3. Our Funds Management

This section identifies Airservices Australia's funding structure.

3.1 Cash and cash equivalents

	2019 $'000	2018 $'000
Cash and cash equivalents		
Cash at bank and in hand	**36,006**	33,792
Deposit at call	**80,700**	140,000
Term deposits	**265,000**	25,000
Total cash and cash equivalents	**381,706**	198,792

(a) Cash at bank and in hand

Cash at bank has a floating interest rate of 1.45% (30 June 2018: 1.70%) for balances up to $25m. For balances greater than $25m, the interest rate is 1.25% (30 June 2018: 1.50%). Cash in hand and some non-interest bearing bank accounts have a zero interest rate.

(b) Deposits at call

The deposits at call have a floating interest rate of 1.25% (30 June 2018: 1.50%). These 11am cash deposits are rolled over on a daily basis.

(c) Term deposits

This represents $40m maturing on 12 July 2019, $20m maturing on 24 July 2019, $25m maturing on 6 August 2019, $45m maturing on 8 August 2019, $35m maturing on 10 September 2019, $30m maturing on 20 September 2019, $35m maturing on 11 October 2019 and $35m maturing on 14 November 2019. Term deposits have a weighted average interest rate of 2.26%.

Accounting Policy

Cash and cash equivalents

Cash is recognised at its nominal amount. Cash in the Statement of Financial Position comprises cash at bank and in hand and deposits at call which are readily convertible to cash on hand. For the purposes of the cash flow statement, cash includes cash and cash equivalents net of outstanding bank overdrafts.

3.2 Reconciliation of cash and cash equivalents

	2019 $'000	2018 $'000
Reconciliation of net profit after income tax to net cash flows from operations		
Net profit after income tax	**62,407**	74,494
Adjustments for:		
Depreciation expense	**141,650**	147,250
Impairment recognised for property, plant and equipment	**6,405**	3,260
Reversal of previous asset write-downs	**(955)**	(1,580)
Net gain on sale/write-down of non-current assets	**(710)**	-
Net loss on sale/write-down of non-current assets	**2,258**	8,735
Fair value adjustments to derivatives	**(1,410)**	-
AvSuper defined benefit contributions movement (after tax)	**(27,363)**	16,178
Change in assets		
(Increase)/decrease in gross receivables	**(1,312)**	(952)
(Increase)/decrease in inventories	**(99)**	(35)
(Increase)/decrease in prepayments	**923**	(24,031)
(Increase)/decrease in other assets	**(6,733)**	2,872
(Increase)/decrease in deferred tax	**(27,095)**	36,969
Change in liabilities		
Increase/(decrease) in employee benefits	**61,134**	(51,240)
Increase/(decrease) in allowance for impairment	**(1,138)**	1,458
Increase/(decrease) in legal provisions	**981**	450
Increase/(decrease) in other liabilities	**100,658**	32,068
Increase/(decrease) in other provisions	**(226)**	25,514
Increase/(decrease) in creditors and accruals	**12,427**	13,583
Increase/(decrease) in revenue to be returned to customers provision	**102**	132
Net cash flow from operating activities	**321,904**	285,125

3.3 Borrowings

	2019 $'000	2018 $'000
Unsecured borrowings		
Current[1]	**4,989**	9,974
Non-current[2]	**672,354**	671,340
Total borrowings	**677,343**	681,314

1 This represents an amount issued under a $300m commercial paper program in one tranche on 21 May 2019.

2 This represents amounts issued under a $975m medium term note program and includes a $275m tranche that was issued on 28 November 2013 and will mature on 19 November 2020, a $200m tranche that was issued on 19 May 2016 and will mature on 15 May 2023 and a $200m tranche that was issued on 19 May 2016 and will mature on 15 May 2026.

3.4 Standby arrangements and unused credit facilities

	2019 $'000	2018 $'000
Unused credit facilities – bank overdraft	**5,000**	5,000
Borrowing facilities		
Commercial paper (only expires if cancelled)	**300,000**	300,000
Medium term note program	**975,000**	975,000
Committed standby facilities	**180,000**	200,000
Uncommitted 11am borrowing	**60,000**	60,000
Total borrowing facilities	**1,515,000**	1,535,000
Amount utilised	**(680,000)**	(685,000)
Unused borrowing facilities	**835,000**	850,000

3.5 Financial instruments

Airservices has exposure to credit risk, liquidity risk, market risk (comprising of interest rate and foreign exchange risk) arising from its operations and use of financial instruments. Airservices uses financial instruments to manage these risks within a framework consisting of a comprehensive set of risk management policies. These risks are managed centrally and speculative trading is strictly prohibited.

Financial assets and liabilities – classification and measurement

Cash and cash equivalents

Airservices cash and cash equivalents are overnight or short term deposits that are held to maturity and have cash flows that solely represent principal and interest. All cash and cash equivalents are classified under AASB 9 as financial assets at amortised cost.

Trade and other receivables

All Airservices trade receivable cash flows solely represent principal and interest payments and are classified under AASB 9 as financial assets at amortised cost. When measuring its trade and other receivables, Airservices has adopted the AASB 9 simplified approach to measure the impairment loss allowance at an amount equal to the lifetime expected credit loss.

Medium term notes and commercial papers

Airservices financial liabilities include medium term notes and commercial papers which are initially measured at fair value less transactions costs and subsequently remeasured using the effective interest method. Under AASB 9 these instruments are all classified as financial liabilities at amortised cost.

Trade and other payables

Supplier and other payables are recognised at amortised cost as all cash flows solely represent payment of principal. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

Derivative financial instruments

Under AASB 9, all Airservices derivative financial liabilities by default are measured and classified as financial assets or liabilities at fair value through profit and loss.

Derivative financial instruments – hedge accounting under AASB 9

Airservices uses derivative financial instruments, such as forward exchange contracts and interest rate swaps to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value on reporting date. Derivatives are carried as current or non-current financial assets when the fair value is positive and as current and non-current financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion, which is recognised in other comprehensive income.

Fair value measurements

The fair values of foreign currency Forward Exchange Contracts (FECs) and Interest Rate Swaps (IRSs) are calculated using a credit adjusted discounted cash-flow methodology. FEC and IRS contracted rates are compared to current market rates to calculate future cash flows which are then discounted to arrive at a present value.

Airservices does not apply netting to the fair values of its financial assets and liabilities. The Statement of Financial Position separates the fair values into current and non-current financial assets and liabilities. However, as at 30 June 2019, if netting was applied to the FEC portfolio then currency derivative assets of $709,022 would have been reduced by currency derivative liabilities of $1,973,853 to the net liability amount of $1,264,831 (30 June 2018: currency derivative assets of $591,027 would have been reduced by currency derivative liabilities of $1,287,955 to the net liability amount of $696,928). If netting was applied to the IRS portfolio then interest rate swap assets of $15,784,746 would have been reduced by interest rate swap liabilities of $13,756,379 to the net asset amount of $2,028,367 (30 June 2018: interest rate swap assets of $9,169,616 would have been reduced by interest rate swap liabilities of $5,729,034 to the net asset amount of $3,440,582).

Medium Term Note and Commercial Paper fair values reflect the price that an existing investor is prepared to receive if they were to sell their investment in the secondary market. These prices are provided by independent secondary market traders.

Other financial assets represent the royalty stream which Airservices is entitled to receive from the sale and use of airways navigation systems. The asset is valued at fair value through profit and loss by applying a discounted cash flow methodology. The significant level 3 inputs to this valuation are the sales forecast, discount rate and foreign exchange rate.

Refer to Note 2.4 for fair value measurement basis of these instruments.

	AASB 139 accounting classification	AASB 9 accounting classification	Carrying amount 2019 $'000	Fair value 2019 $'000	Carrying amount 2018 $'000	Fair value 2018 $'000
Assets						
Forward exchange contracts	FVTPL	FVTPL	**-**	**-**	-	-
Cash and cash equivalents	HTM	AC	**381,706**	**381,706**	198,792	198,792
Receivables	AC	AC	**126,662**	**126,662**	122,436	122,436
Interest rate swaps	FVTPL	FVTPL	**2,028**	**2,028**	3,441	3,441
Other financial assets	FVTPL	FVOCI (equity instruments)	**-**	**-**	1,410	1,410
Total assets			**510,396**	**510,396**	326,079	326,079
Liabilities						
Forward exchange contracts	FVTPL	FVTPL	**1,265**	**1,265**	697	697
Medium Term Notes	HTM	AC	**672,354**	**712,458**	671,340	686,245
Trade and other payables	AC	AC	**106,766**	**106,766**	91,491	91,491
Commercial Paper	HTM	AC	**4,989**	**4,991**	9,974	9,951
Total liabilities			**785,374**	**825,480**	773,502	788,384

Notes:
AC – Amortised Cost
FVTPL – Fair Value Through Profit and Loss
HTM – Held to Maturity
FVOCI – Fair Value Through Other Comprehensive Income

Financial risk

The financial risk management policy is aligned to Airservices risk appetite statement. The policy identifies financial risks and provides effective guidance on how Airservices manages the risks faced by the organisation. It sets the risk limits, identifies the controls and determines the process for monitoring and adhering to limits. The policy is designed to add value without adding to the overall risks of the organisation.

The financial risk management policy and systems are reviewed regularly to reflect changes in market practices and Airservices activities. Internal audit undertakes ad hoc reviews of financial risk management policy, controls and procedures, the results of which are reported to the Board Audit and Risk Committee.

Airservices uses financial instruments to manage its financial risks. The central Treasury unit identifies and evaluates the financial risks in close co-operation with other Airservices units and seeks to minimise potential adverse effects on the financial performance.

As a result of the nature of Airservices business and internal policies dealing with the management of financial risk, Airservices exposure to credit, liquidity and market risk is considered to be low.

Credit risk

Credit risk represents the risk that one party to a transaction will fail to discharge an obligation and cause the other party to suffer a financial loss. Airservices invests money and enters into financial derivative contracts with authorised counterparties whose long term credit rating is at, or above, A- (Standard and Poor's) or A3 (Moody's). There are currently only four approved counterparties. The maximum credit limit for each approved counterparty is currently $150 million. Counterparty credit exposure is assessed using the principles of the 'Current Exposure Method'. As at 30 June 2019, the maximum risk exposure to all authorised counterparties after applying the Current Exposure Method was $471.8m (30 June 2018: $264.6m).

Airservices is exposed to credit risk arising from potential default of debtors. This is equal to the total amount of trade and other receivables (2019: $126.662m and 2018: $122.436m). Airservices has assessed the risk of default on payment and has allocated $2.28m in 2019 (2018: $3.416m) as an allowance for impairment.

Airservices trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it Airservices policy to securitise its trade and other receivables.

Credit risk of financial instruments not past due or individually determined as impaired.

	Not past due nor impaired 2019 $'000	Not past due nor impaired 2018 $'000	**Past due or impaired 2019 $'000**	Past due or impaired 2018 $'000
Loans and receivables	**95,781**	98,688	**29,073**	24,013
Total	**95,781**	98,688	**29,073**	24,013

Airservices is exposed to concentration of risk with respect to trade receivables. 53% of revenues earned are from the following dominant operators: Qantas Group (including Jetstar), Virgin Group (including Tiger Airways Australia).

Liquidity risk

Liquidity risk management is concerned with ensuring there are sufficient funds available to meet financial commitments in a timely manner whilst also planning for unforeseen events which may reduce cash inflows and cause pressure on liquidity.

The primary objectives of short-term liquidity risk management are to ensure sufficient funds are available to meet daily cash requirements, whilst ensuring that cash surpluses in low interest bearing accounts are minimised.

The primary objective of long-term liquidity risk management is to ensure that funding (i.e. debt) facilities are in place to meet future long term funding requirements.

2019	**Average interest rate %**	**Floating interest rate $'000**	**1 year or less $'000**	**1 to 5 years $'000**	**More than 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Financial liabilities							
Non-derivative							
Trade and other payables	**-**	**-**	**-**	**-**	**-**	**106,766**	**106,766**
Commercial paper	**1.61**	**5,000**	**-**	**-**	**-**	**-**	**5,000**
Medium term notes	**3.89**	**-**	**25,063**	**524,031**	**213,000**	**-**	**762,094**
Derivative							
Interest rate swaps[1]	**-**	**-**	**(6,604)**	**(8,655)**	**(870)**	**-**	**(16,129)**
Interest rate swaps[2]	**-**	**-**	**3,717**	**9,837**	**638**	**-**	**14,192**
Net financial liabilities		**5,000**	**22,176**	**525,213**	**212,768**	**106,766**	**871,923**

1 Weighted average interest rates at 30 June were pay float at 1.59% and receive fixed at 3.33%.
2 Weighted average interest rates at 30 June were pay fixed at 2.73% and receive float at 1.61%.

2018	Average interest rate %	Floating interest rate $'000	1 year or less $'000	1 to 5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial liabilities							
Non-derivative							
Trade and other payables	-	-	-	-	-	91,491	91,491
Commercial paper	1.97	10,000	-	-	-	-	10,000
Medium term notes	3.89	-	25,063	542,594	219,500	-	787,157
Derivative							
Interest rate swaps[3]	-	-	(4,023)	(4,201)	879	-	(7,345)
Interest rate swaps[4]	-	-	1,818	1,645	727	-	4,190
Net financial liabilities		10,000	22,858	540,038	221,106	91,491	885,493

3 Weighted average interest rates at 30 June were pay float at 1.90% and receive fixed at 3.33%.
4 Weighted average interest rates at 30 June were pay fixed at 3.00% and receive float at 1.90%.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The following table is a sensitivity analysis of the market risk that Airservices is exposed to through the use of foreign exchange and interest rate derivatives as well as investments and borrowings.

Interest rate sensitivity analysis is calculated on a 'reasonably possible' basis with reference to the key drivers of interest rates, market expectations and historical data. In analysing interest rate sensitivities Airservices has adopted to vary actual interest rates by +/- 0.20% (2018: +/- 0.20%).

Airservices has adopted a simplified approach to calculate market risk sensitivities for foreign exchange contracts. A standard sensitivity variable of 8.7% (2018: 9.2%) has been applied to all currencies. Airservices acknowledges that it is necessary to monitor annual movements in currencies to ensure the relevance of using a single constant rate.

			Effect of positive movement		**Effect of negative movement**	
2019	**Carrying amount $'000**	**Change in risk variable +/-%**	**Profit and loss $'000**	**Equity $'000**	**Profit and loss $'000**	**Equity $'000**
Currency risk						
Buy USD	**681**	**8.70**	**-**	**(928)**	**-**	**1,066**
Buy EUR	**(1,946)**	**8.70**	**(73)**	**(4,420)**	**87**	**4,740**
Interest rate risk						
Cash and cash equivalents	**381,706**	**0.20**	**737**	**-**	**(737)**	**-**
Medium term notes	**672,354**	**-**	**-**	**-**	**-**	**-**
Interest rate swaps	**2,028**	**0.20**	**116**	**-**	**(116)**	**-**
Commercial paper	**4,989**	**0.20**	**(10)**	**-**	**10**	**-**

			Effect of positive movement		Effect of negative movement	
2018	Carrying amount $'000	Change in risk variable +/-%	Profit and loss $'000	Equity $'000	Profit and loss $'000	Equity $'000
Currency risk						
Buy USD	296	9.20	-	(758)	-	911
Buy EUR	(993)	9.20	-	(5,476)	-	6,586
Interest rate risk						
Cash and cash equivalents	198,792	0.20	385	-	(385)	-
Medium term notes	671,340	-	-	-	-	-
Interest rate swaps	3,441	0.20	(735)	-	747	-
Commercial paper	9,974	0.20	(20)	-	20	-

Forward exchange contracts

Airservices uses Forward Exchange Contracts (FECs) to hedge foreign currency exchange rate risk arising from committed transactions primarily relating to capital expenditure program undertakings. Airservices accounts for all of its FECs as Cash Flow Hedges. Airservices policy is to achieve 100% hedge effectiveness. All foreign currency exposures have a greater than 95% certainty of occurring, as all exposures are committed.

The effectiveness test is on a FEC rate to market rate comparison. Prospective testing is on a critical terms basis with the retrospective test based on an effectiveness ratio of 80-125%. Gains or losses are recognised on the hedging instrument (i.e. the FEC) and hedged item (i.e. the committed foreign exchange exposure) with any ineffectiveness recognised in the statement of comprehensive income.

At balance date, the details of outstanding contracts are (Australian dollar equivalents):

	Sell Australian Dollars		Average Exchange Rate	
Buy EUROs	**2019 $'000**	2018 $'000	**2019 EURO/$1**	2018 EURO/$1
Maturity				
3 months or less	**5,944**	7,994	**0.6131**	0.6375
Greater than 3 months but less than 1 year	**16,407**	11,568	**0.6011**	0.6288
Greater than 1 year	**34,389**	50,924	**0.5550**	0.5714

	Sell Australian Dollars		Average Exchange Rate	
Buy US Dollars	**2019 $'000**	2018 $'000	**2019 US/$1**	2018 US/$1
Maturity				
3 months or less	**2,189**	352	**0.7382**	0.7699
Greater than 3 months but less than 1 year	**2,820**	3,299	**0.7582**	0.7589
Greater than 1 year	**5,814**	5,387	**0.7590**	0.7737

Capital management

Airservices is a price regulated government-owned corporate commonwealth entity providing air navigation services. Pricing for Airservices core airways services is subject to the price notification provisions of the Competition & Consumer Act 2010 and any increase in prices must be notified to the Australian Competition and Consumer Commission (ACCC) for its review.

Airservices sets its prices with airlines and other customers using a five-year Long Term Pricing Agreement (LTPA). Whilst this agreement notionally expired on 30 June 2016, Airservices has kept it prices unchanged through to 30th June 2019, and announced a 2% price reduction from 1 July 2019.

Airservices target was to achieve a return on equity after tax for 2019 of 10.3%; during the year ended 30 June 2019 there was a return of 9.60% (30 June 2018: 11.1%).

There were no changes to Airservices approach to capital management during the year.