

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 1. Our Financial Performance

This section analyses the financial performance of Airservices Australia for the year ended 2020.

### 1.1 REVENUE

	2020 \$'000	2019 \$'000
<b>Airways revenue</b>		
Airways Revenue <sup>1</sup>	745,743	1,093,958

1. Airways revenue is net of waivers for domestic aviation charges under the Government's COVID-19 pandemic relief package (\$92.5m YTD).

#### Domestic Flight Waivers

On 18 March 2020, the Minister for Infrastructure, Transport and Regional Development announced a relief package for the Australian aviation industry to refund and waive a range of charges including Airservices charges on domestic airline operations. These measures were effective from 1 February 2020 and are in response to an unprecedented and likely sustained period of falling international and domestic aviation demand related to the impact of the COVID-19 pandemic. As at 30 June, domestic flight waivers totalling \$92.5m have been recognised.

#### 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 34 per cent (2019: 35 per cent) related to the Qantas Group including the Jetstar Group, and 16 per cent (2019: 18 per cent) related to the Virgin Group (including Tiger Airways Australia). In lieu of revenue foregone from waiving domestic aviation charges and in support of critical operating costs that would have otherwise have been funded through debt facilities, the Government has provided Airservices with funding of \$831.8m until June 2021 to ensure that air navigation services continue to be provided as the industry recovers. Of this balance, \$250m has been received as at the year ended 30 June 2020. Refer Government Assistance note below for further details.

### 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.

	2020 \$'000	2019 \$'000
<b>Government Assistance</b>	250,000	-
Government Grant	250,000	-

#### Government Assistance Package

Airservices will receive a total grant of \$831.8m from the Government's COVID-19 pandemic relief packages that will enable the waiving of domestic aviation charges for the period February to December 2020 and support Airservices critical operating costs. The first instalment of \$250m has been received for the 2019-20 financial year with another \$581.8m to be received during the 2020-21 financial year.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2020 \$'000	2019 \$'000
<b>Finance income</b>		
Deposits	2,154	5,393
Cash at bank	240	445
Other	86	141
<b>Total finance income</b>	<b>2,480</b>	<b>5,979</b>

## 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.

	2020 \$'000	2019 \$'000
<b>Net gain on disposal of non-current assets</b>		
Property, plant and equipment:		
Proceeds from sale	-	20,371
Written down value of scrapped assets	-	(19,661)
<b>Net gain on disposal of non-current assets</b>	<b>-</b>	<b>710</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 1.2 EXPENSES

	2020 \$'000	2019 \$'000
<b>Employee benefits</b>		
Wages and salaries	452,771	441,935
Superannuation (defined contribution funds)	51,557	49,507
Leave and other entitlements	115,138	138,863
Separation and redundancies - other	3,255	542
<b>Employee benefits (excluding defined benefit superannuation expense)</b>	<b>622,721</b>	<b>630,847</b>
<b>Net defined benefit superannuation expense recognised in employee benefits</b>		
Current service cost	25,621	24,681
Net interest expense	(6,244)	(10,990)
<b>Defined benefit superannuation expense</b>	<b>19,377</b>	<b>13,691</b>
<b>Total employee benefits</b>	<b>642,098</b>	<b>644,538</b>
<b>Finance Costs</b>		
Borrowing costs	15,760	20,232
Interest rate swap fair value loss	3,078	1,674
Interest on lease liabilities	2,361	-
<b>Total finance costs</b>	<b>21,199</b>	<b>21,906</b>
<b>Impairment loss on financial instruments</b>		
Impairment on trade and other receivables	20,020	(1,138)
Bad debts written off	270	1,756
<b>Total impairment loss on financial instruments</b>	<b>20,290</b>	<b>618</b>
<b>Write-down and impairment of other assets</b>		
Impairment of property, plant and equipment	2,994	6,405
Revaluation (increments)/decrements	(23)	4,622
<b>Total write-down and impairment of other assets</b>	<b>2,971</b>	<b>11,027</b>
<b>Net loss on disposal of non-current assets</b>		
Proceeds from disposal of non-current assets	(1,600)	-
Written-down value of disposed non-current assets	2,097	-
Proceeds from disposal of assets held for sale	(3,272)	-
Written-down value of disposed assets held for sale	3,272	-
<b>Net loss on disposal of non-current assets</b>	<b>497</b>	<b>-</b>
<b>Other expenses</b>		
Operating lease rentals <sup>1</sup>	2,020	14,966
Short-term leases	676	-
Low value leases	4,426	-
Variable lease payments	652	-
	<b>7,774</b>	<b>14,966</b>

1. The Entity has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117. For the 2019-20 financial year, the 'operating lease rentals' line item includes any non-lease components not included in the measurement of the lease liability.

The above lease disclosures should be read in conjunction with the accompanying note 2.3, 2.7.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## ACCOUNTING POLICY

### Employee Benefits

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

### Short-term leases and leases of low-value assets

The Entity has elected not to recognise right-of-use assets and lease liabilities for short-term leases of assets that have a lease term of 12 months or less and leases of low-value assets (less than \$10,000). The Entity recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

## 1.3 TAXATION

	2020 \$'000	2019 \$'000
<b>Income tax expense</b>		
Current tax expense	6,863	39,666
Deferred tax expense	(18,394)	(14,252)
<b>Income tax expense attributable to profit from continuing operations</b>	<b>(11,531)</b>	25,414
<b>Reconciliation of income tax expense to prima facie tax payable</b>		
Profit from continuing operations before income tax expense	(36,500)	87,821
Prima facie income tax expense at 30%	(10,949)	26,346
Tax effect of amounts which are not deductible/assessable in calculating taxable income:		
Non-deductible legal costs	2	25
Prior year over provision of tax	(661)	792
Other non-deductible/(assessable) expenditure	77	(1,749)
<b>Income tax expense</b>	<b>(11,531)</b>	25,414

## 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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2020 \$'000	2019 \$'000
<b>Deferred tax liability</b>		
<b>The balance comprises temporary differences attributable to:</b>		
<i>Amounts recognised in the statement of comprehensive income</i>		
Depreciation for accounting purposes	(1,341)	(8,970)
Allowance for impairment	6,689	684
Employee benefits	60,056	57,828
Provision for revenue to be returned to customers	187	182
Provision for legal costs	386	548
Other provisions	27,318	24,721
Accruals	1,759	1,670
	<b>95,054</b>	<b>76,663</b>
<i>Amounts recognised directly in equity</i>		
Foreign exchange hedge reserve	735	387
Revaluation of land, buildings, plant and equipment	(52,093)	(51,676)
Defined benefit (asset)/liability	(25,291)	(39,626)
Transition to AASB 16	(2,662)	-
	<b>(79,311)</b>	<b>(90,915)</b>
<b>Net deferred tax (liability) / assets</b>	<b>15,743</b>	<b>(14,252)</b>
<b>Movements:</b>		
Opening balance at 1 July	(14,252)	(41,246)
Charged to the statement of comprehensive income	18,391	14,252
Credited to equity	11,604	12,742
<b>Closing balance as at 30 June</b>	<b>15,743</b>	<b>(14,252)</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## Tax losses

Airservices has capital losses of \$4.9m (\$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

A final dividend of \$5.4m for the year ended 30 June 2019 was paid on 3 March 2020 (2019: a \$5.0m final dividend for the year ending 30 June 2018 was paid on 28 February 2019). No interim dividend for the year ending 30 June 2020 was paid (2019: a \$4.8m interim dividend for the year ending 30 June 2019 was paid on 15 June 2019).

### Franking credits

Franking credits available for subsequent financial years based on a tax rate of 30 per cent (30 June 2019: 30 per cent) are \$339.9m (30 June 2019: \$294.1m).

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.