Annual Report and Accounts 2023

# Governance report

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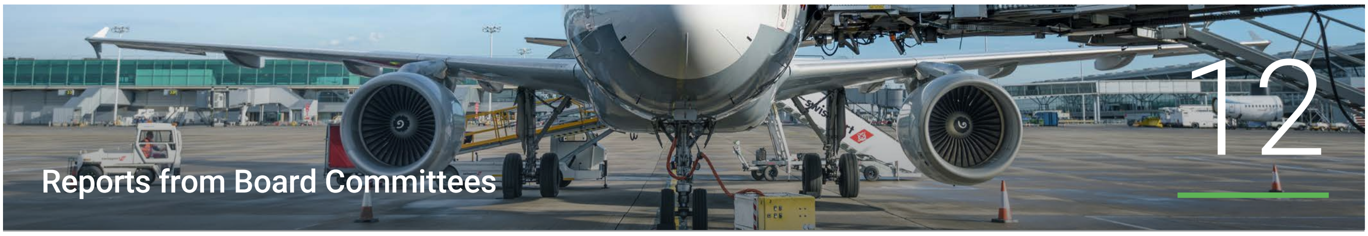
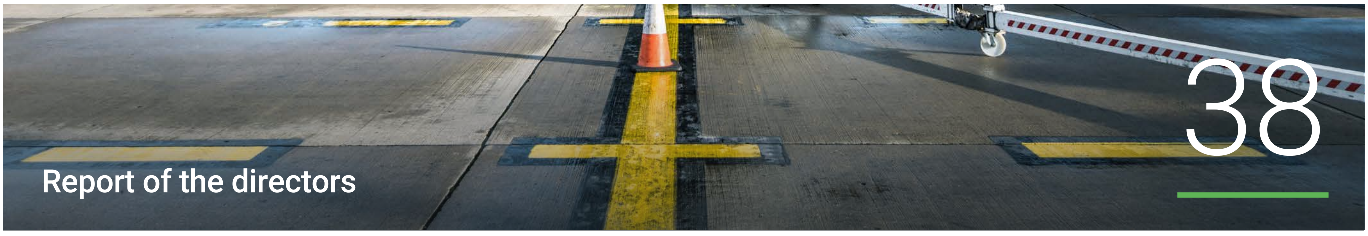


# Directors of NATS Holdings

## Director's biographies

### Chairman

**Dr Paul Golby CBE FREng**

Paul served as Chief Executive Officer of E.ON UK plc from 2002 to 2011. He is a Fellow of the Royal Academy of Engineering 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



## 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 a director and chairs the NATS Employee Sharetrust. Maria is also the designated non-executive director for employee engagement with the Board.

#### Greg Bagwell CB CBE

Greg served for 36 years in the Royal Air Force, retiring in 2016 as Deputy Commander with overall responsibility for all aspects of safety for all personnel and equipment and, as an independent member of four MOD Boards, helped shape policy on Safety, Information, Logistics and Infrastructure.

He began his distinguished military career as a pilot for more than 20 years, with more than 4,000 flying hours on Tornado and CF-18 Hornet aircraft, and as a Commander. He became Chief of Military Plans at UK Joint HQ, Air Officer Commanding No 1 Group RAF and Director Joint Warfare, Joint Forces Command.

For the past five years, Greg has worked in the private sector with Cobham Ltd, AirTanker Ltd and is currently an Executive Director with Cobham Ltd. Greg is President of the UK's Air & Space Power association, a Fellow of the Royal Aeronautical Society and a Distinguished Fellow of the Royal United Services Institute. He is also a chair for senior programmes at the Windsor Leadership Trust, and a trustee of "Flying for Freedom", which enables wounded, injured and sick service personnel to go solo in microlights. Greg is chair of the Safety Review Committee and a member of the Transformation Review Committee.

#### 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.

# Directors of NATS Holdings

## Director's biographies

### Non-Executive Directors

**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.

**Kathryn Leahy**

Kathryn resigned from the Board in June 2023 and will be joining NATS as Chief Operations Officer in October 2023. 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. While serving on the NATS Board, Kathryn was a member of the Safety 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.

# Directors of NATS Holdings

## Director's biographies

### Non-Executive Directors

**Bart Prudon**

Captain Bart Prudon is easyJet's Director of Flight Operations, responsible for one of Europe's busiest and largest airline operation with 330 aircraft over 1,000 routes across 34 countries. Bart also holds the position of Nominated Person Flight-Operations, responsible for safety and compliance of easyJet's UK Air Operation Certificate (AOC) towards the Civil Aviation Authorities.

Previously Bart held the Position of Chief Pilot providing leadership to the group AOC Nominated Persons for Flight Operations and ensured consistency across 3 AOC's post Brexit. Bart's role includes transforming IT within Flight Operations to deliver a true paperless cockpit and maximising the use of connectivity to deliver an even more efficient and sustainable operation.

Bart started his career in 1996 flying a range of turbo-prop aircraft before joining easyJet in 2004. He has flown over 14,000 hours and joined management as Flight-Operations Manager in Germany before joining the central leadership team. Bart is a director of AG and a member of the Safety Review Committee.

**David Smith**

David has nearly 40 years' blue-chip experience in the highly competitive global automotive, aerospace and defence industries, including Ford, Jaguar Land Rover and Rolls-Royce. He retired in late 2021 after four years as Group CFO and Board member at QinetiQ.

David worked for Ford for more than 25 years, in a variety of finance and treasury roles including CFO of Ford Otosan (Turkey), CFO of Land Rover and CFO and Strategy Director of JLR. In 2008 he became CEO of JLR during the transition to Tata ownership. Following two years as CEO of JLR he took up two more CFO roles, first at Edwards Group and then at Rolls-Royce before joining QinetiQ.

David was also a Board member of Motability plc for ten years and is a Fellow of the Royal Society of Arts. David chairs the Audit Committee and is a member of the Transformation Review Committee.

**Louise Street**

Having completed a degree in Japanese and Business Management at Durham University, Louise joined British Airways on the graduate intake scheme in 1998. Her first 8 years were in the commercial organisation specifically in Sales and Revenue Management. She then moved to the operational side of the business and has undertaken a number of senior management roles in Customer Service and Operations. 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

## Director's biographies

**Officer**

**Richard Churchill-Coleman, General Counsel**

Richard is General Counsel 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' experience in the aviation industry having begun his career as an undergraduate aerospace engineer with British Aerospace plc before qualifying as a solicitor with Norton Rose and subsequently as a Chartered Secretary. Richard has previously held positions at Thomsonfly, Virgin Atlantic Airways and DHL Worldwide Express and holds a private pilot's licence.

# NATS governance framework

## Introduction

NATS was formed as a PPP in July 2001. A key element in its governance structure is the Strategic Partnership Agreement (SPA) between its main shareholders: the Secretary of State for Transport; The Airline Group Limited (AG); and LHR Airports Limited (LHRA).

The SPA sets out the relative responsibilities of the signatories and, in particular, requires the group and the directors to adhere to the UK Corporate Governance Code so far as reasonably practicable and save to the extent inconsistent with the other provisions of the SPA.

## The Board and Directors

Ultimate responsibility for the governance of NATS rests with the Board of NATS Holdings, which provides strategic direction and leadership and is responsible for ensuring that the NATS group is run safely, efficiently, effectively and legally, with appropriate internal controls to safeguard shareholders' investment and group assets, ensuring it delivers value to shareholders and fulfils its wider role as a provider 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 2022 to the date of approval of the accounts, there were the following changes to directors: Richard Keys and Iain McNicoll resigned on 30 September 2022 and were replaced by David Smith and Greg Bagwell on 1 October 2022; Hugh McConnellogue resigned on 23 December 2022 and was replaced by Bart Prudon 30 March 2023. Kathryn Leahy resigned on 4 June 2023.

## 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 and Sustainability Director;
- Managing Director, NATS Services;
- Human Resources Director;
- Technical Services Director;
- Communications Director; and
- General Counsel.

# 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 General Counsel, Richard Churchill-Coleman, who acts as Secretary to the Board. If necessary, in furtherance of their duties, directors may take independent professional advice at the group's expense.

## Board meetings

The Board routinely meets seven times per year in January, March, May, June, July, September and November and supplements these scheduled meetings with additional meetings as business priorities require. This year, the Board met seven times with each member (who served as a director during the year) as set out in the table below.

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 undertaken internally. The results were assessed by the Board at its 30th March 2023 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. This year inductions were undertaken for David Smith and Greg Bagwell and the induction process started for Bart Prudon.

## 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 | 7/7 | 6/6 | 6/6 | - | - | - |
| Martin Rolfe | 7/7 | 5/6 | 6/6 | 4/4 | 4/4 | 12/12 |
| Alistair Borthwick | 7/7 | 6/6 | - | - | - | - |
| Maria Antoniou | 7/7 | - | 6/6 | 4/4 | - | - |
| Greg Bagwell | 4/4 | - | - | - | 3/3 | 8/8 |
| Harry Bush | 7/7 | 6/6 | - | - | - | - |
| Mike Campbell | 7/7 | - | 6/6 | 4/4 | - | 12/12 |
| Richard Keys | 4/4 | 2/2 | 1/1 | - | - | 4/4 |
| Kathryn Leahy | 7/7 | - | - | - | 4/4 | - |
| Gavin Merchant | 7/7 | - | - | 3/4 | - | - |
| Hugh McConnellogue | 5/5 | - | - | - | 3/3 | - |
| Iain McNicoll | 4/4 | - | - | - | 2/2 | 4/4 |
| David Smith | 4/4 | 5/5 | - | - | - | 8/8 |
| Louise Street | 7/7 | 5/6 | - | - | - | - |

# 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 General Counsel. Reports from each of the standing committees are set out on pages 51 to 78. 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 NR23 sub-committee comprising the Chair, Martin Rolfe, Alistair Borthwick, Harry Bush, Richard Keys (who was replaced by David Smith from October 2022) and Mike Campbell, to consider the NR23 plan.

## Meetings with shareholders

There were no formal shareholders meeting held in the year but the Chair, CEO and CFO met informally with shareholders throughout the year.

## 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 has applied the principles of the Corporate Governance Code 2018 since 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 19: Chair nine-year period**
The Chair has served for nine years. His contract was due to expire on the 31 August 2023 but was extended for a further year. This extension was put in place to provide continuity ahead of the CAA final decision on NR23 and was supported by the Secretary of State for Transport.

**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 David Smith and Greg Bagwell have letters of appointment to 30 September 2025 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 2023 was as follows:

| Name | Date of appointment | Years of service to 31/3/22 |
|---|---|---|
| Paul Golby | 1/9/14 | 8 years 7 months |
| Maria Antoniou | 1/8/16 | 6 years 8 months |
| Greg Bagwell | 1/10/22 | 6 months |
| Harry Bush | 27/5/14 | 8 years 10 months |
| Mike Campbell | 26/5/17 | 5 years 10 months |
| Kathryn Leahy | 31/5/18 | 4 years 10 months |
| Gavin Merchant | 20/3/14 | 9 years |
| Bart Prudon | 30/3/23 | 0 months |
| David Smith | 1/10/22 | 6 months |
| Louise Street | 29/11/18 | 4 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

Of these meetings, four were held to consider routine business and two to provide Board continuing oversight of NERL's debt financing (see below). In September 2022 Richard Keys resigned from the NATS Board and was replaced by David Smith who now chairs the Committee. 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 David Smith, former CFO of QinetiQ 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 and the recoverability of the shortfall between flight income and costs incurred over calendar years 2020 to 2022. In relation to these, the Committee reviewed and challenged 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 values of tangible and intangible fixed assets and goodwill (see below); the carrying values of the group's investments, including in Aireon and Searidge; 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 pages 22 to 23), including the impacts of the March 2023 bond issue and removal of the bridging credit facility on projected liquidity, the company's March 2023 business plan, 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 arising 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.

## 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 a price control period, where actual service performance is different to the regulator's annual targets and for adjustments brought forward from the previous price 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 price control 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 later in summer 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 (with CAA indicating that NERL would be kept whole in present value terms) 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 £930m for the year ended 31 March 2023.

The Committee also monitored the International Accounting Standards Board's progress in developing an accounting standard on Regulatory Assets and Regulatory Liabilities and 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 policy on recognition of revenue and regulatory allowances. There have been no developments since the prior year annual report which impact on the company's financial statements or its accounting 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. Goodwill comprises the remaining balance arising from the public private partnership transaction (PPP) in 2001 and the goodwill on acquisition of the controlling interest in Searidge Technologies Inc. in December 2021, which was impaired in the year.

The key judgements in relation to the PPP balance 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 evaluated management's judgement in maintaining a 5% RAB premium for fair value less costs of disposal. This was within the range of 5-10% of an independent professional assessment undertaken in the prior year, which management considered remained pertinent.

With respect to goodwill arising on acquisition of Searidge the key judgements related to the calculation of value in use, including the extent to which its business plan revenue growth and cash flow projections are achievable and the appropriateness of the discount rate.

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.

# Reports from Board Committees

## Audit Committee report (continued)

**Retirement benefits**

The pension funding position determined under international accounting standards requires a number of actuarial assumptions to be made in assessing the value of liabilities, 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 considered the assets of the pension scheme and the approach to their valuation, in particular having regard to categorisation of assets according to the fair value hierarchy. The Committee noted the prior year adjustment and disclosure.

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 £58.7m at 31 March 2023, and recognition of the surplus under IFRIC 14. The Committee was satisfied that the approach being taken and related disclosures were appropriate.

**Carrying value of investment in Aireon**

Since its acquisition the group's equity investment in Aireon has been accounted for at fair value through profit and loss. The Committee reviewed and challenged the valuation which used present value techniques based on the anticipated dividend and tax cash flows underlying Aireon's own long-term operating plan, with management risk adjustments to Aireon's revenue growth assumptions, and a discount rate of 14.3%.

**Debt financing**

On behalf of the Board the Committee continued to review NERL's financing structure and liquidity since the debt refinancing of June 2021. This included the decision to raise £145m on the bond market, cancelling the £450m bridging facility and extending the term by one year of the £400m revolving credit facility (see note 18 to the financial statements) pending the CAA's final decision on the NR23 price control and retrospective reconciliation.

**Other matters**

Other matters considered by the Committee included the progress being made towards compliance with TCFD for the financial year ending 31 March 2024 (see page 30) and the voluntary disclosures to be made for 2023.

During the year the Committee reviewed the half year financial statements for the period to 30 September 2022 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, since the 2022 financial year the Internal Audit function has been 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 assurance map and key risks. Work is continuing to develop the assurance map in articulating more broadly the assurance needs of the group across its business, leveraging the work of risk management, 2nd line of defence functions 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. The Committee also considers the ongoing independence of internal audit.

**c. External audit**

BDO LLP was re-appointed as external auditor on 30 June 2022. The Committee reviewed the performance and the continuing independence of BDO periodically during the year and at its June 2023 meeting and recommended to the Board that BDO be re-appointed. Accordingly, a resolution recommending their re-appointment will be considered by shareholders.

BDO will have served for 10 years following the audit of the financial statements for the financial year ending 31 March 2024. In line with the requirements of the Code, the Committee will lead a tender for the audit service during the financial year ending 31 March 2024.

# Reports from Board Committees

## Audit Committee report (continued)

**d. Risk management**

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

During the last 12 months the committee has continued its oversight of risk by conducting a regular review of the top enterprise risks and, as appropriate, supplementing this with detailed review of specific risks. The Committee has also reviewed changes to the risk management framework and its reporting. Risk reports to the executive and the Committee are clearly organised by top enterprise risk and risk categories. Each of the top enterprise 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 principal risk exposures of the company. 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.

**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. Work continues to improve the group's assurance map, with the aim of increasing the clarity around the key control frameworks in the business, the risks they mitigate and the internal and external sources of assurance available. Further, 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.

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.

**David Smith**
Chair of the Audit Committee

# Reports from Board Committees

## Nomination Committee report

**The role of the Nomination Committee**

The Nomination Committee is chaired by Paul Golby and, during the year, comprised three further non-executive directors: Mike Campbell, Maria Antoniou and Richard Keys (until his retirement in September 2022). 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 completed the recruitment of two Partnership Directors to replace Richard Keys and Iain McNicoll who completed their 9-year terms on 30 September 2022. David Smith and Greg Bagwell were appointed on 1 October 2022 for an initial 3-year term.

The Chair's contract was due to expire on the 31 August 2023 and has been extended for a further year to provide continuity ahead of the CAA final decision on NR23.

**Main activities of the Committee during the year**

During the year, the Committee met six times. In addition to advising shareholders on Board appointments, the meetings considered Executive succession, including the recruitment of a Chief Operations Officer and Technical Services Director, and reviewed the talent pipeline.

The Committee also reviewed the proposal for replacement of the Chair ahead of the decision to extend the Chair's contract. The Chair was absent for these discussions, which were chaired by Mike Campbell.

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 2023.

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 year, NATS published a new strategy to 2040 with a clear vision about our organisational and business goals. The foundation of the strategy is built upon what stakeholders and shareholders care about – a safe and efficient service, an inclusive and diverse culture where all colleagues can thrive, a carbon-negative future and a sustainable, growing and profitable business.

The Remuneration Committee have considered the new strategy in the decisions taken this year, and as an example, incorporated new target areas into incentive plans such as ESG measures. We also have safety overrides within our variable pay schemes to ensure that no additional reward is delivered to our executives if a safe and reliable service is not delivered.

This report highlights the remuneration decisions made by the Committee over the course of the year, including refinement of how the NR23 long-term incentive plan (LTIP) will operate over the regulatory period from 1 January 2023 to 31 December 2027.

### Key Remuneration decisions for 2022/23

Remuneration decisions made during the 2022/23 financial year generally reflected a return to normality following several years of disruption.

Throughout the pandemic, the Remuneration Committee and the Board were acutely cognisant of the impacts of Covid on the company and the wider aviation sector. Salaries for the Executive and management team remained at 2019 levels until May 2022. In addition, as highlighted in last year's report, there were no active incentive schemes during the 2020/21 performance year and in 2021/22 the only incentive scheme in operation was a reduced annual incentive in respect of the second half of the financial year, which was awarded once more sustained sector recovery activity had been evident.

This year the Committee has continued to adopt a prudent focus on reward, recognising the careful balance needed to preserve cash during the recovery phase whilst also being mindful of the experience of employees in a high inflationary environment and acknowledging the return to more normal remuneration levels being seen generally in the market.

- As stated in last year's report, the Committee agreed a base salary increase of 3% for the CEO, CFO and Executive team, in line with the increases applied to the wider management team and workforce. As an exception to normal practice, the increases were backdated to 1 January 2022 (in line with the offer made to the wider workforce), rather than 1 April 2022, to recognise that there had been no salary increases since 2019. Backdated values were paid in May 2022.
- The 2022/23 Annual Management Performance Related Pay Scheme (AMPRPS) incentive was awarded at the normal opportunity levels under the policy with a revised set of targets to reflect our strategic priorities (see page 65).
- Performance outcomes under the Transitional LTIP scheme were approved (as detailed on page 66).
- Payment of the first instalment of the CFO's retention and incentive arrangement in July 2022.
- Reviewed and finalised performance measures and targets for the NR23 LTIP (further detail on page 71).

### Remuneration for 2023/24

For the 2023/24 financial year, the Committee will operate the remuneration policy as set out over the following pages. The highlights include:

- A return (following a period of pay award restraint during Covid) to operating the management pay review cycle for 1 April 2023, taking into consideration the level of pay increases seen externally, individual performance and end of year ratings.
- A revised set of targets for the 2023/24 AMPRPS incentive plan which incorporate measures linked directly to supporting the new company strategy.
- Grants of the new LTIP plan for executives aligned with the NR23 regulatory period, which will include both financial and ESG related performance conditions.
- Payment of the second and final instalment of the CFO retention and incentive arrangement.
- Vesting of the first tranche of the Transitional LTIP, which was awarded in 2021/22.

### 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 this year appropriately reflect the challenging external environment our customers are still facing and the pace at which the UK and aviation industry is recovering from the impact of Covid. We continually review emerging practice across our industry and more broadly the UK and strive to ensure equity in remuneration approach across the entire workforce. Looking ahead we will continue to monitor our remuneration policy to ensure that we continue to motivate and incentivise our Executive and management teams during this post-Covid recovery phase with a focus on our new corporate strategy and futureproofing the sustainability of the business.

# 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 400 senior managers);
- company incentive targets for executive directors and other members of the wider Executive team;
- a statement of remuneration policy;
- details of the remuneration of each executive director for inclusion in the Annual Report and Accounts;
- reward arrangements for all executive directors and other members of the wider Executive team;
- exit arrangements for executive directors and other members of the wider Executive team; and
- the appointment of independent advisors to the Committee taking into consideration 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 Strategic Partnership Agreement. No director is involved in decisions relating to his or her own remuneration.

### Activities in the year

During the 2022/23 financial year, the Committee met four times and its main activities were to:

- review and approve the Executive team salary increases effective 1 April 2023 and the budget to apply for the wider management team pay review;
- agree the treatment of the outstanding tranches of the Cycle 6 and Cycle 7 LTIPs following the restart of HMRC approved valuations for the first time since Covid;
- review and approve the 2022/23 AMPRPS incentive arrangements (payouts due in June 2023);
- review and approve the 2023/24 AMPRPS targets for executive directors, the Executive team and Personal Contract Group;
- review and approve the vesting of the first tranche of the Transitional LTIP;
- review and approve the design of the new LTIP grant for executives to cover the period of NR23.

### 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 were selected by the Committee following a full tender exercise in December 2020; their performance is regularly reviewed, and the Committee are satisfied with the services rendered. PwC fees for advice to the Committee in 2022/23 were £60,750.

### 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 59 to 61 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 63.

# 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 the 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

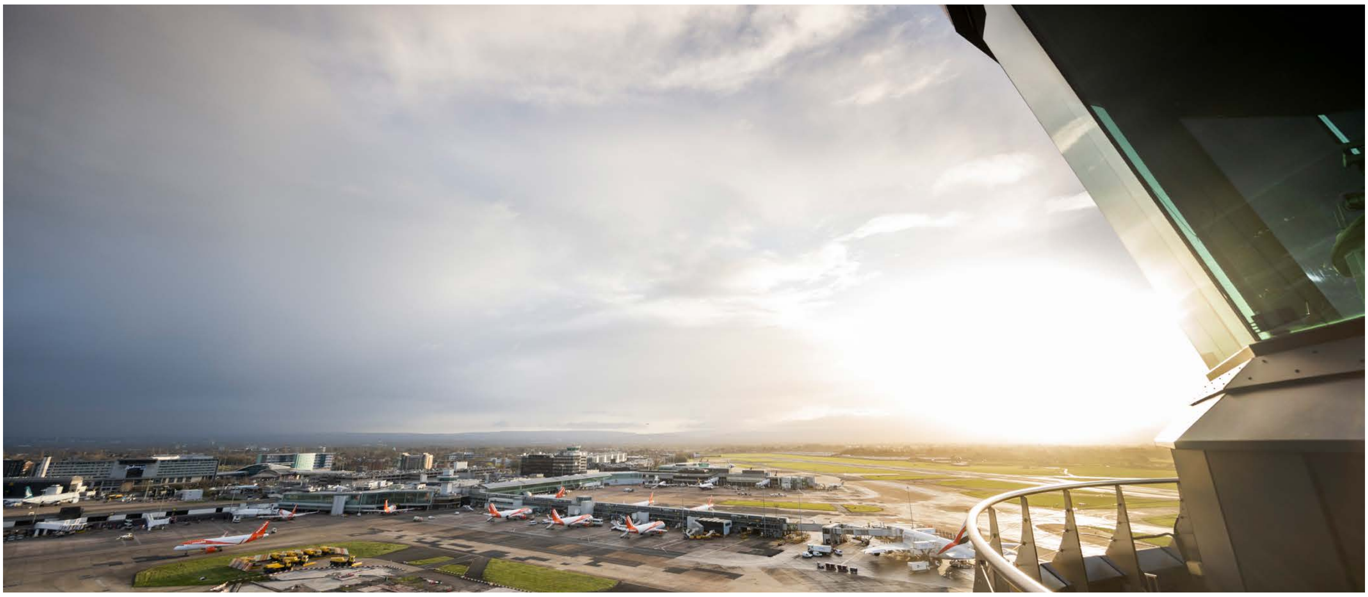
| Component | Link to strategy | Operation | Maximum opportunity | Framework to assess performance | Recovery and withholding |
|---|---|---|---|---|---|
| **Base salary** | To provide fixed remuneration for each role which reflects the size and scope of executive directors' responsibilities and their individual skills and experience | Executive directors' salaries are normally reviewed annually and fixed for the 12 months commencing on 1 April.<br>The Committee takes into consideration:<br>> role, experience and performance of the individual;<br>> internal and external relative positioning for total reward; and<br>> the average budgeted increase in base salaries elsewhere in the group. | | Not applicable | Not applicable |
| **Benefits** | To provide flexible, market aligned benefits on a cost-effective basis | May include private health cover for the executive and their family, life insurance cover of up to eight times annual base salary, income protection and a car allowance. Relocation support and any associated costs or benefits may also be provided if considered by the Committee to be appropriate and reasonable to meet the requirements of the business. Other benefits may be offered from time to time broadly in line with market practice.<br>Executive directors may participate in all-employee share plan which may be operated by the company on the same terms as other employees. | The overall value of benefits will depend on the individual's circumstances and therefore there is no formal maximum.<br>Participation in the all-employee share plan will be subject to the scheme's rules and in line with any relevant statutory limits. | Not applicable | Not applicable |
| **Pensions** | To provide cost-effective and competitive post-retirement benefits | Executive directors' pensions and life assurance are based on salary only, with performance-related incentive payments and other discretionary benefits excluded. For the period until 31 January 2023, the principal method of securing pensions for executive directors was auto-enrolment into the NATS Defined Contribution Pension Scheme (DC). From 1 February 2023 onwards, this is now via the Mercer Master Trust Defined Contribution Pension Scheme.<br>NATS also offers a company-wide pension cash alternative in lieu of employer pension contributions for those with total pension savings close to the Lifetime Allowance, which is also available to eligible executive directors. | Maximum employer contributions are:<br>> 18% for members of the DC; or<br>> 15% of base salary as a pension cash alternative in lieu of employer contributions to the DC; or<br>> 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.<br>The contribution levels offered to Executives are consistent with those for other NATS' employees. | 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 |
|---|---|---|---|---|---|
| **Annual incentive** | To reward and incentivise the achievement of annual financial and strategic goals which are selected to align to the strategy of the business. | An Annual Management Performance Related Pay Scheme (AMPRPS) is in place for the Executive team and all employees in the Personal Contract Group. The AMPRPS is paid entirely in cash. As per the rules of the scheme, the Committee may determine that vesting should not be applied for any participant(s) should the Committee consider that individual performance or other circumstances makes this an appropriate outcome. This power would only be exercised in circumstances when the Committee decides that there has been or could be significant damage to the reputation of the company either during the performance years or as a result of the award. In these cases, the decision would be referred to the non-executive directors of the Board for ratification. | Maximum opportunity is capped at 70% of base salary.<br>The AMPRPS starts accruing from threshold levels of performance as follows:<br>Threshold: 20% or 40% (target dependant)<br>Target: 50% or 75% (target dependant)<br>Stretch: 100%<br>The current maximum potential for each executive director is set out in the annual report on remuneration and will achieve a maximum of 70% of base salary. | 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.<br>The Committee may apply discretion as appropriate. | 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. |

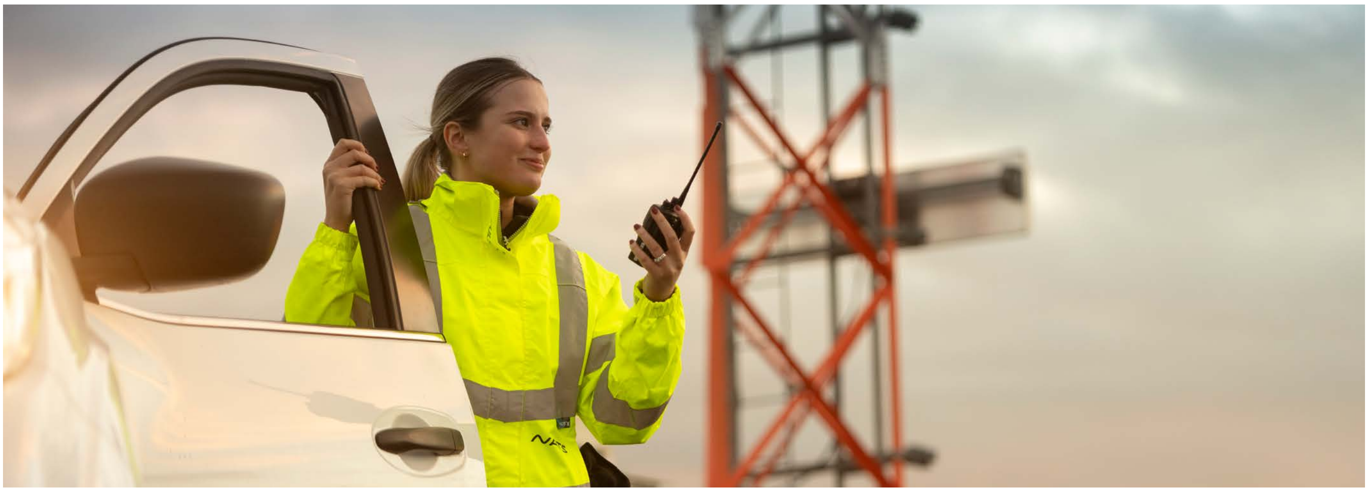


# Reports from Board Committees

## Remuneration Committee report (continued)

### Remuneration policy table

| Component | Link to strategy | Operation | Maximum opportunity | Framework to assess performance | Recovery and withholding |
|---|---|---|---|---|---|
| **Long-term incentive (Transitional LTIP and the NR23 LTIP)** | To incentivise executives to achieve the company's long-term strategy and enhance shareholder value. | Cash awards based on the achievement of long-term, financial and strategic targets over the relevant regulatory price control period.<br>The Transitional LTIP was implemented to replace the previously agreed RP3 plan, with a reduced performance period of two years. The plan is based on five strategic priorities for the specified period which a focus on the ongoing recovery of NATS for the period 1 April 2021 to 31 March 2023, with the first tranche of the award vesting in June 2023 subject to performance against the agreed targets. The second tranche will vest in June 2024.<br>The NR23 LTIP award, which will cover the new five-year regulatory period from 1 January 2023 to 31 December 2027, will follow a similar structure as the previously agreed RP3 LTIP which was never granted due to Covid. The performance conditions have been approved by the Committee and are based 85% on financial measures and 15% on the Company's ESG climate goals. | The current maximum potential for each executive director is set out in the annual report on remuneration and will achieve a maximum of 110% of base salary per annum. | Awards vest based on performance-measuring the return against a set of agreed targets as approved by the Committee for each respective plan.<br>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. Current in-flight and future LTIP awards are no longer linked to this share valuation. | The rules of the current LTIP include provisions for recovery and withholding to apply if the Committee concludes that:<br>> the performance on variable pay awards, that have been made or vested, was materially misstated or should have been assessed materially differently;<br>> the assessment of any performance condition was based on an error, or inaccurate or mis-leading information or assumptions;<br>> the relevant individual has committed serious misconduct; or<br>> there is a major safety or operational incident resulting in serious consequences for the organisation, its customers or air passengers.<br>Recovery and withholding may be applied for up to the third anniversary of the end of the LTIP award's performance period. |



# 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 6 months' notice from the executive director.

#### Exit payment policy

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

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

#### Non-Executive Directors

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

Partnership directors are normally engaged on three-year fixed-term contracts and have letters of appointment from the DfT.

When setting the policy for directors' remuneration, the Committee considers 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 stakeholders 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 |
|---|---|
| **Base salary, benefits and pension** | Payment will be made up to the termination date in line with relevant contractual notice periods and will not exceed contractual entitlements. |
| **Annual incentive (AMPRPS)** | 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. |
| **Long-term incentive** | 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 2023

This part of the directors’ remuneration report summarises the emoluments of executive and non-executive directors for the 2022/23 financial year.

**Remuneration earned by directors for the year ended 31 March 2023 (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.

**Audited information - Director’s Remuneration**

Emoluments of the Chairman and directors were as follows:

| | | Salary or fees* | | Benefits* | | Pension Cash Alternative* | | **Total fixed pay*** | | Annual incentive* | | Other awards* | | Long-term incentive plan* | | **Total variable pay*** | | **Total remuneration*** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Notes** | **2023 £’000** | 2022 £’000 | **2023 £’000** | 2022 £’000 | **2023 £’000** | 2022 £’000 | **2023 £’000** | 2022 £’000 | **2023 £’000** | 2022 £’000 | **2023 £’000** | 2022 £’000 | **2023 £’000** | 2022 £’000 | **2023 £’000** | 2022 £’000 | **2023 £’000** | 2022 £’000 |
| **Chairman** | | | | | | | | | | | | | | | | | | | |
| Dr Paul Golby CBE | 1 | **171** | 166 | **13** | 8 | **-** | - | **184** | 174 | **-** | - | **-** | - | - | - | **-** | - | **184** | 174 |
| **Executive directors** | | | | | | | | | | | | | | | | | | | |
| Martin Rolfe | 2, 3, 4 | **477** | 467 | **14** | 14 | **72** | 70 | **563** | 551 | **281** | 162 | **-** | - | **555** | - | **836** | 162 | **1,399** | 713 |
| Alistair Borthwick | 4, 5 | **340** | 302 | **28** | 16 | **51** | 45 | **419** | 363 | **167** | 83 | **150** | 87 | - | - | **317** | 170 | **736** | 533 |
| **Non-executive directors** | | | | | | | | | | | | | | | | | | | |
| Maria Antoniou | | **47** | 45 | **-** | - | **-** | - | **47** | 45 | **-** | - | **-** | - | **-** | - | **-** | - | **47** | 45 |
| Richard Keys | | **24** | 45 | **2** | - | **-** | - | **26** | 45 | **-** | - | **-** | - | **-** | - | **-** | - | **26** | 45 |
| Iain McNicoll CB CBE | | **24** | 45 | **-** | - | **-** | - | **24** | 45 | **-** | - | **-** | - | **-** | - | **-** | - | **24** | 45 |
| Greg Bagwell | | **23** | - | **-** | - | **-** | - | **23** | - | **-** | - | **-** | - | **-** | - | **-** | - | **23** | - |
| David Smith | | **23** | - | **-** | - | **-** | - | **23** | - | **-** | - | **-** | - | **-** | - | **-** | - | **23** | - |
| Michael Campbell | 6 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| Dr Harry Bush CB | 6 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| Gavin Merchant | 6 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| Hugh McConnellogue | 6 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| Bart Prudon | 6 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| Louise Street | 6 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| Kathryn Leahy | 7 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| | | **1,129** | 1,070 | **57** | 38 | **123** | 115 | **1,309** | 1,223 | **448** | 245 | **150** | 87 | **555** | - | **1,153** | 332 | **2,462** | 1,555 |

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

Notes to the table of directors’ emoluments:

1. Benefits paid to the Chairman represent the reimbursement of travel costs.
2. Martin Rolfe’s salary for 2022 included £3,476 for the exceptional backdating of the 2022 pay award to 1 January, rather than 1 April. His benefits include a car allowance, medical and dental benefits.
3. Martin Rolfe is a member of the defined contribution pension scheme in order to make employee contributions only and in 2022 sacrificed £4,000 of his salary under the company’s salary sacrifice arrangements. These contributions are reported in his salary above. He did not sacrifice any salary in 2023. The company did not make any employer contributions.
4. 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 £72,132 for the year (2022: £70,046), Alistair Borthwick received £51,300 for the year (2022: £45,338).
5. Alistair Borthwick’s salary for 2022 included £2,250 for the exceptional backdating of the 2022 pay award to 1 January rather than 1 April. Included within other awards for 2022 is a partial compensation for performance related remuneration that he forfeited on leaving his previous employer. His contractual entitlement of £261,063 was payable in three equal annual instalments, with the final instalment reported in 2022. In 2022, the Remuneration Committee approved a retention incentive arrangement for Alistair Borthwick, given the critical nature of his role in securing an appropriate NR23 outcome and completing NERL’s refinancing. An amount of £150,000 was paid in the financial year in this respect and is included in Other awards. A further amount will be paid based on Alistair remaining in service, which will be included in the table value for the year ending 31 March 2024. His benefits include a car allowance, medical and dental benefits and reimbursement of work-related travel from Prestwick to London and Hampshire.
6. These directors are appointed by The Airline Group (AG) which charged NATS a total of £221,505 (2022: £217,280) for the services of the directors.
7. 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 2023 (continued)

**Base salaries of executive and non-executive directors and AG fee for AG appointed directors**

| | Annual base salary | | |
|---|---|---|---|
| | Year ended 31 March 2022 (before backdated pay award) | Year ended 31 March 2023 | % change |
| Martin Rolfe | £463,500 | £477,405 | 3% |
| Alistair Borthwick | £300,000 | £350,000 | 17% |
| Partnership directors: | | | |
| Base fee | £36,900 | £38,000 | 3% |
| Fee for chairs of Board sub-committees | £8,200 | £8,450 | 3% |
| Chairman | £165,120 | £170,074 | 3% |

As discussed in last year's report, a base salary increase of 3% was implemented in May 2022 to executives and, as a one-off exception, the increase was backdated to 1 January 2022. In normal circumstances, executive salary increases are effective from 1 April. The Committee agreed to backdate payments in recognition of the fact that there had been no salary increases since 2019 as a result of Covid. This was in line with the approach taken for the wider workforce.

The same situation applied for non-executives, including the Chairman, who also received a 3% increase in May 2022, backdated to 1 January 2022.

Alistair Borthwick received a further increase in basic salary to £350,000 in July 2022 in order to more closely align his remuneration package with that of our agreed comparator group and also in recognition of his development in role and the consistent contribution he has made to the business since his appointment. In addition, the salary increase recognises that his responsibilities expanded during the period to include Supply Chain, Facilities Management and Analytics.

**Airline Group (AG) appointed directors**

AG Directors receive no remuneration for their services to the NATS Board. However, a payment of £221,505 for 2022/23 (£217,280 for 2021/22) 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.

**CFO Retention Incentive**

As discussed in last year's report, the Remuneration Committee approved a retention and incentive arrangement for the CFO for the two-year period through to 2023, given the critical nature of his role in securing an appropriate NR23 outcome and completing NERL's refinancing over this period. In July 2022, Alistair Borthwick received the first instalment (£150,000) of his retention and incentive award. The final instalment is payable in June 2023 and will be disclosed when earned in the 2023/24 report.

# Reports from Board Committees

## Directors' remuneration for the year ended 31 March 2023 (continued)

**Annual Management Performance Related Pay Scheme (AMPRPS) incentive for the year ended 31 March 2023 (audited)**

The maximum potential award under the AMPRPS for 2022/23 for executive directors (and wider management population) returned to normal following disruption during the pandemic. The CEO was therefore eligible to receive an award of up to 70% of salary and 55% of salary for the CFO. AMPRPS awards are determined based on company performance and personal performance. For the 2022/23 scheme, an underpin was also applied to ensure that no payments could be made under the scheme unless the re-financing activity was completed. The re-financing activity was completed during the year and the final financial, customer focus and strategic performance resulted in an AMPRPS outturn of 61.1% out of an available 75.0% of the award for executive directors (see table below). Personal performance was assessed against objectives that covered areas including, but not limited to, the re-financing activity, the NR23 business plan and the delivery of strategic operational and technology milestones. Measurement is based on the NATS Personal Performance Rating System and the outturn for executive directors ranged between 22.5% and 27.5 % (out of an available 25.0%).

| Financial measures | Weighting % | Outcome £m | Threshold (40%) | Target (75%) | Stretch (100%) | Payable % |
|---|---|---|---|---|---|---|
| NERL Underlying Controllable Operating Costs | 24% | 469.9 | 494 | 485 | 460 | 21.63% |
| NSL EBITDA | 6% | 13.0 | 9.2 | 10.1 | 13.8 | 5.67% |
| **Customer Focused measures** | **Weighting %** | **Outcome (seconds)** | **Threshold (20%)** | **Target (50%)** | **Stretch (100%)** | **Payable %** |
| NERL Average seconds of delay per flight (en route) | 10% | 10.2 | 5.8 | 5.0 | 4.4 | 0% |
| NSL Average seconds of staffing and engineering delay per arrival (UK airports) | 5% | 1.7 | 2.0 | 1.8 | 1.6 | 3.75% |

| Strategic measures | Weighting % | Target date | Outcome | Payable % |
|---|---|---|---|---|
| Submit a CAA compliant Western Airspace Change Proposal | 6% | July 2022 | Complete | 6% |
| DP En route – Core Infrastructure ready for use | 6% | October 2022 | Complete | 6% |
| Achieve successful Gatwick transition | 9% | October 2022 | Complete | 9% |
| Obtain board approval for the submission of the NR23 plan to the CAA | 9% | December 2022 | Complete | 9% |

NERL's underlying operating costs were neutral to pension rates, 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. The metric also excludes bad debt, furlough and bonus scheme costs.

NSL's EBITDA was neutral to pension rates, exceptional items (redundancy, relocation, restructuring costs, share scheme costs, employee furlough and bonus 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. The metric includes the share of joint venture profits but excludes Aireon results including fair value adjustments. The targets were adjusted if a price discount was provided to airports to secure an extension to current contracts.

# Reports from Board Committees

## Directors' remuneration for the year ended 31 March 2023 (continued)

### Annual Management Performance Related Pay Scheme (AMPRPS) incentive for the year ended 31 March 2023 (audited) (continued)

| Director | Company performance element % payable | Personal performance element % payable | Total AMPRPS payable June 2023 (£) |
|---|---|---|---|
| Martin Rolfe | 61.1% out of 75% | 22.5% out of 25% | 281,243 |
| Alistair Borthwick | 61.1% out of 75% | 27.5% out of 25%[1] | 166,562 |

[1] Alistair Borthwick was awarded a higher personal performance rating (110%) given his exceptional performance in the year.

### Long-term incentive payments

LTIP arrangements are established for executive directors and other members of the NATS Executive team 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; however, awards may also mirror any five-year period aligned to regulatory periods in future. Payments under LTIP arrangements are made according to a predetermined vesting schedule; vesting will typically occur in tranches over at least a three-year period. 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.

### Transitional LTIP (audited)

Performance under the Transitional LTIP award (performance period 1 April 2021 to 31 March 2023) was assessed against five strategic priorities as shown in the table below. 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). The performance conditions are:

| Target | Weighting (%) | Performance outcome | Payable (%) |
|---|---|---|---|
| Successfully conclude phases 1 and 2 of the refinancing (March 23) and extend the duration of the bridge arrangements by June 2022 in an efficient manner with a clear path to sustainable solution identified | 35% | Complete | 35% |
| Negotiate and agree a triennial valuation outcome | 15% | Complete | 15% |
| Successfully agree an NR23 plan that balances the needs of our key stakeholders, customers and the company | 20% | *Partially complete*[1] | *10%* |
| Gain a NERL licence extension from 10 - 15 years | 15% | Complete | 15% |
| Successful Gatwick transition by October 2022, with 5 months of successful operation | 15% | Complete | 15% |

[1] This is an interim assessment of the performance outcome on this target that will apply for the vesting amounts in June 2023. The Committee was satisfied that 50% of this target was complete and the remaining 50% will be assessed once the outcome of the CAA's final determination on the NR23 plan is known. Any adjustment required will be trued up in the final vesting amounts in June 2024.

Since the two vesting dates for this LTIP are in June 2023 and June 2024, the equivalent vesting amounts will be included in the single figure table in the 2023/24 and 2024/25 director's remuneration reports respectively; this is in line with the Company's decision to move to reporting LTIP figures on a Schedule 5 basis going forward (discussed further on page 71).

# Reports from Board Committees

## Directors' remuneration for the year ended 31 March 2023 (continued)

### 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. The final performance outturn for the Cycle 6 and Cycle 7 awards was 46.4% and 71.7% of target respectively, as determined in previous years.

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 relevant vesting dates and are reported in the directors' emoluments table when vested (or paid to a good leaver). In last year's report, the values of the outstanding Cycle 6 and 7 tranches vesting from July 2020 onwards were undetermined, as they were dependent on an HMRC approved employee share price at the vesting date.

Vesting under all tranches on or after July 2020 had been deferred due to Covid and were not capable of being determined following suspension of the employee share scheme. The operation of the share scheme recommenced during this financial year and HMRC approved a valuation of £3.70 per share, which applies for the period 1 January 2023 to 30 June 2023. Therefore, for the outstanding LTIP cycles, this meant that the Total Shareholder Return values to be used in the Cycle 6 and Cycle 7 vesting calculations could be calculated and were £5.17 for Cycle 6 and £5.00 for Cycle 7. The table below details the vesting values in respect of the CEO.

| Director | Cycle | Date of award | % of salary awarded | TSR value | Value of Notional Shares Awarded (£) |
|---|---|---|---|---|---|
| Martin Rolfe | Cycle 6 | April 2016 | 110% | £5.17 | 125,656 |
| | Cycle 7 | April 2017 | 110% | £5.00 | 429,292 |

### Payments to past directors

As disclosed in the Remuneration Committee's report for the 2020/21 annual report and accounts, Nigel Fotherby (former Finance Director) was granted awards of 90% of salary under LTIP Cycles 6 and 7 during his period of service. Upon his retirement he was deemed a good leaver and eligible to receive payments based on a final vesting outturn of 46.4% and 71.7% for Cycles 6 and 7 respectively, noting that Nigel's Cycle 7 award was pro-rated to reflect the proportion of the performance period he was in role. As noted earlier in this report, for the first time since the onset of the Covid-19 pandemic, the Company obtained an HMRC approved employee share price during the financial year and hence Nigel received a payment of £74,978 in relation to his outstanding Cycle 6 awards. Outstanding payments due to Nigel under the Cycle 7 LTIP scheme will be disclosed in the financial year in which they are paid.

### 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. The table below shows the pay ratios over the past five years. The movement in ratios since 2019 is primarily due to the timing of vesting of the CEO's LTIP in that the ratio reduced in the last two years as there were no LTIPs vesting but increased this year due to vesting of Cycle 6 and 7 LTIPs as outlined above.

| Date | Method of calculation adopted | 25th percentile pay ratio (Chief Executive: UK employees) | Median pay ratio (Chief Executive: UK employees) | 75th percentile pay ratio (Chief Executive: UK employees) |
|---|---|---|---|---|
| April 2019 | Option B | 18:1 | 13:1 | 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 |
| April 2023 | Option A | 19:1 | 14:1 | 9:1 |

# Reports from Board Committees

## Directors' remuneration for the year ended 31 March 2023 (continued)

#### Ratio of the Chief Executive's pay to UK employees (continued)

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 |
|---|---|---|---|
| 25th | 62 | **72** | **19** |
| 50th | 83 | **102** | **14** |
| 75th | 91 | **149** | **9** |
| CEO | 477 | **1,399** | **1** |

The median, 25th percentile and 75th 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 25/50/75th 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 25th, 50th and 75th percentiles of the company's remuneration for the relevant financial year.

#### 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 the annual bonus and long-term incentive payments.

| Financial years ended 31 March | 2019 | 2020 | | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Earned for the year (£'000s) | 1,103 | 2,047 | | 535 | 713 | 1,399 |
| AMPRPS (% of maximum entitlement) | 89.8% | 86.0% | | 0% | 50% | 81.4% |
| LTIP (% of maximum entitlement) | Cycle 6<br>46.4% | Cycle 7<br>71.7% | RP2<br>100% | n/a | n/a | 90%[1] |

[1] As discussed on page 66, the Committee agreed an interim assessment of the performance outcome that will apply for the first vesting amounts of the Transitional LTIP in June 2023, subject to the final outcome relating to the NR23 related target.

# Reports from Board Committees

## Directors' remuneration for the year ended 31 March 2023 (continued)

**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.

The share plan was temporarily suspended in March 2020 given the impact of Covid however this has now recommenced and HMRC approved a valuation of £3.70 per share which applies for the period 1 January 2023 to 30 June 2023.

Details of the shares held by directors during the year are set out in the table below.

| | | Indicative share value | |
|---|---|---|---|
| Director | Total holding (number of shares) | At 31 March 2023 (at £3.70 per share) | At 31 March 2022 (estimated at £2.41 per share) |
| Martin Rolfe | 1,024 | 3,789 | 2,468 |

There were no dividend payments or awards of employee shares made during the 2022/23 financial year.

# Reports from Board Committees

## Implementation of the remuneration policy for the year ending 31 March 2024

This part of the directors' remuneration report sets out how the remuneration policy will be applied for the financial year ending 31 March 2024.

### Executive directors

#### Base salaries

| | Annual base salary (2023/24 salaries effective from 1 April 2023) | | |
|---|---|---|---|
| | 2022/23 | 2023/24 | % change |
| Martin Rolfe, CEO | £477,405 | **£508,436** | 6.5% |
| Alistair Borthwick, CFO | £350,000 | **£372,750** | 6.5% |

Base salaries for both Martin Rolfe and Alistair Borthwick have increased by 6.5% effective from 1 April 2023. Increases were agreed by the Committee taking into consideration our annual benchmarking exercise, as well as individual performance and alignment with the salary increases for the broader workforce.

#### 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 2023/24, with the following opportunity levels:

- CEO – 70% of base salary.
- CFO – 55% of base salary.

Performance measures will be aligned to the new Company strategy and will include financial, service performance and ESG related measures (combined weighting of 75%), as well as personal performance measures (25% weighting).

# Reports from Board Committees

## Implementation of the remuneration policy for the year ending 31 March 2024 (continued)

### Long-term incentive plan (LTIP)

A new LTIP award (the NR23 LTIP) has been approved by the Remuneration Committee aligned to the new 5-year regulatory period beginning 1 January 2023.

No increase was made to the maximum annual grant values for participants. As such, the opportunity levels for the NR23 LTIP are as follows:

- CEO – 550% of salary (110% of base salary per annum).
- CFO – 450% of salary (90% of base salary per annum).

The performance conditions incorporate financial and ESG related metrics as shown in the table below, and the award will vest based on the performance outcome with five equal payment opportunities starting in 2025 through to 2029.

| Financial Performance Conditions | Threshold (20% Vesting of Payment Opportunity) | | Stretch (100% Vesting of Payment Opportunity) | Weighting (% of maximum of Payment Opportunity) |
|---|---|---|---|---|
| NERL Regulatory Return | 2.81% | | 3.37% | 60% |
| NSL Profitable Revenue Growth | £257 million | | £303 million | 25% |
| **Environmental, Social and Governance ("ESG") Performance Conditions** | **Threshold (40% Vesting of Payment Opportunity)** | **Target (75% Vesting of Payment Opportunity)** | **Stretch (100% Vesting of Payment Opportunity)** | **Weighting (% of maximum of Payment Opportunity)** |
| SBTi Validated Estate $CO_2$ reductions (scope 1 and 2) | Reduction of 41% - 46.9% | Reduction of 47% - 52.9% | Reduction of 53% or more | 10% |
| CDP Score – Climate Change | To achieve and maintain an A- rating throughout the Performance Period | | | 5% |

Note: the final target definition and values may require updating once the outcome of the CAA's Final Determination on the NR23 plan is known.

NATS will disclose LTIP payments for the NR23 scheme in line with Schedule 5 of SI 2008/410 of the 2006 Companies Act. In this way, the disclosure of earnings under this plan will reflect the point in time at which the participant becomes unconditionally entitled to receive a payment (i.e. at the vesting date) rather than the date when performance is tested. This disclosure approach is considered appropriate given that the listed company regulations (Schedule 8) are more appropriate for a share-based incentive plan, which the new LTIP is not, it is a cash-based incentive. In most other regards, however, NATS will continue to follow the disclosure requirements for listed companies set out in Schedule 8 in the spirit of adherence to best-practice governance and disclosure.

# Reports from Board Committees

## Implementation of the remuneration policy for the year ending 31 March 2024 (continued)

### 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.

### Chairman

The Chairman's contract has been extended for a further year until 31 August 2024. The Remuneration Committee approved a salary increase of 6.2%, taking the Chairman's base fee to £180,618 with effect from 1 April 2023.

### Partnership directors

| Fees with effect from 1 April | 2022 | 2023 | % change |
|---|---|---|---|
| Base fee | **£38,000** | £40,363 | 6.2% |
| Fee for chairs of Board sub-committees * | **£8,450** | £8,970 | 6.2% |

*Remuneration Committee, Audit Committee and Safety Review Committee.

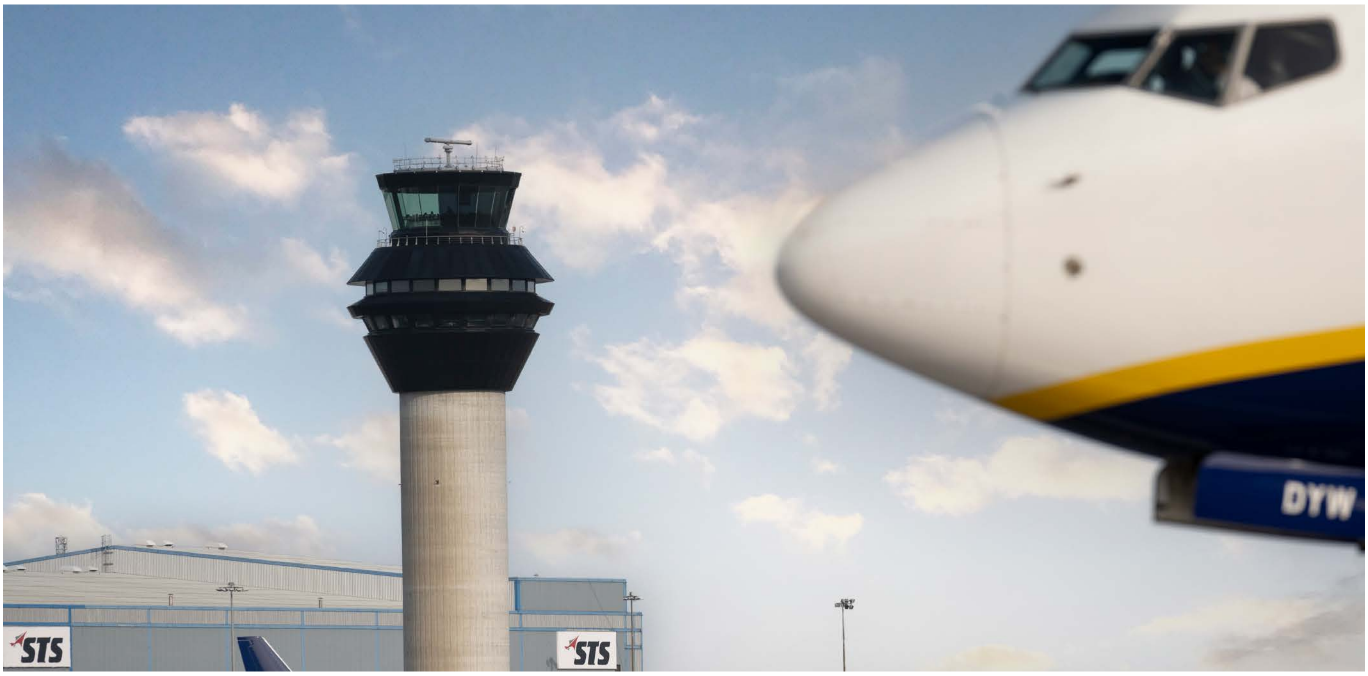
### Airline Group (AG) appointed directors

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 an annual basis by the NATS CEO and HR Director. It was agreed that the annual fee from 1 April 2023 would increase to £233,596.

### 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.

A change of the Chair of the committee occurred during 2022 with Iain McNicoll handing over responsibility to Greg Bagwell in October. There were two other non-executive director members in the period of this report: Kathryn Leahy and Hugh McConnellogue. In addition, the NATS Board Chair attends the Committee.

During the year, the Committee took advice from the following special advisors, 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 and Sustainability 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. 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 assessing and managing the industry risk presented by uncrewed air systems including drones, infringements and NATS' Transition Programme for the current technical systems.

- Safety performance

The SRC carefully monitors the group's safety performance and progress towards its targets. During 2022, the regulatory targets which had been set for RP3 were suspended due to Covid impact. New targets have been developed and agreed 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. NATS' safety performance during 2022 has remained strong through a period of increasing traffic levels. A safety review took place during 2022 to identify what factors have driven this sound performance and identifying activities to carry forward into 2023 and beyond to continue to support positive safety performance.

- Safety risk management

The risk of an accident involving aircraft under NATS control remains NATS' top safety risk; the Committee regularly reviewed an assessment of this risk. Information on safety occurrences, together with models to estimate the probability of different accident scenarios, including runway incursions, airspace infringements, aircraft leaving controlled airspace and drone encounters. This provided the Committee with oversight of event types, trends and, importantly, associated safety improvement activities.

As the pandemic effect on traffic levels receded during 2022, the SRC remained focused on how NATS was safely managing the increase in traffic numbers and the recommencement of ATCO training. Focus topics discussed were: licensing, currency and competence; infringements of military areas; and airspace infringements. In each topic, current progress with the issues and future plans for improvements were studied and challenged.

In addition to the focus on regeneration and established causal factors, the committee is proactively focused on the emerging risks associated with uncrewed traffic, including drones, as there is significant identifiable growth in this sector into the future.

The Committee has also focused on Health & Safety/Wellbeing and now review these topics as a standing agenda item at quarterly meetings.

- Safety workshops

A safety workshop in 2022 provided the SRC with an update on the NATS' Infringement Strategy and to provide an insight into the implications of the industry risk and how NATS are planning collaborative activities to support managing the risk.

# Reports from Board Committees

## 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. Work has commenced, during 2022, to assess alignment with the new Corporate Strategy 2040. It is intended to relaunch a revised Safety Strategy in 2023 on completion of the alignment analysis.

> Physical and Personnel Security

**External Threat and Incident Management:** NATS security teams continued to work with the National Protective Security Authority, Department for Transport and relevant local constabularies to assess threats and maintain appropriate protective measures and vigilance. Potential strike action by Border Force staff was evident throughout the year. There was good engagement with the authorities and mitigations were in place where possible. The potential impact of Border Force strikes was being monitored and contingency planning for the impact is in place.

**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.

2022 had seen heightened influence in the geopolitical environment and subsequently an increased overall security risk. The SRC were briefed on measures that NATS were taking, aligned to activities in cyber and information security. NATS maintained a watching brief on group memberships and associations and made employees aware of their obligations and necessary measures to safeguard services.

**Greg Bagwell, CB CBE**
Chair of the Safety Review Committee

# Reports from Board Committees

## 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: Greg Bagwell CB CBE and David Smith. 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;

> Managing Director, NATS Services;

> 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 the 2023 financial year, the following have been the key areas of focus by the Committee:

**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 workstreams 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.

The TRC maintained oversight of all aspects of this programme including programme sustainability, investment governance and programme delivery.

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

> Core infrastructure;

> Voice communications; and

> Surveillance strategy.

Since our re-phasing of the DP En Route and Voice programme into workstreams, we continued to make progress on our revised plan and achieved a number of key milestones. We have completed testing of our Second Voice System, which replaces legacy equipment and improves service resilience, in advance of deployment later this year. In 2024, we are planning to deliver new controller tools and workstations onto our existing infrastructure platform at our Prestwick centre. During the last year, the latest iTEC build was delivered, enabling the critical step of testing and validation before we begin training and transition into live operation. We also achieved a major ready for use milestone of the new infrastructure platform and the first phase of performance testing our core infrastructure network and related applications completed.

**Airspace Change**

Modernising airspace remains a top investment priority. Our airspace design work is aligned to the UK's Airspace Modernisation Strategy and we have already delivered significant efficiency benefits and carbon savings through changes implemented. West Airspace Deployment was successfully delivered in March 2023. This airspace change systemised the air traffic services route network from 7,000ft to 24,500ft over Wales and South West England, enabling more efficient flight profiles, and deployed free route airspace above 24,500ft enabling airlines to plan their own routes improving airspace capacity. This is the largest airspace change undertaken to date in the UK and will 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.

Three Operational Service Enhancement Project (OSEP) deployments were implemented during 2022. OSEP delivers smaller scale operational improvements and structural changes in UK airspace forming 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.

# Reports from Board Committees

## Transformation Review Committee report (continued)

**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 continues to play 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 continue to be monitored and the effectiveness of key controls within the organisation are assessed, considering the highest risks to operational and corporate systems.

**ATC Training**

The TRC has continued to review the ATC training transformation programme and controller supply chain over the past year. The Committee has continued to focus on the supply of valid controllers during this year 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 large complex safety critical programmes are another key consideration of the TRC to ensure that the right level of governance is in place so that the programmes safely deliver the benefits against the baseline plan.

**Mike Campbell**
Chair of the Transformation Review Committee

# Report of the directors

The directors present their annual report on the affairs of the group, together with the financial statements and the auditor's report for the year ended 31 March 2023.

The Governance report is set out on pages 40 to 78 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 (2022: nil). The Board recommends a final dividend for the year of nil (2022: nil).

**Directors and their interests**

The directors of the company at the date of this report are set out on pages 42 to 46. Changes in the Board during the year and to the date of this report as explained on page 47.

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 69.

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.

The directors have regard to the safety, health and well-being of employees (and contract staff). 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. An employee engagement survey was conducted in the year and its feedback will shape and deliver improvement plans. 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 36 to 37 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 22 to 23.

# Report of the directors

**Directors' responsibilities**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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 UK adopted International Accounting Standards, 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:

R C-Cole

**Richard Churchill-Coleman**
Secretary
29 June 2023

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

Registered in England and Wales
Company No. 04138218