# 1. Our Financial Performance

This section analyses the financial performance of Airservices Australia for the year ended 2019.

## 1.1 Revenue

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Airways revenue** | | |
| Airways Revenue | **1,093,958** | 1,080,897 |

### *Economic dependency*

Airservices is dependent on airline activity in the Australian aviation industry, of which the Qantas and Virgin Groups are the dominant operators. Of the airways revenue earned during the year 35% (2018: 36%) related to the Qantas Group including the Jetstar Group, and 18% (2018: 18%) related to the Virgin Group (including Tiger Airways Australia).

## Accounting Policy

### *Airways Revenues*

Revenue is recognised when services are rendered for both airways and other business revenue. The prices charged for regulated services are in accordance with the agreements negotiated with customers and endorsed by the Australian Competition and Consumer Commission (ACCC). Underpinning this agreement are risk-sharing provisions which compensate parties where either airways activity volumes exceed or do not achieve agreed levels, costs vary due to regulatory change, or capital expenditure levels vary substantially from agreed investment levels.

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Finance income** | | |
| Deposits | **5,393** | 1,462 |
| Cash at bank | **445** | 456 |
| Other | **141** | 232 |
| **Total finance income** | **5,979** | 2,150 |

## Accounting Policy

### *Finance income*

Finance income is recognised using the effective interest method as set out in AASB 9 *Financial Instruments.* The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Net gain on disposal of non-current assets** | | |
| Property, plant and equipment: | | |
| Proceeds from sale | **20,371** | - |
| Written down value of scrapped assets | **(19,661)** | - |
| **Net gain on disposal of non-current assets** | **710** | - |

## 1.2 Expenses

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Employee benefits** | | |
| Wages and salaries | **441,935** | 441,806 |
| Superannuation (defined contribution funds) | **49,507** | 48,485 |
| Leave and other entitlements | **138,863** | 112,538 |
| Separation and redundancies – other | **542** | 851 |
| **Employee benefits (excluding defined benefit superannuation expense)** | **630,847** | 603,680 |
| **Net defined benefit superannuation expense recognised in employee benefits** | | |
| Current service cost | **24,681** | 25,154 |
| Net interest expense | **(10,990)** | (10,691) |
| **Defined benefit superannuation expense** | **13,691** | 14,463 |
| **Total employee benefits** | **644,538** | 618,143 |
| **Finance Costs** | | |
| Borrowing costs | **20,232** | 20,982 |
| Interest rate swap fair value loss | **1,674** | 809 |
| **Total finance costs** | **21,906** | 21,791 |
| **Impairment loss allowance on financial instruments** | | |
| Movement in allowance for impairment (receivables) | **(1,138)** | 1,458 |
| Bad debts written off | **1,756** | 304 |
| **Total impairment loss allowance on financial instruments** | **618** | 1,762 |
| **Write-down and impairment of other assets** | | |
| Impairment of property, plant and equipment | **6,405** | 3,260 |
| Revaluation decrements | **4,622** | 5,799 |
| **Total write-down and impairment of other assets** | **11,027** | 9,059 |
| **Net loss on disposal of non-current assets** | | |
| Proceeds from disposal of non-current assets | **-** | (1,856) |
| Written-down value of disposed non-current assets | **-** | 3,657 |
| Proceeds from disposal of assets held for sale | **-** | - |
| Written-down value of disposed assets held for sale | **-** | 100 |
| **Net loss on disposal of non-current assets** | **-** | 1,901 |
| **Operating lease charges** | **14,966** | 18,018 |

## Leasing commitments

Operating leases are effectively non-cancellable and comprise:

### *Leases for computer equipment*

A number of operating leases for the provision of computer equipment are in place. The majority of these items have a lease term of 2 to 3 years, with some printers having a lease term up to 5 years. It is Airservices general practice that at the completion of these lease terms, these items are returned to the lessor.

### *Leases for office accommodation*

Airservices leases are subject to differing review mechanisms which can include fixed increases, CPI or market review.

**Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:**

| | **2019 $'000** | 2018 $'000 |
|---|---|---|
| Within 1 year | **31,658** | 11,802 |
| Between 1 to 5 years | **97,951** | 46,068 |
| More than 5 years | **89,902** | 101,499 |
| **Total operating lease commitments** | **219,511** | 159,369 |

Commitments are GST inclusive where relevant.

## Accounting Policy

### *Employee Benefits*

Accounting policies for employee-related expenses is contained in the Our People section (refer to Section 4).

### *Leases*

Airservices does not have any finance leases. Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived from the leased assets.

## 1.3 Taxation

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Income tax expense** | | |
| Current tax expense | **39,666** | 35,669 |
| Deferred tax expense | **(14,252)** | (3,292) |
| **Income tax expense attributable to profit from continuing operations** | **25,414** | 32,377 |
| | | |
| **Reconciliation of income tax expense to prima facie tax payable** | | |
| Profit from continuing operations before income tax expense | **87,821** | 106,871 |
| Prima facie income tax expense at 30% | **26,346** | 32,061 |
| | | |
| Tax effect of amounts which are not deductible/assessable in calculating taxable income: | | |
| Non-deductible legal costs | **25** | 11 |
| Prior year over provision of tax | **792** | (251) |
| Other non-deductible/(assessable) expenditure | **(1,749)** | 556 |
| **Income tax expense** | **25,414** | 32,377 |

## Accounting Policy

### *Income tax*

The income tax expense for the year is the tax payable on the current year's taxable income based on the notional income tax rate. It is then adjusted for any changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Statement of Comprehensive Income.

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Deferred tax liability** | | |
| **The balance comprises temporary differences attributable to:** | | |
| *Amounts recognised in the statement of comprehensive income* | | |
| Depreciation for accounting purposes | **(8,970)** | (17,259) |
| Allowance for impairment | **684** | 1,025 |
| Employee benefits | **57,828** | 52,079 |
| Provision for revenue to be returned to customers | **182** | 152 |
| Provision for legal costs | **548** | 253 |
| Other provisions | **24,721** | 23,235 |
| Accruals | **1,670** | 2,908 |
| Movement in booked losses | **-** | - |
| | **76,663** | 62,393 |
| *Amounts recognised directly in equity* | | |
| Foreign exchange hedge reserve | **387** | 209 |
| Revaluation of land, buildings, plant and equipment | **(51,676)** | (52,495) |
| Defined benefit (asset) / liability | **(39,626)** | (51,353) |
| | **(90,915)** | (103,639) |
| **Net deferred tax (liability) / assets** | **(14,252)** | (41,246) |
| **Movements:** | | |
| Opening balance at 1 July | **(41,246)** | (3,894) |
| Charged to the statement of comprehensive income | **14,252** | 3,292 |
| Credited to equity | **12,742** | (6,110) |
| Movement in booked losses/tax offsets | **-** | (34,534) |
| **Closing balance at 30 June** | **(14,252)** | (41,246) |

*Tax losses*

Airservices has capital losses of $5.0m (2018: $5.0m) that are available indefinitely for offset against future capital gains. Deferred tax assets have not been recognised in respect of these losses as management has evaluated and concluded that it is not probable that future capital gains will be available, against which Airservices can utilise these losses in the foreseeable future.

## Accounting Policy

***Deferred tax assets and liabilities***

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction that at the time of the transaction did not affect either accounting or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 1.4 Dividends

*Dividends paid*

An interim dividend for the year ending 30 June 2019 of $4.8m (2018: $8.9m) was paid on 14 June 2019. A final dividend of $5.0m for the year ended 30 June 2018 was paid on 28 February 2019 (2018: $10.0m final dividend for the year ending 30 June 2017).

*Franking credits*

Franking credits available for subsequent financial years based on a tax rate of 30% (30 June 2018: 30%) are $294.1m (30 June 2018: $293.1m).

The above amounts represent the balance of the franking account as at the end of the financial year.

## Accounting Policy

***Dividends***

A provision is made for the amount of any dividend approved by the Board but unpaid, prior to the end of the year.