

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

## Opinion on the Financial Statements

In our opinion:

- > the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2022 and of the Group's loss for the year then ended;
- > the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- > the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of NATS Holdings Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2022 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheets, the Consolidated and Company statement of changes in equity, the Consolidated cash flow statement and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## Separate opinion in relation to IFRSs as issued by the IASB

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

In our opinion the Group financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRSs as issued by the IASB.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

## Independence

Following the recommendation of the audit committee, we were

appointed by the Directors at the Annual General Meeting on 31 July 2014 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 8 years, covering the years ending 31 March 2015 to 31 March 2022. We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- > Reviewing the Directors' going concern assessment, forecasts and covenant compliance for the Group for a period of at least 12 months from the date of approval of the financial statements. This included checking that the forecasts were consistent with the latest Board approved budgets.
- > Detailed enquiries and challenge of the Board and management on reasonableness of the assumptions made in the preparation of these forecasts. This included making comparisons to actual results achieved in the year.
- > Reviewing management's reverse stress testing on forecasts and consideration of the downside scenarios that would result in a breach of the net debt to Regulatory Asset Base ("RAB") covenant. We considered the Directors' assessment of the likelihood of such circumstances arising in determining their conclusion related to going concern.
- > Assessing the accuracy of the Directors' financial model by testing the mechanical integrity of forecasts, assessing the historical forecasting accuracy and future air traffic assumptions by comparing these to third party forecasts from June 2022 through to at least June 2023.
- > Reviewing the terms of the Group's facility agreements and other key documents, including those relating to the refinancing that occurred in June 2021 and March 2022, for significant matters that could impact the going concern assessment.
- > Reviewing the Directors' assessment of controllable mitigations available to the Group to reduce cash flow spend in the going concern period in order to determine whether such mitigations are realistic.
- > Considering the adequacy of the disclosures in the financial statements against the requirements of the accounting standards and consistency of the disclosure against the forecasts and reverse stress test assessment.

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Parent Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

## Overview

### Coverage<sup>1</sup>

- > 99% (2021: 99%) of Group profit (2021: loss) before tax
- > 99% (2021: 99%) of Group revenue
- > 99% (2021: 99%) of Group total assets

### Key audit matters

|   | 2022 | 2021 |
|---|------|------|
| Recognition of licence fee revenue and amounts recoverable under regulatory agreement | Yes  | Yes  |
| Carrying value of goodwill  | Yes  | Yes  |
| Capital investment programme  | Yes  | Yes  |
| Valuation of pension scheme assets  | Yes  | Yes  |
| Valuation of pension scheme liabilities   | Yes  | Yes  |
| Going concern   | No   | Yes  |

Following the refinancing in June 2021 and our risk assessment, going concern was not considered to be a key audit matter in the current year.

<sup>1</sup> These are areas which have been subject to a full scope audit by the group engagement team.

## Materiality

### Group financial statements as a whole

£5.0m (2021: £5.0m) based on 0.8% of operating costs (2021: 0.7% of operating costs excluding goodwill impairment).

## An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

There has been no significant change in the Group's operations and therefore the assessed risks of material misstatement described above, which are those that had the greatest effect on the audit strategy, the allocation of resources in the audit and directing the efforts of the audit team, are the same risks as in the prior year with the exception of Going Concern which is no longer deemed a key audit matter.

We carried out full scope audits on all four significant components, being NATS Holdings Limited, NATS Limited, NATS (En Route) plc and NATS (Services) Limited, which covered 99% of the Group's revenue, assets and profit before tax. Non-significant components were subject to either specified procedures or desktop review procedures performed by the group audit team.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

| Key audit matter   | How the scope of our audit addressed the key audit matter   |
|--|---|
| <p><b>Recognition of licence fee revenue and amounts recoverable under regulatory agreement</b></p> <p>Total revenue and regulatory allowances in the year is £749.8m (2021: £823.0m), of which regulatory allowances under-recovered is £202.0m (2021: £417.2m).</p> <p>The accounting policy for 'revenue recognition' and for 'Amounts recoverable or payable under regulatory agreement' are included in note 2.</p> <p>Note 4 includes details of total revenue and regulatory allowances. Notes 17 and 22 include details of the amounts recoverable and payable under regulatory agreement.</p> <p>Note 3 sets out the significant estimation uncertainty in respect of the recognition of the shortfall in revenue and regulatory allowances.</p> <p>All licence fee revenue and amounts recoverable under regulatory agreement are recognised in NATS (En Route) plc ("NERL").</p> <p>As a result of the significant impact of COVID-19 on flight volumes and the CAA opening a price control review, the recognition of licence fee revenue and regulatory allowances under recovered is subject to significant estimation uncertainty.</p> <p>This estimation includes management judgement in respect of the outcome of the CAA price control review, the basis for their assessment of efficient costs and the period over which any amounts recoverable under regulatory agreement will be recovered.</p> <p>As a result of the above, the recognition of licence fee revenue and amounts recoverable under regulatory agreement and the related disclosures were considered an area of audit focus.</p> | <p><b>Our procedures included:</b></p> <ul style="list-style-type: none"><li>&gt; Understanding the regulatory framework in respect of licence fee revenue and regulatory allowances under recovered and assessing that these have been appropriately accounted for in accordance with the applicable accounting standards.</li><li>&gt; Completing a test in total on the NATS (En Route) plc revenue, corroborating each of the underlying revenue streams to supporting contract documentation, to check that the revenue is appropriately recognised.</li><li>&gt; Checking that airspace revenue is being accounted for in line with the provisions of the air traffic services licence, the regulatory charging mechanisms for the reference period and the basis for the on-going price control review being conducted by the CAA.</li><li>&gt; Reviewing publicly available information, including CAP2119, CAP2160 and CAP2245, setting out the CAA's proposed approach to setting the licence fee and compared Management's approach to determining licence fee entitlement to that proposed by the CAA.</li><li>&gt; Confirming the discount rate used to market data.</li><li>&gt; Challenging management's judgement as to whether it is highly probable their assessment of the costs the CAA will determine to be recoverable, will not give rise to a significant risk of revenue reversal. This included challenging management's assessment of:<ul style="list-style-type: none"><li>&gt; the period over which any regulatory allowances under-recovered would be recovered by reviewing the relevant CAP documents and consideration of alternative recovery periods; and</li><li>&gt; the determination of an efficient cost base by reviewing the appropriateness of the costs included.</li></ul></li><li>&gt; Challenging management's basis for spreading the recognition of the annual licence fee revenue and regulatory allowance entitlement throughout the year by considering the appropriateness of alternative input and output based recognition bases.</li><li>&gt; Reviewing the disclosures presented in respect of the above within the financial statements and checking that it complies with the requirements of the accounting standards.</li></ul> <p><b>Key observations</b></p> <p>As a result of performing the procedures above, we found that the recognition of licence fee revenue, amounts recoverable under regulatory agreement and the related disclosures were acceptable.</p> |

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

| Key audit matter  | How the scope of our audit addressed the key audit matter  |
|---|--|
| <p><b>Carrying value of Airspace goodwill</b></p> <p>As disclosed in note 12 the group has goodwill with a carrying amount of £45.7m (2021: £38.3m) including Airspace goodwill of £38.3m (2021: £38.3m). The carrying value of Airspace goodwill at 31 March 2022 had no impairment booked against it (2021: £111.0m) during the year.</p> <p>The Group's accounting policy for goodwill is set out in note 2 and note 3 includes details of the estimation uncertainty with respect to the impairment of goodwill.</p> <p>Note 12 includes details of the Group's assessment of the recoverable amount, determined by reference to the higher of its fair value less costs of disposal and its value in use.</p> <p>Management has undertaken an impairment review of the carrying value of Airspace goodwill by comparison with the recoverable amount.</p> <p>The determination of the recoverable amount is subject to a significant level of estimation. This includes the premium applied to the RAB, in determining the Fair Value Less Costs of Disposal, which was assessed by management to be 5% at 31 March 2022 (2021: 0%), and the inputs into the value in use calculations.</p> <p>Management used an independent expert to assist them in determining an appropriate premium to be applied to the RAB.</p> <p>As a result of the above, the carrying value of Airspace goodwill and the related disclosures were considered an area of focus for our audit.</p> | <p><b>Our procedures included:</b></p> <ul style="list-style-type: none"><li>&gt; Considering the impairment review methodology, assessing that it is in accordance with the requirements of the applicable accounting standards and that the carrying value of goodwill is based on Fair Value Less Costs of Disposal (FVLCD), being higher than Value In Use (VIU).</li><li>&gt; Testing the FVLCD by agreeing the underlying RAB value to the carrying value of the RAB at 31 March 2022.</li><li>&gt; Assessing the competence, objectivity and independence of management's expert and, with the assistance of our own internal valuation experts, challenging their methodology and conclusions in their review of the RAB premium to be applied in the calculation of FVLCD.</li><li>&gt; Reviewing management's VIU scenarios, and comparing these to the FVLCD, given the lack of alternative observable market data.</li><li>&gt; Challenging the reasonableness of management's VIU calculation, by considering alternative scenarios for:<ul style="list-style-type: none"><li>&gt; the periods over which regulatory allowances will be recovered;</li><li>&gt; potential outcomes in respect of the CAA's price control review from 2020 to 2022; and</li><li>&gt; the forecast return of traffic volumes.</li></ul></li><li>&gt; Checking the integrity of the underlying calculations for the FVLCD and VIU scenarios and agreeing these to the underlying models.</li><li>&gt; Reviewing the related disclosures within the financial statements and checking that it complies with the requirements of the accounting standards.</li></ul> <p><b>Key observations</b></p> <p>As a result of performing the procedures above we found that the carrying value of Airspace goodwill and the related disclosures to be appropriate.</p> |

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

| Key audit matter   | How the scope of our audit addressed the key audit matter   |
|--|---|
| <p><b>Capital investment programme</b></p> <p>The carrying value of other intangibles assets is £687.3m (2021: £619.5m) and property, plant and equipment is £412.4m (2021: £458.1m). The accounting policy for these is included in note 2.</p> <p>Notes 13 and 14 set out details of amounts invested in the Group's capital investment programme.</p> <p>The group invests significant sums in the sustainment and development of air traffic control infrastructure. A substantial proportion of the costs incurred are the amounts charged by staff employed by the group that are capitalised to specific projects.</p> <p>A key risk is that either time is not appropriately capitalised or the quantum of the labour rate used could be misstated.</p> <p>In addition, management makes judgements around the useful economic lives of currently deployed systems, in assessing indicators of impairment and considering the feasibility of individual projects.</p> <p>Therefore, the capital investment programme and the related disclosures were considered an area of focus for our audit.</p> | <p><b>Our procedures included:</b></p> <ul style="list-style-type: none"><li>&gt; Holding discussions with project managers, outside of the group finance team, to gain an understanding of the capital projects.</li><li>&gt; Testing a sample of capitalised projects that included verifying the appropriateness of the labour rates being used and the amount of labour time being capitalised per project to supporting payroll information.</li><li>&gt; Comparing useful economic lives to prior years and our own expectations based on our knowledge of the Group and industry. In considering the feasibility of individual projects we held discussions with the project managers and reviewed the performance to date against the expected performance. We have assessed management's judgement of the useful economic lives of currently deployed systems using our knowledge of the Group and industry, to check that the position taken is reasonable.</li><li>&gt; We tested the operating effectiveness of the control relating to the review and documentation which takes place on a project-by-project basis. We reviewed management's assessment of any indicators of impairment for a sample of current capital projects carried forward as either tangible or intangible fixed assets and checked the appropriateness of their conclusions.</li><li>&gt; Reviewing the related disclosures within the financial statements and checking that it complies with the requirements of the accounting standards.</li></ul> <p><b>Key observations</b></p> <p>We consider the judgements made by management in respect of the capital investment programme and the related disclosures to be acceptable.</p> |

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

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| Key audit matter  | How the scope of our audit addressed the key audit matter  |
|---|--|
| <p><b>Valuation of pension scheme assets</b></p> <p>As disclosed in note 32, the Group has £5,289.2m (2021: £5,113.9m) of plan assets that are included in the valuation of the net defined benefit liability/asset recorded on the Group balance sheet.</p> <p>The quantum of the Group's plan assets recorded in the net defined benefit liability/asset on the Group's balance sheet is significant in the context of the financial statements. Some of the asset valuations, which are determined with the assistance of the investment fund managers, are subjective as they are not based on readily available market information.</p> <p>As a result of the above the valuation of pension scheme assets and the related disclosures were considered an area of focus for our audit.</p> | <p><b>Our procedures included:</b></p> <ul style="list-style-type: none"><li>&gt; Comparing the values of investments held at the balance sheet date to external investment manager asset confirmations and statements and, in the case of property assets the expert valuers valuation report.</li><li>&gt; Assessing the competence and objectivity of the Investment Fund Managers and Property valuers who provided the value of plan assets by obtaining relevant controls reports and, where necessary, bridging letters to check that the period covered by the report was appropriate and that adequate effective controls over valuation existed within the fund managers.</li><li>&gt; Where control reports or bridging letters were not available, confirming the reasonableness of asset valuations and movements to corroborating evidence such as audited accounts.</li><li>&gt; Assessing the adequacy of the disclosures within note 32 to the financial statements to check these are in line with the applicable accounting standard.</li></ul> <p><b>Key observations</b></p> <p>As a result of performing the procedures above, we found that the valuation of gross plan assets and the related disclosures to be appropriate.</p> |

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

| Key audit matter   | How the scope of our audit addressed the key audit matter   |
|--|---|
| <b>Valuation of pension scheme liabilities</b>   |   |
| <p>As disclosed in note 32, the Group has recorded a gross defined benefit obligation of £4,957.7m (2021: £5,145.4m) in the valuation of the net defined benefit pension liability/asset recorded on the Group balance sheet.</p>  |   |
| <p>Note 32 also includes details of the Group's assessment of the sensitivity of the present value of the scheme obligation to changes in actuarial assumptions.</p>   |   |
| <p>The quantum of the Group's plan liabilities recorded in the net defined benefit asset/liability on the Group's balance sheet is significant and the valuation is subjective.</p>  | <p><b>Our procedures included:</b></p> <ul style="list-style-type: none"><li>&gt; With the use of our actuarial experts, challenging the appropriateness of the actuarial assumptions used by the Group in calculating the gross defined benefit pension obligation. This included benchmarking certain assumptions such as the discount rate, RPI and CPI against those used for similar schemes and considering whether each of these assumptions sit within an acceptable range of possible outcomes.</li><li>&gt; Agreeing member number information to source data to check the accuracy thereof.</li><li>&gt; Assessing the adequacy of the disclosures within note 32 to the financial statements to check these are in line with the applicable accounting standards.</li></ul> |
| <p>The determination of the gross defined benefit obligation is subject to a significant level of estimation uncertainty, based on the use of actuarial assumptions. When making these assumptions, the Directors take independent actuarial advice relating to their appropriateness.</p> | <p><b>Key observations</b></p>  |
| <p>As a result of the above the valuation of pension scheme liabilities and the related disclosures were considered an area of focus for our audit.</p>  | <p>As a result of performing the procedures above, we found that valuation of the gross defined benefit pension scheme obligations and the related disclosures to be appropriate.</p>   |

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

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

|  | Group financial statements  |  | Parent company financial statements  |            |
|--|---|--|--|------------|
|  | 2022<br>£m  | 2021<br>£m   | 2022<br>£m   | 2021<br>£m |
| <b>Materiality</b>                                   | 5.0   | 5.0  | 2.8  | 2.8        |
| <b>Basis for determining materiality</b>             | 0.8% of operating costs   | 0.7% of operating costs excluding goodwill impairment  | 2% of total assets   |            |
| <b>Rationale for the benchmark applied</b>           | Due to the COVID-19 pandemic, the group has experienced significantly lower flight traffic levels and as a result incurred a loss after tax for the year. As a result and given that costs incurred will form the basis on which the licence fee for the period will be set by the CAA, we considered that operating costs provide the most appropriate measure on which to base materiality. | Due to the COVID-19 pandemic, the group has experienced significantly lower flight traffic levels and as a result incurred a loss after tax for the year. As a result and given that costs incurred form the basis on which the licence fee for the period is set by the CAA, we considered that operating costs provide the most appropriate measure on which to base materiality. Goodwill impairment was excluded as it did not represent an element of the recurring operating cost base | This was considered the most appropriate benchmark as the Parent Company does not trade. |            |
| <b>Performance materiality</b>                       | £3.8m   | £3.8m  | £2.1m  | £2.1m      |
| <b>Basis for determining performance materiality</b> | We set our performance materiality at 75% of overall materiality. In setting the level of performance materiality, we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.  |  |  |            |

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

## Our application of materiality (continued)

### Component materiality

We set materiality for each component of the Group based on a percentage of between 28% and 94% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £1.4m to £4.7m. In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

### Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £100,000 (2021: £100,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Corporate Governance Statement

As the Group has voluntarily adopted the UK Corporate Governance Code 2018, we are required to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

### Going concern and longer-term viability

- > The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified as set out on page 21 and 22; and
- > The Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate as set out on page 22.

### Other Code provisions

- > Directors' statement on fair, balanced and understandable as set out on page 66;
- > Board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out on page 66;
- > The section of the annual report that describes the review of effectiveness of risk management and internal control systems as set out on page 23; and
- > The section describing the work of the audit committee as set out on page 44.

## Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

### Strategic report and Directors' report

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

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

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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

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## Other Companies Act 2006 reporting (continued)

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

## Responsibilities of Directors

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

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

## Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud. We considered the significant laws and regulations that could give rise to a material misstatement in the financial statements to be the Companies Act 2006, UK adopted international accounting standards, pension's legislation, tax legislation, the licence granted under the Transport Act 2000 and economic regulation regulated by the CAA.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, we considered the following:

- > the nature of the industry, the Group's control environment and business performance;
- > the results of our enquiries of management, internal audit and the Audit Committee about their own identification of the risk of irregularities, including fraud;
- > any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to the identification of the risk of irregularities, including fraud; and
- > the matters discussed among the audit engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. We also discussed the potential for non-compliance with laws and regulations.

We assessed the susceptibility of the financial statement to material misstatement, including fraud and considered the fraud risk areas to be management override of controls and revenue recognition.

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

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## Auditor's responsibilities for the audit of the Financial Statements (continued)

Our procedures in response to the above included:

- > agreement of the financial statement disclosures to underlying supporting documentation;
- > in response to the risk of management override of controls, identifying and testing journal entries, in particular any material journal entries posted to revenue, unusual account combinations and journals posted by unexpected users by agreeing to supporting documentation;
- > enquiries with management, the Audit Committee and internal legal counsel to identify any instances of known or suspected non-compliance with laws and regulations or fraud;
- > review of minutes of Board meetings throughout the year to identify any instances of known or suspected non-compliance with laws and regulations or fraud, not already disclosed by management;
- > review of tax compliance and involvement of our tax specialists in the audit;
- > review of internal audit reports for reference to any internal control failures that could impact the Group's compliance with laws and regulations or indicate potential fraud risks; and
- > challenging assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to the carrying value of goodwill, revenue and regulatory allowance accounting, the valuation of defined benefit pension assets, valuation of pension scheme liabilities and the capital investment programme as set out in the Key Audit Matters above.

We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Use of our report

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

### Christopher Pooles (senior statutory auditor)

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

30 June 2022

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