

# Governance Report



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# Directors of NATS Holdings

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## 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 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.

# Directors of NATS Holdings

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## Director's biographies

### Non-executive directors

#### Maria Antoniou

Maria is Group HR Director for Morgan Advanced Materials, she was appointed to this role in November 2020. Until April 2020, 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. Whilst at Ford, 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 employee 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 joined the Board in 2017 having spent the previous 11 years at easyJet, initially as Group People Director and subsequently as Group Director Europe. During his time at easyJet he has also been Group Director, Transformation and has led on a series of strategic projects, including the integration of GB Airways and the successful development of easyJet's presence in Europe.

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

# Directors of NATS Holdings

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## Director's biographies

### Non-executive directors

#### Richard Keys

Richard is a non-executive director of AWE plc, Merrill Lynch International, Glaziers Hall Limited and a non-executive member of the Departmental Board of the Department for Transport. He was previously a non-executive director of Sainsbury's Bank plc, Wessex Water Services Limited, a non-executive member of the Departmental Board of the then Department for International Development 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 Risk and Assurance Committee and chairs the Airspace Governance Board for Heathrow and is a Trustee for the Heathrow Multi-Faith Chaplaincy Charity. 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 of experience in the airline industry, Hugh has held senior leadership roles across engineering and airline operations functions. He currently holds the position of Director of Airport Operations and Navigation, responsible for all airport ground operations as well as specific responsibility for easyJet's largest operation at London Gatwick. Hugh started his career as an apprentice engineer for Britannia Airways moving on to work in freight and passenger operations with airlines across Europe. In his time with easyJet, he has been responsible for line and hangar maintenance, maintenance operations control, deputy post-holder for engineering for easyJet Switzerland, airline network operations and emergency response management. During this time, he led the merger of airline operations through acquisitions, implementation of new technologies and systems, as well as managing large teams of people. Hugh is a director of AG and a member of the Safety Review Committee.

# Directors of NATS Holdings

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## Director's biographies

### Non-executive directors

#### Iain McNicoll CB CBE

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

#### Gavin Merchant

Gavin joined Universities Superannuation Scheme (USS) in 2011 and is Co-Head Direct Equity with responsibility for sourcing, evaluating and monitoring investments within the infrastructure and renewables portfolios. 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 20 years. Prior to joining USS, Gavin was a Director at Equitix Limited. Gavin graduated with an honours degree in Law from the University of Edinburgh and is a member of the Institute of Chartered Accountants of Scotland. Gavin is a director of AG and a member of the Remuneration Committee.

#### Louise Street

Having completed a degree in Japanese and Business Management at Durham University, Louise joined British Airways on the graduate intake scheme in 1998. Her first eight years were in the commercial organisation, specifically in Sales and Revenue Management. She then moved to the operational side of the business and has undertaken a number of senior management roles in Customer Service and Operations. In July 2021, Louise was appointed into her current role as Head of Worldwide Airports, with responsibility for British Airways' operation and customer service at all British Airways served airports outside of London. Louise is a director of AG and a member of the Audit Committee.

# Directors of NATS Holdings

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## Director's biographies

### Officer

#### **Richard Churchill-Coleman, Legal Director**

Richard is Legal Director, which includes the role of Company Secretary. He joined NATS in June 2007 from TUI Northern Europe Limited where he held the position of Group Legal Counsel. Richard has more than 35 years of 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

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## 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 of 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 NR23;
- > a cost efficient, service-oriented and commercially smart organisation, requiring best in class performance of its employees and partners; and
- > diversity and inclusion and fair treatment of its employees, valuing the contributions of all employees.

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 2021 to the date of approval of the accounts, there were no changes to the directors. Richard Keys and Iain McNicoll's appointments were extended by one month to the end of September 2022.

## 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.

# NATS governance framework

## The responsibilities of the Board

The Board has adopted a schedule of matters reserved for its decision and has put in place arrangements for financial delegations to ensure that it retains overall control of the business. The Board also has oversight of key business drivers and risks. Matters reserved for the Board include the monitoring of NATS' safety performance, appointments to the NATS executive team, and issues with political, regulatory or public relations implications. In addition to the schedule of matters reserved to the Board, specific matters are reserved for Partnership directors, AG directors and the LHRA director, as follows:

### Partnership and AG directors

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

### LHRA director

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

## Access to legal and professional advice

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

## Board meetings

The Board routinely meets seven times per year in January, March, May, June, July, September and November, and supplements these scheduled meetings with additional meetings as business priorities require. This year, the Board met nine times with each member (who served as a director during the year) as set out in the table on page 42. This includes additional meetings which have also taken place to review the impact of Covid on the business and management's response.

The non-executive directors meet with the Chair, but without the executive directors' present, 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.



# NATS governance framework

## The Board's performance

### Board effectiveness review

The Board is committed to continuous improvement and a performance evaluation of the Board, its committees, and the Chair is conducted each year. This year, the Board Effectiveness Review was administered externally by Board Evaluation Limited. The results were assessed by the Board at its 31st March 2022 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.

## 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 Review
Paul Golby	9/9		2/2			
Martin Rolfe	9/9	5/5	2/2	3/4	4/4	4/4
Alistair Borthwick	8/9	5/5				
Maria Antoniou	8/9		2/2	4/4		
Harry Bush	9/9	5/5				
Mike Campbell	9/9		2/2	4/4		4/4
Richard Keys	8/9	5/5	2/2			4/4
Kathryn Leahy	9/9				4/4	
Gavin Merchant	7/9			3/4		
Hugh McConnellogue	9/9				4/4	
Iain McNicoll	9/9				4/4	4/4
Louise Street	8/9	5/5				

# NATS governance framework

## The Board's Committees (continued)

The terms of reference for the Board and its committees are available to all employees and shareholders and can be made available externally with the agreement of the Legal Director. Reports from each of the standing committees are set out on pages 44 to 64. 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 (which was renamed the NR23 sub-committee) comprising the Chair, Martin Rolfe, Alistair Borthwick, Harry Bush, Richard Keys and Mike Campbell, to consider the NR23 plan ahead of submission in February 2022.

## Meetings with shareholders

A shareholders meeting is usually held once a year to provide the group with an opportunity to update the shareholders on the progress of the annual business plan and long-term strategy. This year there was no formal shareholders meeting, but meetings were held with shareholders on 27 September 2021 and 7 March 2022. 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 2020, 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. However, the Chair of The Airline Group acts as Senior Non-Independent Director in the absence of the Chair.

### 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 Iain McNicoll and Richard Keys have letters of appointment to 30 September 2022 and Maria Antoniou to 31 May 2024. 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 2022 was as follows:

Name	Date of appointment	Years of service to 31/3/22
Paul Golby	1/9/14	7 years 7 months
Maria Antoniou	1/8/16	5 years 8 months
Harry Bush	27/5/14	7 years 10 months
Mike Campbell	26/5/17	4 years 10 months
Richard Keys	1/9/13	8 years 7 months
Kathryn Leahy	31/5/18	3 years 10 months
Hugh McConnellogue	4/10/18	3 years 6 months
Iain McNicoll	1/9/13	8 years 7 months
Gavin Merchant	20/3/14	8 years
Louise Street	29/11/18	3 years 4 months

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.

# Reports from Board Committees

## Audit Committee report

### The role of the Audit Committee

The Committee has met five times since the publication of the 2021 Annual Report and Accounts in July 2021. Of these meetings, four were held to consider routine business and one to provide Board continuing oversight of NERL's debt financing (see below). The Committee 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 Assurance and Risk and the responsible partner from our outsourced internal audit provider, NATS' Head of Business Risk and the external auditors are invited to attend each meeting dealing with routine business by standing invitation and others by exception as appropriate.

Part of each routine business 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 both the external and internal auditors;
- > reviewing the scope and results of internal and external audit work; and
- > reviewing NATS' risk management and the effectiveness of 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 the arrangements in place and for the investigation and follow-up of matters raised are appropriate. The Committee reviews its Terms of Reference annually and, taking account of updates to corporate governance best practice, 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

The Committee considered the financial reporting implications of Covid and the CAA's proposals for the redetermination of NERL's price control, 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 recognition of NERL's revenue and the recoverability of its revenue allowances (see below); the carrying value of goodwill (see below); the carrying values of the group's investments, including in Aireon as well as in Searidge, in which the group acquired a controlling interest in the year; and the recoverability of other assets.

#### Going concern and viability

The Committee also reviewed the evidence supporting the assessments of going concern and viability (see page 21), including the impact of the refinancing transaction on projected liquidity, the company's March 2022 business plan financial plans, the significant judgements and assumptions in the company's forecasts of the recovery in air traffic volumes and the recovery of the shortfall in regulatory revenue allowances due to Covid, together with plausible downside scenarios and reverse stress tests. Following its review, the committee concluded it was satisfied with the approach being taken and the reasonableness of the judgements made together with the relevant disclosures, in particular the disclosures made in the going concern and viability statements and in note 3 to the financial statements.

# Reports from Board Committees

## Audit Committee report (continued)

### Revenue recognition

The economic regulatory price control for UK en route services allows for the recovery (or reimbursement) of regulatory 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 regulatory adjustments in the year of service, based on traffic, inflation and service performance experienced. Where regulatory 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.

As a result of Covid, the CMA's determination of the referral of the RP3 price control (2020 to 2024) was for a three-year settlement for 2020 to 2022 with NERL's charges set initially as if Covid had not occurred but recognised that the CAA would need to take a view subsequently of the recoverability of regulatory allowances for this three-year period as part of its redetermination of a new five-year price control for the period 2023 to 2027. The CAA's redetermination of the price control and its assessment of the recoverability of NERL's regulatory allowances will not be completed until the first quarter of 2023, after publication of this annual report. As a result, the company was required to estimate the amount of licence revenue to which it expects to be entitled for the services it provided in the financial year, giving consideration to the risk of potential reversal in making that estimate.

The Committee reviewed management's assessment of the nature, value and basis of the regulatory adjustments, having regard to the reduction in air traffic volumes due to the impact of Covid and CAA's approach to the retrospective reconciliation of actual revenue and costs to determine the Covid revenue shortfall. The Committee also has regard to the impact of there being an extended period for the recovery of those allowances and consideration of management's judgement that it was highly probable that a subsequent reversal of the amounts recognised would not occur of the total revenue and regulatory allowances of £750m for the year ended 31 March 2022.

The Committee also monitored the International Accounting Standards Board's progress in developing an accounting standard on Regulatory Assets and Regulatory Liabilities. There have been no developments since the prior year annual report which impact on the company's financial statements or its accounting policy. The Committee noted the redeliberation of aspects of the Exposure Draft (ED) published in January 2021, on which the group had provided feedback through the IASB's consultation. It was interested in the similarities between the approach proposed in the ED and the company's existing revenue recognition policy.

### The carrying value of goodwill

The Committee continued its focus on this recognising both the materiality of the group's carrying value of goodwill, the impact of impairment on the group's result and the inherent subjectivity of judgements made in assessing recoverable value and the associated 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 CMA's price control for 2020 to 2022 and the CAA's forthcoming redetermination of the price control from 2023, including its review of the reconciliation of actual costs incurred in the period 2020 to 2022, to take account of the impact of Covid; 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.

In addressing this review, the Committee had regard to the higher of the values determined on a value in use and fair value less costs of disposal basis reflecting: NERL's revenue allowances taking account of the matters referred to above and the cash flows implied by the group's business plan and an extended period over which the revenue shortfall for years 2020 to 2022 is to be recovered; the cost of capital assumption used to discount value in use; the costs that would likely be incurred by the company should a disposal of NERL's regulatory assets take place; and the value of NERL's regulatory assets, including the extent to which a premium was appropriate to reflect the scope for out-performance of regulatory settlements having regard to those implied by market transactions in regulated entities but also continuing to reflect upon the potential impact of the Covid pandemic on these factors. The Committee reviewed an independent professional assessment that the RAB premium was within a range of 5-10% at the balance sheet date and evaluated management's judgement in light of this advice of a 5% premium for fair value less costs of disposal. The Committee also considered appropriate sensitivities. Following its review, the Committee was satisfied with the explanations and disclosures provided in notes 2, 3 and 12 to the accounts.

### Retirement benefits

The pension funding position determined under international accounting standards requires a number of actuarial assumptions to be made, including judgements in relation to long-term interest rates, inflation, longevity and salary growth. The Committee reviewed the basis for determining these assumptions. The final calculations in respect of the defined benefit pension scheme are performed by a qualified actuary, independent of the scheme. Note 3 to the accounts summarises critical judgements and key sources of estimation uncertainty and note 32 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 of a deficit of £172m at 31 December 2020 and for the balance sheet position under international accounting standards of a surplus of £332m at 31 March 2022, and recognition of the surplus under IFRIC 14. The Committee was satisfied that the approach being taken and related disclosures were appropriate.

# Reports from Board Committees

## Audit Committee report (continued)

### Debt financing

On behalf of the board, the Committee continued to review NERL's financing structure since the debt refinancing of June 2021. This included the decision to extend the terms by one year of both the £450m bridging bank facility and the £400m revolving credit facility (see note 18 to the financial statements) pending the CAA's decisions on the NR23 price control and retrospective reconciliation, such that the latter is reflected in subsequent decisions enabling funds to be raised efficiently in the bank or debt capital markets.

### Searidge Technologies Inc

The group purchased a controlling interest (which resulted in whole ownership) of Searidge in December 2021. The Committee reviewed management's application of the acquisition method of accounting, including: the assessment of the fair value of identifiable assets acquired and liabilities assumed; the goodwill on acquisition; and the step acquisition and derecognition of the pre-existing interest in associate in accordance with accounting standards. The Committee also reviewed an independent assessment of the fair value at acquisition of intangible assets. The Committee was satisfied that the acquisition resulted in goodwill of £7.4m, intangible assets of £3.3m and a gain of £4.4m on derecognition of the interest in associate. The Searidge transaction is disclosed in note 34.

### Other matters

Other matters considered by the Committee included the potential implications of climate change and the impact of the conflict in Ukraine.

During the year, the Committee reviewed the half-year financial statements for the period to 30 September 2021, issued to shareholders under the terms of the SPA.

### b. Internal audit

The group's internal audit department conducts a programme of work to review and examine the controls in place to mitigate NATS' business risks, which encompasses 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 has been operated for some years as a co-source arrangement, primarily with PwC but with other providers if required. For the 2021/22 financial year, internal audit was operated under a fully outsourced model provided by PwC. This approach will be subject to ongoing review and is being continued for the current financial year.

The results of internal audits and agreed actions are reported as appropriate to relevant directors, executives and managers and reported on regularly to the Committee. Internal Audit monitors the satisfactory completion of actions by management to address their findings and reports on this to the Committee to assist its oversight. 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. Work is continuing to develop the universe in supporting more broadly the assurance needs of the group across its business, leveraging the work of Risk Management and Internal Audit to provide an integrated approach. Through its process of regular review of Internal Audit's work, the Committee is able to ensure that assurance resource is appropriately directed to meet specific needs, for example in response to exceptional circumstances. In particular, as regards the impact of the Covid pandemic, internal audit has reviewed certain of the measures undertaken by the company in response. The Committee also considers the ongoing independence of internal audit.

### c. External audit

BDO LLP was re-appointed as external auditor on 9 July 2021. The Committee reviewed the performance and the continuing independence of BDO periodically during the year and at its June 2022 meeting and recommended to the Board that BDO be re-appointed. Accordingly, a resolution recommending their re-appointment will be considered by shareholders.



# Reports from Board Committees

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## Audit Committee report (continued)

### d. Risk management

The Committee receives at each meeting reports from risk management and the internal auditor on the performance of principal risks, the effectiveness of internal controls, and material emerging risks. These reports include reviews of the policies and processes for identifying, assessing and mitigating emerging and principal risks and assessing risk appetite.

During the last 12 months, the committee has continued its oversight of risk by conducting a regular review of key risks and, as appropriate, supplementing this with detailed review of specific risks. The Committee has also reviewed changes to the risk management process and its reporting. Risk reports to the executive and the Committee are clearly organised by principal risk. Each of the principal risks is owned by an accountable executive director who is responsible for the framework, policies and standards that are required for keeping the risk within appetite. NATS is committed to maintaining an effective and resilient Enterprise Risk Management framework across the business.

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, in particular at enterprise level, in order to satisfy itself that they are appropriate and within the specified risk appetite 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 pandemic and the response to it with management and internal audit (as noted above), including those arising from changes in working practices and the widespread adoption of working from home.

### 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. As explained above, the Committee receives regular reports from internal audit concerning the results of their work and agrees their annual programme of work, as well as regular reports from risk management.

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.

In addition, to the work of internal audit, the Committee also reviews reports from the external auditor, 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

Chair of the Audit Committee

# Reports from Board Committees

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## 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.

During the year the DfT started the recruitment process for two Partnership Directors to replace Richard Keys and Iain McNicoll who will have completed their 9 year terms on 31 August 2022.

The Chair's contract expires on the 31 August 2023 and The Airline Group has started the process to recruit his replacement.

### Main activities of the Committee during the year

During the year, the Committee met twice in November 2021 and January 2022. The November meeting considered Executive succession, including Safety Director succession, and reviewed the talent pipeline. The January meeting reviewed the proposal for replacement of the Chair, including review of the role description. The Committee also received an update on DfT's recruitment of two new Partnership Directors.

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



# Reports from Board Committees

## Remuneration Committee report

### Dear Shareholders,

I am pleased to present the directors' remuneration report for the year ended 31 March 2022. Our remuneration policy's primary objective is to ensure that 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, including the remuneration actions that have been taken in response to the continued impact of the Covid pandemic. 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.

### Response to Covid

Since the start of 2020, the Remuneration Committee and the Board have had regard to the impacts of Covid on the company and the wider aviation sector. Since the severity of the pandemic became clear on NATS and the aviation sector, salaries for our Executive and management team remained at 2019 levels until May 2022 when a pay award was agreed, and backdated to January 2022 in line with the award offered to the wider workforce.

In addition, as highlighted in last year's report, no active incentive schemes were put in place for the 2020/2021 performance year, recognising the continued impact on the aviation industry, and therefore no incentive plan payments were made during the reporting year. The Committee continue to focus on actions such as appropriate pay awards that reflect the wider workforce and a review of performance metrics, that recognise the importance in this period of protecting employees, preserving liquidity and ensuring that the company supports and enables the sector's recovery.

### Key decisions made in 2021/22

Although the Committee's review of external data showed that the general practice across the UK and our sector was a return to incentivisation in 2021/22, the Committee took the view that it would not be appropriate to re-introduce the performance related incentive until NATS has ceased to be in receipt of government support from the CJRS (furlough). This support ended in September 2021 and the Committee therefore decided to operate a six-month incentive scheme for the period from October 2021.

A review of target measures for both short and long-term incentives has been conducted, and a revised set of measures which appropriately balances financial and strategic performance has been agreed for future incentive arrangements.

### Remuneration for 2021/22

The Committee agreed that no salary increases would be applied to the NATS Executive team, non-executive directors, or the wider management

group at the normal award date of April 2021 due to the external environment and ongoing cash preservation measures in place.

An annual incentive award was made to the executive team and management grades to reflect a reduced six-month period from 1 October 2021 to 31 March 2022 to recognise our ongoing recovery from the impact of Covid during this period. The award was based on both company financial performance, against a revised operating cost reduction metric, and personal performance.

A transitional long-term incentive plan (LTIP) award was also implemented to replace the previously agreed RP3 plan, with a reduced performance period from three to two years (resulting in no LTIP award grant for the 2020/21 year as a response to the Covid pandemic). This performance period aligns to the start of the next regulatory period. The plan is based on strategic targets for the specified period which focus on the ongoing recovery of NATS and key strategic priorities for the period 1 April 2021 to 31 March 2023, with the first award vesting in June 2023 subject to performance against the agreed targets.

The Remuneration Committee also approved a retention and incentive arrangement for the CFO through to 2023, given the critical nature of his role in securing an appropriate NR23 outcome and completing NERL's refinancing over this period. Payment of the incentive will be disclosed in the relevant years as earned (i.e. in 2023 and 2024).

### Remuneration for 2022/23

For the 2022/23 financial year, the Committee will operate the remuneration policy as set out over the following pages. The highlights include:

- > A base salary increase of 3% for the CEO, CFO and Executive team, in line with the wider management team and offer made to the wider workforce. As an exception, the agreed 2022 salary increase has been backdated to 1 January (in line with the offer made to the wider workforce) to recognise that there have been no salary increases since 2019. Backdated values were paid in May 2022.
- > A revised set of targets for the annual 2022/23 incentive plan (as detailed on page 60).
- > A transitional LTIP arrangement will continue for the two year period covering 2021/22 and 2022/23.

### Conclusion

As we continue to ensure that our policy delivers a robust link between reward and performance, we have focused on ensuring that our actions and decisions taken appropriately reflect the challenging external environment our customers are facing and the pace at which the UK and aviation industry is recovering from the Covid impact. We review emerging practice across our industry and the UK and strive to ensure equity in remuneration approach across the entire workforce. We have been carefully monitoring our remuneration policy to ensure that we continue to motivate and incentivise our executive team and management team during a critical and sustained period of recovery for the business.

**Maria Antoniou**  
Chair of Remuneration Committee

# Reports from Board Committees

## Remuneration Committee report (continued)

### Purpose and responsibilities of the Committee

The Committee meets when necessary but no less than twice a year 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 370 senior managers);
- > considering and approving company incentive targets for executive directors and other members of the wider executive team;
- > considering remuneration plans in line with the wider workforce;
- > 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 directors and other members of the wider executive team;
- > considering exit arrangements for executive directors and other members of the wider executive team; and
- > considering the appointment of independent advisors to the Committee and any potential conflicts with the company.

The terms of reference for the Committee require it to ensure the company's remuneration policy complies with the current UK 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 four times in the year and its main activities were to:

- > Review and approve the salary increases for 2022/23;
- > Review and approve annual incentive arrangements relating to the last six months of 2021/22;
- > Review and approve a retention incentive arrangement for the CFO through to 2023, given the critical nature of his role in securing an appropriate NR23 outcome and completing NERL's refinancing over this period. No amounts were earned in the financial year in this respect; and
- > Review and approve a transitional LTIP arrangement for the period 1 April 2021 to 31 March 2023 to replace the previously agreed RP3 plan (which has been superseded by the NR23 plan).

### 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 PwC UK. PwC fees for advice to the committee for 2021/22 were £15,500.

### 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 Governance 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 plan objectives.

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 57.

# Reports from Board Committees

## Remuneration Committee report (continued)

### Discretions retained by the Committee in operating the variable pay schemes

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

- > determining who may participate in the plan;
- > determining the timing of grants of awards and/or payments under the plans;
- > determining the quantum of awards and/or payments (within the limits set out in the remuneration policy table);
- > determining the performance measures and targets applicable to an award (in accordance with the remuneration policy table);
- > where a participant ceases to be employed by the company, determining whether 'good leaver' status applies;
- > determining the extent of vesting of an award based on assessment of the performance conditions, including discretion as to the basis on which performance is to be measured if an award vests in advance of normal timetable (on cessation of employment as a 'good leaver' or on the occurrence of corporate events);
- > whether recovery and/or withholding shall be applied to any award and, if so, the extent to which they shall apply; and
- > making appropriate adjustments to awards on account of certain events, such as major changes to the constitution of the company.

### Approach to recruitment remuneration

In the event that the company recruits a new executive director (either from within the organisation or externally), when determining appropriate remuneration arrangements, the Committee will take into consideration all relevant factors to ensure that arrangements are in the best interests for the company and its shareholders. This will include the application of the policy described in the policy table. In exceptional circumstances for externally recruited directors, the Committee may offer additional cash awards to compensate an individual for remuneration forfeited on leaving a previous employer.

The awards would not exceed what is felt to be a fair estimate of the remuneration forfeited and would reflect (as far as possible) the nature and time horizons attached to that remuneration and the impact of any performance conditions.

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

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



# Reports from Board Committees

## Remuneration Committee report (continued)

### Remuneration policy table

Component	Link to strategy	Operation	Maximum opportunity	Framework to assess performance	Recovery and withholding
<b>Base salary</b>	To provide fixed remuneration for each role which reflects the size and scope of executive directors' responsibilities and their individual skills and experience.	<p>Executive directors' salaries are normally reviewed annually and fixed for the 12-months commencing on 1 April.</p> <p>The Committee takes into consideration:</p> <ul style="list-style-type: none"> <li>&gt; role, experience and performance of the individual;</li> <li>&gt; internal and external relative positioning for total reward; and</li> <li>&gt; the average budgeted increase in base salaries elsewhere in the group.</li> </ul>		Not applicable	Not applicable
<b>Benefits</b>	To provide flexible, market aligned benefits on a cost-effective basis.	<p>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.</p> <p>Executive directors may participate in any all-employee share plan which may be operated by the company on the same terms as other employees.</p>	<p>The overall value of benefits will depend on the individual's circumstances and therefore there is no formal maximum.</p> <p>Participation in the all-employee share plan will be subject to the scheme's rules and in line with any relevant statutory limits.</p>	Not applicable	Not applicable
<b>Pensions</b>	To provide cost-effective and competitive post-retirement benefits.	<p>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).</p> <p>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.</p>	<p>Maximum employer contributions are:</p> <ul style="list-style-type: none"> <li>&gt; 18% for members of the DC; or</li> <li>&gt; 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.</li> </ul>	Not applicable	Not applicable

# Reports from Board Committees

## Remuneration Committee report (continued)

### Remuneration policy table

Component	Link to strategy	Operation	Maximum opportunity	Framework to assess performance	Recovery and withholding
<b>Annual incentive</b>	To reward and incentivise the achievement of annual financial and strategic goals which are selected to align to the strategy of the business.	An Annual Incentive scheme (AMPRPS) is in place for the executive team and all employees in the Personal Contract Group. The annual incentive 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.	<p>Maximum opportunity is capped at 70% of base salary.</p> <p>The annual incentive starts accruing from threshold levels of performance as follows:</p> <p>Threshold: 20%</p> <p>Target: 50%</p> <p>Stretch: 100%.</p> <p>The current maximum potential for each executive director is set out in the Annual Report on remuneration and will achieve a maximum of 70%.</p>	<p>Targets are set annually and are a mix of corporate and personal performance. They are determined by the Remuneration Committee each year, taking into account the group's key strategic priorities and the approved budget for the year and are set out in the Annual Report on remuneration.</p> <p>The Committee may apply discretion as appropriate.</p>	The rules of the annual incentive include a recovery provision whereby individuals are liable to repay or forfeit some or all of their AMPRPS if there is a material misstatement of the results.
<b>Long-term incentive (RP2 and transitional LTIP 2021)</b>	To incentivise executives to achieve the company's long-term strategy and enhance shareholder value.	<p>Cash awards based on the achievement of long-term, financial and strategic targets over the relevant regulatory price control period.</p> <p>The NR23 award is currently being considered to ensure that the structure, timing and performance conditions align to the revised regulatory periods and are appropriate in the business environment.</p>	The current maximum potential for each executive director is set out in the Annual Report on remuneration and will achieve a maximum of 110% pa.	<p>Awards vest based on performance-measuring the return against a set of agreed targets as approved by the Committee for each respective plan.</p> <p>LTIP awards granted prior to 2020 also contained a link to the Company's independent share valuation and awards vest based on the share valuation at the time of vesting.</p>	<p>The rules of the current LTIP include provisions for recovery and withholding to apply if the Committee concludes that:</p> <ul style="list-style-type: none"> <li>&gt; the performance on variable pay awards, that have been made or vested, was materially misstated or should have been assessed materially differently;</li> <li>&gt; the assessment of any performance condition was based on an error, or inaccurate or mis-leading information or assumptions;</li> <li>&gt; the relevant individual has committed serious misconduct; or</li> <li>&gt; there is a major safety or operational incident resulting in serious consequences for the organisation, its customers or air passengers.</li> </ul> <p>Recovery and withholding may be applied for up to the third anniversary of the end of the LTIP award's performance period.</p>

# Reports from Board Committees

## Remuneration Committee report (continued)

### 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 six 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.

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

Where relevant 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 annual incentive. 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.

### Exit payment policy table

Element	Termination policy
<b>Base salary, benefits and pension</b>	Payment will be made up to the termination date in line with relevant contractual notice periods and will not exceed contractual entitlements.
<b>Annual incentive</b>	Unless otherwise provided in the service contract, executives are not entitled to accrued annual incentive 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.
<b>Long-term incentive</b>	Unvested tranches will generally lapse at the time of exit. Vested tranches will remain exercisable for a period of one month following the date of cessation. For individuals determined by the Committee to be a good leaver (defined above), unvested tranches shall continue under the plan on existing terms save that the Committee may adjust down the size and/or life of such tranches on such basis as it determines appropriate (for example, on account of assessment of performance conditions over curtailed periods and by reference to time elapsed into performance periods) and retains discretion for early vesting.

# Reports from Board Committees

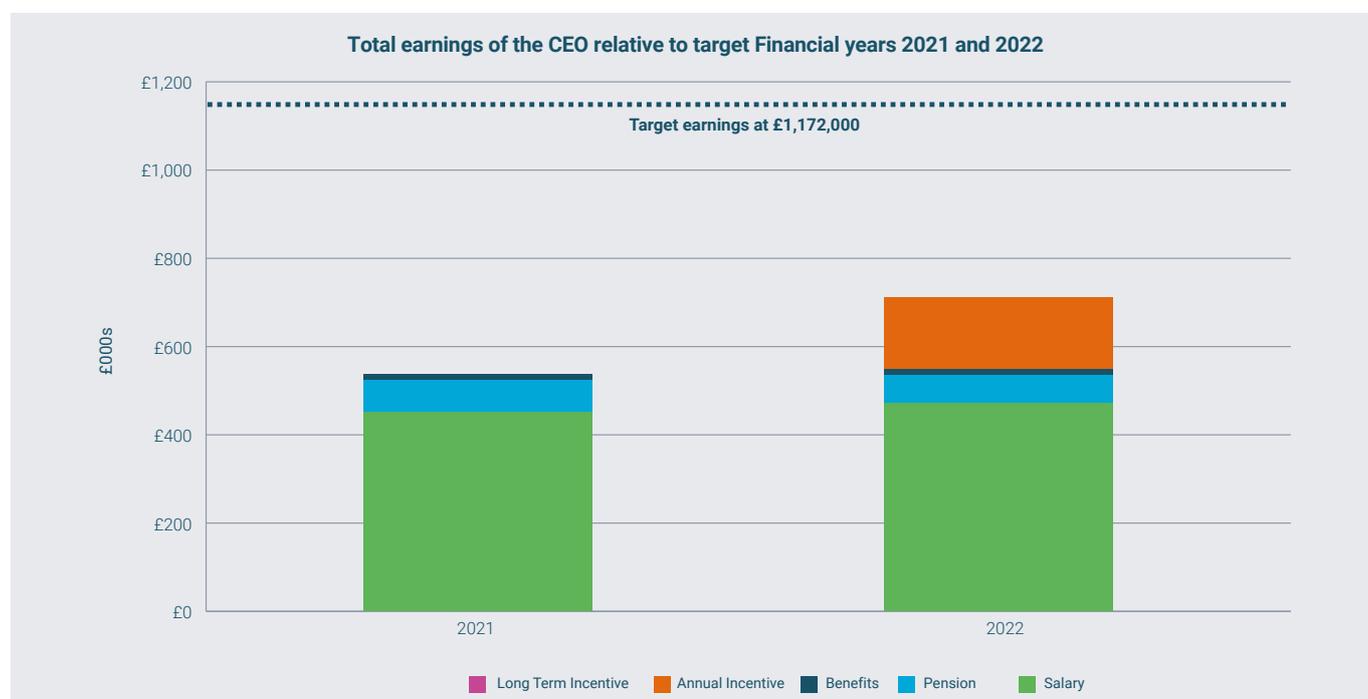
## Annual Report on Remuneration

### Directors' remuneration for the year ended 31 March 2022

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

Martin Rolfe and Alistair Borthwick both elected for a three-month voluntary effective 20% reduction in their basic pay entitlement for the period April to June 2020 (equivalent to 5% of annual salary for the year) in response to the Covid pandemic. Of that reduction, half was salary waived and half was donated by them to the NHS Covid relief fund. Non-executive directors, including the Chairman, also elected for a voluntary pay reduction of 20% for the period April to June 2020.

The following chart explains the CEO's earned remuneration for the financial years ended 31 March 2021 and 31 March 2022.



The CEO's target earnings set by the Remuneration Committee assumed that a long-term incentive would be earned during each of 2021 and 2022 from the vesting of LTIP cycles 6 and 7. The value of the incentive under these schemes is dependent on establishing a share valuation. This has not been possible since Covid and accordingly the vesting of the schemes has had to be deferred. The consequence of not being able to establish a share valuation was not foreseen when the LTIP awards were granted to the CEO.

AG directors receive no remuneration for their services to the NATS Board. However, a payment of £217,280 for 2021/22 (£206,416 for 2020/21 which reflects the voluntary deductions as a result of Covid), was made to AG in lieu of remuneration for these directors. This sum is used to fund the activities of AG.

#### LHR Airports (LHRA) appointed director

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

	Annual salary		% change
	Year ended 31 March 2021	Year ended 31 March 2022 (before back dated award)	
Martin Rolfe	£463,500	£463,500	0%
Alistair Borthwick	£300,000	£300,000	0%
Partnership directors:			
Base fee	£36,900	£36,900	0%
Fee for chairs of Board sub-committees	£8,200	£8,200	0%
Chairman	£165,120	£165,120	0%

# Reports from Board Committees

## Directors' remuneration for the year ended 31 March 2022 (continued)

### Annual incentive award for the year ended 31 March 2022 (audited)

For the 2021/22 financial year, a reduced incentive award was made to the executive team and management grades to reflect the six-month period from 1 October 2021 to 31 March 2022 to recognise our ongoing recovery from the impact of Covid during this period. The maximum potential award for executive directors was 35% for the CEO and 27.5% for the CFO to reflect the pro-rated six-month period. The award is based on both company financial performance, against a revised operating cost reduction metric, and personal performance. Performance resulted in an AMPRPS of 100%.

	Weighting %	Outcome £m	Threshold (40%)	Target (75%)	Stretch (100%)	Payable %
NERL Underlying Operating Cost	80%	439	470	455	440	100%
NSL EBITDA	20%	14.7	9	10	14	100%
<b>Total</b>	<b>100%</b>					<b>100%</b>

NERL's underlying operating costs and NSL's EBITDA were neutral to pension accrual rates, management exceptional items (redundancy, relocation, restructuring costs, share scheme costs), costs arising out of any change in capital structure and/or ownership, foreign exchange gains/losses, fixed asset sales, changes in accounting treatment for above the line tax credits and CAAPS costs charged directly to NATS. For NERL, the metric also excludes satellite surveillance charges (recovered from charges), bad debt and incentive scheme costs. For NSL, the metric also includes the share of joint venture profits but excludes Aireon results, including fair value adjustments and Searidge, acquired in December 2021. NSL targets were also adjusted for the outcome of airport contract extensions.

### Long-term incentive payments

No long-term incentive payments (LTIP) were earned in the financial years ended 31 March 2021 and 31 March 2022.

LTIP arrangements are established for executive directors and other members of the NATS Executive in order to incentivise long-term performance, align performance with shareholders' interests, and reward exceptional performance. Performance conditions are generally established for LTIPs for periods of three years. 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.

### Outstanding LTIP Cycles (audited)

LTIP schemes (Cycles 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. Performance conditions relating to Cycle 6 and Cycle 7 were determined in previous years and achieved 46.4% and 71.7% of target respectively.

Amounts paid under LTIP Cycles 6 and 7 are 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 vested (or paid to a good leaver). 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. Vesting under all tranches on or after July 2020 has been deferred due to Covid and additionally is 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 (£)	Outstanding vesting schedule*
Martin Rolfe	Cycle 6	April 2016	110%	£440,000	£4.20	25% July 2020; 25% July 2021
	Cycle 7	April 2017	110%	£473,000	£3.95	50% July 2020; 25% July 2021; 25% July 2022

# Reports from Board Committees

## Directors' remuneration for the year ended 31 March 2022 (continued)

### Remuneration earned by directors for the year ended 31 March 2022 (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.

	Notes	Salary or fees*		Benefits*		Pension Cash Alternative*		Replacement award		Total fixed pay*		Annual incentive*		Total variable pay*		Total remuneration*	
		2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
<b>Chairman</b>																	
Dr Paul Golby CBE	1	166	161	8	4	-	-	-	-	174	165	-	-	-	-	174	165
<b>Executive directors</b>																	
Martin Rolfe	2, 3, 4	467	452	14	13	70	70	-	-	551	535	162	-	162	-	713	535
Alistair Borthwick	4, 5	302	293	16	19	45	45	87	87	450	444	83	-	83	-	533	444
<b>Non-executive directors</b>																	
Maria Antoniou		45	44	-	-	-	-	-	-	45	44	-	-	-	-	45	44
Richard Keys		45	44	-	-	-	-	-	-	45	44	-	-	-	-	45	44
Iain McNicoll CB CBE		45	44	-	-	-	-	-	-	45	44	-	-	-	-	45	44
Michael Campbell	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dr Harry Bush CB	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gavin Merchant	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Hugh McConnellogue	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Louise Street	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Kathryn Leahy	7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		<b>1,070</b>	<b>1,037</b>	<b>38</b>	<b>37</b>	<b>115</b>	<b>115</b>	<b>87</b>	<b>87</b>	<b>1,310</b>	<b>1,275</b>	<b>245</b>	<b>-</b>	<b>245</b>	<b>-</b>	<b>1,555</b>	<b>1,275</b>

\* There were no resignations or appointments in the year or the prior year.

#### Notes to the table of directors' emoluments:

- Benefits paid to the Chairman represent the reimbursement of travel costs.
- In 2021, Martin Rolfe took a voluntary reduction in salary of 20% in the first three months of the financial year. Of this amount half was waived and is not reported above, while half was donated by Martin to the NHS Covid relief fund. His salary for 2022 includes the exceptional backdating of the 2022 pay award to 1 January, rather than 1 April.
- Martin Rolfe is a member of the defined contribution pension scheme in order to make employee contributions only and sacrificed £4,000 (2021: £4,000) 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.
- Martin Rolfe and Alistair Borthwick 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 £70,046 for the year (2021: £69,525), Alistair Borthwick received £45,338 for the year (2021: £45,000).
- In 2021, Alistair Borthwick took a voluntary reduction in salary of 20% in the first three months of the financial year. Of this amount half was waived, and is not reported above, while half was donated by Alistair to the NHS Covid relief fund. His salary for 2022 includes the exceptional backdating of the 2022 pay award to 1 January rather than 1 April. His remuneration includes partial compensation for performance related remuneration that he forfeited on leaving his previous employer. His contractual entitlement of £261,063 is payable in three equal annual instalments. Annual amounts are reported above as a replacement award.
- These directors are appointed by The Airline Group (AG), which charged NATS a total of £217,280 (2021: £206,416) for the services of the directors. The Airline Group elected to take a 20% reduction in fees covering the period April to June 2020 following Covid.
- Kathryn Leahy is appointed by LHRA and received no fees from NATS for her services.

# Reports from Board Committees

## Directors' remuneration for the year ended 31 March 2022 (continued)

### 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 considered it appropriate to include the relevant disclosures on an entirely voluntary basis as it helps to demonstrate the link between the Chief Executive's pay and the remuneration of the wider workforce.

Date	Method of calculation adopted	25 <sup>th</sup> percentile pay ratio (Chief Executive: UK employees)	Median pay ratio (Chief Executive: UK employees)	75 <sup>th</sup> percentile pay ratio (Chief Executive: UK employees)
April 2019	Option B	18:1	13:1	10:1
April 2020	Option A	35:1	23:1	17:1
April 2021	Option A	9:1	6:1	4:1
April 2022	Option A	10:1	8:1	5:1

The remuneration data reference period to which the calculations were completed were in line with the financial year 1 April to 31 March. All required components were included and the single figure methodology was applied. To determine the full time equivalent remuneration for each employee, each employee's working percentage as at 31 March is used to calculate their full time equivalent (FTE) remuneration. This FTE remuneration is then ordered from lowest to highest to determine the 25th, 50th and 75th percentiles in relation to the CEO.

Percentile	Base salary (£'000)	Total Remuneration (£'000)	Ratio of CEO total remuneration to percentile
25 <sup>th</sup>	58	68	10
50 <sup>th</sup>	67	94	8
75 <sup>th</sup>	109	137	5
CEO	467	713	1

The median, 25<sup>th</sup> percentile and 75<sup>th</sup> percentile figures used to determine the ratio in 2019 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 25/50/75<sup>th</sup> centile pay data for comparison. From 2020, the Committee changed the calculation methodology to Option A, as it was considered more statistically accurate, and data became available to use this method. 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. The employees used in the calculations are considered to be reasonably representative of the 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentiles of the company's remuneration for the relevant financial year. The significant movement in ratios from 2019 (of 10:1) to 2020 (of 17:1) and the subsequent reduction in 2021 (to 4:1) and maintained in 2022 (at 5:1) is primarily due to the timing of vesting of the CEO's LTIP as explained above.

# Reports from Board Committees

## Directors' remuneration for the year ended 31 March 2022 (continued)

### 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	2018	2019	2020	2021	2022	
Earned for the year (£'000s)	1,179	1,103	2,047	535	713	
AMPRS (% of maximum entitlement)	92.5%	89.8%	86.0%	0%	50%	
LTIP (% of maximum entitlement)	Cycle 5 80.0%	Cycle 6 46.4%	Cycle 7 71.7%	RP2 100%	n/a	n/a

### 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 as at 31 March 2022 is indicative only. For the purpose of this report, this indicative value is based on market comparable benchmarks and internal modelling of the range of NR23 price control scenarios in the absence of an HMRC approved valuation since Covid 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	Date from which exercisable:		Total holding (number of shares)	Indicative share value	
	Exercisable (brought forward)	30/10/2023 (brought forward)		At 31 March 2022 (estimated at £2.41 per share)	At 31 March 2021 (estimated at £3.12 per share)
Martin Rolfe	824	200	1,024	2,468	3,195

There were no awards of employee shares made during the 2021/22 financial year.

# Reports from Board Committees

## Implementation of the remuneration policy for the year ending 31 March 2023

This part of the directors' remuneration report sets out how the remuneration policy will be applied for the financial year ending 31 March 2023.

### Executive directors

#### Base salaries

	Annual base salary (for 2022 this is with effect from 1 January)		
	2022	2021	% change
Martin Rolfe	<b>£477,405</b>	£463,500	3%
Alistair Borthwick	<b>£309,000</b>	£300,000	3%

Base salaries for both Martin Rolfe and Alistair Borthwick have increased by 3%. As an exception to our normal approach to award salary increases from 1 April each year, the agreed 2022 pay award has been backdated to 1 January (in line with the offer made to the wider workforce) to recognise the fact that there have been no salary increases since April 2019 or incentive awards since the 2020/21 financial year. The backdated value was paid in May 2022 with amounts earned in the period 1 January to 31 March 2022 reported in the table of director's remuneration above.

#### 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 defined contribution scheme (DC). The cash percentage is applicable group-wide and equates to a maximum of 15% for members opting out of the DC pension and 25% for those opting out of the defined benefit pension scheme.

#### Annual incentive scheme

An AMPRPS award will be in place for 2022/23, based on company financial performance, against a revised operating cost metric, service targets and strategic milestones (75% weighting), and personal performance (25% weighting).

#### Long-term incentive plan (LTIP)

A transitional LTIP award was agreed with the Remuneration Committee to cover the period 1 April 2021 to 31 March 2023. The performance will be assessed on five agreed strategic priorities and the award will vest based on the performance outcome with two equal payment opportunities in 2023 and 2024. No increase was made to the maximum annual grant values for participants (110% per annum for the CEO and 90% per annum for the CFO).

### Non-executive directors

The company's approach to setting the fees for non-executive directors is by reference to those paid by similar companies. Fees are reviewed annually by the NATS CEO and HR Director and it was agreed that fees would increase by 3% in line with wider workforce salary increases from 1 January 2022.

#### Chairman

The Chairman has a three-year contract that was agreed in September 2020. The Remuneration Committee approved a salary increase in line with the wider workforce of 3% taking the Chairman's base fee to £170,074 with effect from 1 January 2022.

#### Partnership directors

Fees with effect from 1 April	2022	2021	% change
Base fee	<b>£38,000</b>	£36,900	3%
Fee for chairs of Board sub-committees *	<b>£8,450</b>	£8,200	3%

\*Remuneration Committee, Audit Committee and Safety Review Committee.

#### Airline Group (AG) appointed directors

AG appointed directors receive no remuneration for their services to the NATS Board. However, a fee is paid to AG in lieu of remuneration for these directors. This fee is reviewed on annual basis by the NATS CEO and HR Director. It was agreed that the annual fee from 1 April 2022 would increase to £221,505.

#### 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.

#### Maria Antoniou

Chair of the Remuneration Committee

# Reports from Board Committees

## Safety Review Committee report

### The role of the Safety Review Committee

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

- > monitor and review the effectiveness of the safety 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;
- > consider future risks and review company plans for addressing these;
- > 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 the period of this report: Kathryn Leahy and Hugh McConnellogue. In addition, the NATS Chair attends the Committee.

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

- > Captain John Monks, Director of Safety and Security, British Airways.
- > Professor George Bearfield, Director of Health, Safety and Cyber Security, Rock Rail (from March 2022).

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

The Chief Security Officer 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. Emphasis this year was on: the challenges of regeneration to meet increasing traffic; infringements and the use of electronic measures to enhance conspicuity of all air traffic; unmanned air vehicles and urban air mobility; airspace modernisation; and EASA interactions on delegated airspace.

>

### > Safety performance

The SRC carefully monitors the group's safety performance and progress towards its targets. During 2021, the regulatory targets which had been set for RP3 were suspended due to Covid impact. New targets are being developed to commence in 2023 in line with the new NR23 reporting period (2023 to 2027). During the interim period, the NATS group continued to use, and to meet, the RP2 targets. While the sustained fall-off of traffic for the past year has contributed to an excellent safety performance as assessed by these metrics (the relationship between traffic and safety events is non-linear), the sound performance has also been a result of effort across the company during the pandemic to maintain a clear focus on safety and to keep all risks as low as reasonably practicable.

### > Safety risk management

The risk of an accident involving aircraft under NATS control remains NATS' top safety risk; 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, danger area infringements, aircraft leaving controlled airspace and drone encounters, provides the Committee with oversight of event types, trends and, importantly, associated safety improvement activities.

As the Covid pandemic significant effect on global aviation traffic levels continued, the SRC adapted its focus to give more time to scrutiny of a number of areas in depth. These were: licensing, currency and competence; safety culture survey results and implications; regeneration for increasing traffic; infringements of danger areas; and airspace infringements. In each topic, current progress with the issues and future plans for improvements were studied and challenged.

The Committee has also focused on integrating Health & Safety/ Wellbeing with operational safety, and now review human factors risks across both dimensions.

For the longer term, the issues from 2019 with the then rising traffic levels creating capacity management problems remain in abeyance, but the Committee noted that the need for technical upgrades and for airspace modernisation remain.

### > Safety workshops

A safety workshop in April 2021 provided the SRC with an update on the NATS Safety Governance Structure and in what manner safety data was gathered and utilised within the company and how that data can drive safety improvement across the organisation. A further workshop in March 2022 looked in depth at Oceanic safety and, in particular, at the positive impact on safety of the use of satellite ADS-B information.

# Reports from Board Committees

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## Safety Review Committee report (continued)

### > NATS Safety Strategy

The NATS Safety Strategy sets out the vision for how safety will evolve in NATS out to 2030. Actions in accordance with the plan have been identified and progressed to deliver better safety capabilities and associated outcomes.

### > Physical and personnel security

Covid Secure ways of working continued through 2021, including pre-authorisation for site access and ensuring all visits were business critical, in order to protect the operation and reduce the risk of workplace transmission.

**External threat and incident management:** NATS security teams continued to work with the Centre for Protection of National Infrastructure, Department for Transport and relevant local constabularies to assess threats and maintain vigilance. Incident management processes have been enhanced to leverage remote working in the event of an incident, with ongoing refresher training provided to key participants.

**Insider threat activities:** Work has continued to ensure that NATS takes all reasonable steps to mitigate the risk from potential insider threat activities, with improvements in support and guidance.

**Overseas support and travel security:** Travel safety guidelines were updated in line with Government rules and guidance, and with NATS' business needs.

**Iain McNicoll, CB CBE**

Chair of the Safety Review Committee



# Reports from Board Committees

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## 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 and delivery of adequate and cost-effective long-term investment plans (LTIP), operational transformation programmes, wider company transformation programmes and additional items, such as cyber security, 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 CEO is invited to attend the TRC by standing invitation and the following executive directors are invited to attend as appropriate:

- > Technical Services Director;
- > Operations Director;
- > Commercial Director;
- > Legal Director; and
- > Human Resources Director.

### Main activities of the Committee during the year

As part of its governance and oversight, the Committee receives regular in-depth reports and briefings on the existing and planned transformation agenda and organisational risk profiles. During 2021/22, the following have been the key areas of focus by the Committee:

### The impact of Covid

Following the conscious decision to pause the LTIP in 2020 at the start of the pandemic, our capital investment plan was revised to identify the appropriate scale of investment to fit the new environment that will deliver key components of SESAR, essential changes to airspace and critical sustainment of our current operational systems. This has also been reflected in the NR23 capex plan. The impact of Covid presented significant challenges during the last year to the sustainability of the LTIP portfolio to upgrade our technology and modernise our airspace. It is anticipated that further challenges will continue to manifest themselves for some time as we, our partners and suppliers contend with the continuing impact of the pandemic. Some work has been re-phased and acceptance testing with suppliers has been impacted due to site access restrictions. In spite of the challenges the pandemic has posed, some key airspace changes were deployed during the year and key milestones achieved in our DSESAR programme.

## DSESAR

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 assurance 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 programme sustainability, investment governance and programme delivery and responded to the current and anticipated challenges presented as a result of the pandemic.

The Committee remains focused on oversight of key elements of the transformation programme including:

- > Core infrastructure;
- > Voice communications; and
- > Surveillance strategy.

During 2021, the programme successfully achieved a key milestone of entering limited operational service in our Prestwick operation. This involved live high fidelity operational shadowing using the new applications and live data feeds running on our core strategic architecture. It also tested our approach to transitioning into, and out of, the new iTEC platform from our current operational systems. The first voice communications using the new main voice system also took place during the year using core infrastructure to communicate with aircraft for the first time.

Lessons have been learnt through our annual programme review and continuous improvement approach, transformation programmes from the previous price control period and a variety of audits. Other similar external projects have also been reviewed in order to provide assurance that NATS has appropriate controls in place to ensure that risks are managed appropriately during technology deployments, including the Slaughter & May report into issues surrounding TSB's migration onto a new IT platform in April 2018.

# Reports from Board Committees

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## Transformation Review Committee report (continued)

### Airspace change

Modernising airspace remains a top investment priority and the impact of Covid on our industry has made it more critical than ever to deliver improved performance to our customers by simplifying the way aircraft can navigate congested airspace in more sustainable ways and increase capacity for future growth. The first UK deployment of Free Route Airspace (FRA) was implemented across Scottish airspace in December 2021, enabling airlines to plan their own routes improving airspace capacity.

Changes to the airspace above Stansted and Luton (SAIP AD6) were successfully delivered in February 2022. The airspace changes were jointly sponsored by London Luton Airport and implemented a change to the airport's arrival routes, which segregated them from Stansted Airport to reduce complexity and ensure continued safety. This change increases capacity in the Luton and Stansted area in time for summer 2022 traffic as well increasing resilience in our service at these airports.

West Airspace Deployment will deliver on two initiatives of the UK's Airspace Modernisation Strategy and will systemise the air traffic services route network from 7,000ft to 24,500ft over Wales and South West England and deploy FRA above 24,500ft. The project will build a modern, flexible airspace network and enable safe and efficient services for all airspace users and is on track for spring 2023 implementation.

Operational improvements and structural changes to airspace also form a crucial part of the wider industry effort to decarbonise in response to the net zero requirements of aviation in the UK by 2050.

Airspace change initiatives are reviewed by the Committee on a continuing basis, in order to provide the necessary levels of assurance to the Board.

### Resilience

The TRC regularly reviews the approach taken to deliver and maintain resilience of current operational systems. The capital investment plan includes critical sustainment of our current operational systems to continue to provide service continuity to air traffic control and mitigating technical risk over a longer lifespan than originally planned.

### Cyber security

The TRC plays a key role in providing Board oversight of cyber security and receives updates from the Chief Security Officer 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 capability and competency and reduce risk. Changes in the external threat environment are monitored and the effectiveness of key controls within the organisation are assessed, considering the highest risks to operational and corporate systems. In response to the invasion of Ukraine, our cyber oversight has increased as part of the overall risk response. During 2021/22, specific topics reviewed by the Committee included updates on compliance with the CAA's Cyber Oversight process, cyber risk management, incident management preparedness and insurance coverage for cyber incidents.

### ATC training

The TRC has continued to review the ATC training transformation programme and controller supply chain over the past year. A key area of focus for the Committee has been the review of the supply of valid controllers to ensure operational staffing levels are sufficiently resilient to support service delivery at our centres and airports to the end of NR23.

### Impact of transformation on our employees

The people element of the transformation programmes is an area of focus for the TRC to ensure that the impact of the transformation is understood and our employees are engaged with the change being delivered.

### Programme governance

The organisational aspects of the programmes are another key consideration of the TRC to ensure that the right level of governance is in place so that the programmes deliver the benefits against the baseline plan.

### Mike Campbell

Chair of the Transformation Review Committee

# Report of the directors

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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 2022.

The Governance Report is set out on pages 33 to 66 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, as well as information regarding greenhouse gas emissions, energy consumption and actions to increase energy efficiency, are included within the Strategic Report.

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

## Dividends

The company has paid no dividends in the year (2021: nil). The Board recommends a final dividend for the year of nil (2021: nil).

## Directors and their interests

The directors of the company at the date of this report are set out on pages 35 to 39. There were no changes in the Board during the year and to the date of this report.

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 59.

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 them, 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. Since the outbreak of Covid, the directors have 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 employees (and contract staff) and the company's operation. The NATS CEO maintains high visibility with employees through visits to NATS sites, or through virtual engagements where more appropriate, where he

talks to them about current business issues and takes questions in an open and straightforward manner. The NATS CEO and the Executive team provided regular updates to employees 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. 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 29 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 and viability statements

The directors' assessment of going concern and their viability statement are set out on pages 21 to 22.

# Report of the directors

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## 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 UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006. 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 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- > 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.

Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors.

We confirm that to the best of our knowledge:

- > the Financial Statements, prepared in accordance with IFRS as adopted by the UK, 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  
30 June 2022

## Registered office

4000 Parkway, Whiteley, Fareham, Hampshire PO15 7FL

Registered in England and Wales  
Company No. 04138218