

Overview

Basis of preparation

Airservices is an Australian Government owned for-profit entity. The financial statements are required by section 42 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and are general purpose financial statements for the year ended 30 June 2019.

The financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and Financial Reporting Rules (FRR) made under the PGPA Act.

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 24 September 2019.

Historical cost convention

These financial statements have been prepared on an accrual basis and under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit and loss, and certain classes of property, plant and equipment.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Airservices accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the following notes:

- Recoverable amount of other financial assets Note 2.6
- AvSuper defined benefits Note 4.2
- Long Service Leave & Early Retirement Benefits Note 4.1

Compliance with IFRS

The financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

New Accounting Standards

Adoption of new Australian Accounting Standard requirements

Airservices applied AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 replaces AASB 118 *Revenue* and related interpretations and applies to all revenues arising from contracts with customers, unless the contracts are within the scope of other standards such as AASB 16 *Leases*.

To determine whether to recognise revenue, Airservices follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

Airservices enters into transactions involving a range of services. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) Airservices satisfies the performance obligations by transferring the promised services to its customers.

Airservices recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if Airservices satisfies a performance obligation before it receives the consideration, either a contract asset or a receivable will be recognised in the statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Airways Revenue

Airways Revenue is primarily generated from contracts with airlines for the provision of the following services provided by Airservices:

- Terminal Navigation
- Enroute Charge
- Rescue and Firefighting
- Meteorological Service Charge
- Training Movements.

Customers are billed based on the flights movements. This revenue is comprised of the following two significant contracts:

- **Airways Revenue (non-GAO)** – These are charges regulated by the ACCC and are based on a model of cost recovery plus a return on our assets. Details of these charges are available in the current Contract for Aviation Facilities and Services Agreement.
- **General Aviation Option (GAO)** – This option is available to smaller aircraft operators for flight activities outside the control zone of major capital cities and customers receive an upfront discount when choosing to pay annually or quarterly in advance. Where customers choose to take up on the GAO, they are billed upfront for the corresponding financial year.

Based on the analysis performed by Airservices, it is determined that the adoption of AASB 15 will not have a material impact upon Airways Revenue.

Other Commercial Revenue

Other Commercial Revenue is made up of a number of different contracts related to a range of services delivered by Airservices. The services constituting the majority of the balance include:

- Air Traffic Management Services
- Other Service Delivery Revenue
- Non-Aviation Revenue
- Fire Services.

Based on the analysis performed by Airservices, it is determined that the adoption of AASB 15 will not have a material impact upon Other Commercial Revenue.

Miscellaneous Income

The Miscellaneous Income revenue stream records reimbursements and legal costs. Based on the analysis performed by Airservices, it is determined that the adoption of AASB 15 will not have a material impact upon Miscellaneous Income.

AASB 9 Financial Instruments

AASB 9 *Financial Instruments* changed accounting policies for financial assets and liabilities covering classification and measurement, hedge accounting and impairment. Airservices first adopted AASB 9 on 1 July 2018 and has applied it retrospectively in respect of classification, measurement and impairment without restating comparatives, consistent with the requirements under AASB 9. Any cumulative effects of initial application have been recognised as an adjustment to the opening balance sheet for the period beginning 1 July 2018.

The following are the changes in the classification of Airservices financial assets and liabilities:

- **Cash and cash equivalents, and Receivables** – previously classified as held to maturity are now classified and measured as amortised cost. The change in classification had no impact on the carrying amounts as at 1 July 2018.
- **Medium Term Notes, Commercial Paper and Trade and other payables** – previously classified as held to maturity are now classified and measured as amortised cost. The change in classification had no impact on the carrying amounts as at 1 July 2018.
- **Navigation and augmentation systems receivable** – financial assets that related to future royalty streams arising from the expected sales of Ground Based Augmentation Systems (GBAS) and expected use of Instrument Landing System (ILS) at Wagga Airport were assessed. Under AASB 139, the royalty streams were classified as a financial asset, being the right (conditional) to receive contractual cash-flows which arise from a past transaction (i.e. the Royalty Agreement with Honeywell and Wagga Council). Airservices used the fair value option to account for the royalty stream at fair value through the income statement. As at 30 June 2018, the fair value of these financial assets were \$1.41m. Any future royalty payments from these royalty streams are conditional on something other than the passage of time. It is not highly probable that a significant reversal in the revenue will not occur and as such, the royalty streams are not considered a contract asset. Hence on initial adoption of AASB 9, any future payment is neither a contract asset nor a receivable. The fair values of these previously recognised financial assets at Fair Value Through Profit and Loss (FVTPL) are derecognised and an adjustment taken through 2018-19 opening retained earnings.

Reconciliation of carrying amounts of financial assets on the date of initial application of AASB 9

	AASB 139 carrying amount at 30 June 2018 \$'000	Reclassification \$'000	Remeasurement \$'000	AASB 9 carrying amount at 1 July 2018 \$'000
Financial assets at amortised cost				
Receivables	122,436	-	-	122,436
Other financial assets	11,537	(1,410)	-	10,127
Total amortised cost	133,973	(1,410)	-	132,563

Impact on the financial statements

The total impact on the group's retained earnings as at 1 July 2019 is as follows:

	\$'000
Closing retained earnings 30 June 2018	367,313
Derecognise financial assets previously designated at FVTPL	(1,410)
Opening retained earnings 1 July – AASB 9	365,903

Impairment of Financial Assets

The adoption of AASB 9 has changed Airservices accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires Airservices to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets. Airservices has determined that while trade and other receivables are subject to the impairment requirements of IFRS 9, the change to the identified impairment loss was not material.

No other new standards that were issued prior to the sign-off date and are applicable to the current reporting period had a material effect, and are not expected to have a future material effect on the entity's financial statements. No accounting standard has been adopted earlier than the application date as stated in the standard.

Future Australian Accounting Standard requirements

The following new standard was issued prior to the signing of the statements by the Chairman, Chief Executive Officer and Chief Financial Officer and could have a material impact on Airservices for future reporting periods.

Reference	Title	Summary	Application date of standard	Application date for Airservices
AASB 16	Leases	<p>The final version of AASB 16 was issued in February 2016 and it will replace AASB 117 <i>Leases</i>.</p> <p>AASB 16 removes the lease classification test for lessees and requires all leases (including those classified as operating leases) to be accounted for under a single on-balance sheet model similar to the accounting for finance leases under AASB 117. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. There is also new guidance on when an arrangement would meet the definition of a lease.</p> <p>The application of the new standard will result in a significant increase in both the gross assets and liabilities of Airservices. It will also significantly change the presentation of lease expenses in the income statement and impact profit.</p> <p>Transition Options</p> <p>On transition to the new standard, an entity can apply AASB 16 under two broad approaches: the full retrospective or the modified retrospective approach. Airservices will be required to apply the elected application approach consistently to all leases in which it is the lessee.</p> <p>To ensure consistency for Whole of Government reporting, Airservices will adopt the Department of Finance's position and will apply AASB 16 on 1 July 2019 using the modified retrospective approach. Under this approach the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.</p> <p>Under the modified retrospective approach the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. Airservices is assessing the potential impact of using these practical expedients.</p>	1 Jan 2019	1 July 2019

Reference	Title	Summary	Application date of standard	Application date for Airservices																																								
AASB 16	Leases	<p>Estimated impact of the adoption of AASB 16</p> <p>Airservices have done an initial assessment of the impact of transitioning to the new standard and prepared an estimate of the potential impact on the statements of comprehensive income and financial performance. The table below sets out the line items that will be impacted as well as the estimated impact.</p> <table border="1"> <thead> <tr> <th></th> <th>AASB 117 \$'000</th> <th>AASB 16 \$'000</th> <th>Impact \$'000</th> </tr> </thead> <tbody> <tr> <td colspan="4">Statement of Financial Performance</td> </tr> <tr> <td>Right of Use Asset</td> <td>-</td> <td>177,295</td> <td>177,295</td> </tr> <tr> <td>Lease Liability</td> <td>-</td> <td>(180,872)</td> <td>(180,872)</td> </tr> <tr> <td>Net Assets</td> <td>-</td> <td>(3,577)</td> <td>(3,577)</td> </tr> <tr> <td colspan="4">Profit</td> </tr> <tr> <td>Lease rentals</td> <td>(14,966)</td> <td>-</td> <td>14,966</td> </tr> <tr> <td>Amortisation</td> <td>-</td> <td>(15,923)</td> <td>(15,923)</td> </tr> <tr> <td>Finance Costs</td> <td>-</td> <td>(3,896)</td> <td>(3,896)</td> </tr> <tr> <td>Profit / (Loss) before tax</td> <td>(14,966)</td> <td>(19,819)</td> <td>(4,853)</td> </tr> </tbody> </table> <p>Airservices will continue to assess the potential impacts of AASB 16 on its financial statements during the 2019/20 financial year.</p>		AASB 117 \$'000	AASB 16 \$'000	Impact \$'000	Statement of Financial Performance				Right of Use Asset	-	177,295	177,295	Lease Liability	-	(180,872)	(180,872)	Net Assets	-	(3,577)	(3,577)	Profit				Lease rentals	(14,966)	-	14,966	Amortisation	-	(15,923)	(15,923)	Finance Costs	-	(3,896)	(3,896)	Profit / (Loss) before tax	(14,966)	(19,819)	(4,853)	1 Jan 2019	1 July 2019
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All other new or revised standards and/or interpretations that were issued prior to the sign-off date and are applicable to future reporting periods are not expected to have a future material effect on the entity's financial statements.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of Airservices are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Australian dollars, which is Airservices functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation. Translation differences on financial assets and liabilities carried at fair value, and non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are reported as part of the fair value gain or loss.

Taxation

Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST) is applicable to Airservices. Refer to Note 1.3 Taxation for further information relating to income tax.