's responsibilities for the audit of the financial statements	Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.
Other matters	Following the recommendation of the Audit committee in 2014, we were appointed to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement is six years, covering the years ended 31 March 2015 to 31 March 2020. 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.

Christopher Pooles (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Reading
United Kingdom

22 October 2020

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