

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Overview

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 2021.

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 on 15 September 2021.

SIGNIFICANT MATTERS IN THE CURRENT REPORTING PERIOD

Coronavirus (COVID-19) Impact

The Novel Coronavirus pandemic (COVID-19) has had significant impacts on global economies, particularly in the aviation and travel industries, which resulted in several support actions from the Australian government. The impact of COVID-19 continues to evolve, and, where applicable, Airservices has considered the impact of COVID-19 and other market volatility in preparing its financial statements and measurement of its assets and liabilities at the reporting date. Whilst the specific areas of judgement have not changed, the impact of COVID-19 has resulted in the application of further judgement within certain areas and is discussed below and in each of the related notes.

Impact of COVID-19 on estimation uncertainty

The preparation of financial statements requires the use of certain critical accounting estimates and exercise of judgment in the process of applying Airservices accounting policies. Airservices processes to determine the impact of COVID-19 for these financial statements is consistent with the processes disclosed and applied in its 30 June 2020 financial statements. The ongoing COVID-19 pandemic has influenced certain accounting judgements and estimates in the preparation of these financial statements. The estimation uncertainty is associated with:

- the extent and duration of travel restrictions and border closures arising from the actions by government, airlines, businesses and consumers to contain the spread of the virus,
- the extent and duration of the expected economic downturn and forecasts for future economic recovery scenarios including key economic factors such as Consumer Price Inflation (CPI), Gross Domestic Product (GDP), rates of unemployment, and
- the effectiveness of government measures that have and will be put in place to support the domestic economy and the aviation industry throughout the disruption and period of economic downturn.

As a result of the impact of COVID-19, the factors above resulted in continued judgment being required in the assessment of expected credit losses for impairment of receivables (Note 2.1), impairment of non-financial assets (Note 2.3) and salary growth assumptions applied in valuation of employee benefits (Notes 4.1 and 4.2).

As there is a higher than usual degree of uncertainty associated with these assumptions and estimates, actual outcomes may differ to those forecasted, which may impact the accounting estimates included in these financial statements. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

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Impact of COVID-19 on Airservices Financial Performance

To ensure continuity of critical air navigation and aviation rescue fire-fighting services in future periods, the Government supported Airservices financially through the provision of government grants and other revenue substitution measures, including a lump sum \$550m upfront funding (received 28 June 2021) recognised as part of the 2020-21 results. Payment up-front to Airservices provides certainty for ongoing operations and planning, including for reserves to support cash flow and management of supplier costs.

Refer Table 1 below for reconciliation of statutory profit after tax to an underlying Net Loss after Tax (NLAT) position. NLAT is a non-statutory measure used by management to provide a meaningful and consistent representation of the underlying performance of Airservices.

Table 1: Reconciliation of statutory profit or loss after tax to underlying NLAT

Notes	2021 \$'000	2020 \$'000
STATUTORY PROFIT/ (LOSS) AFTER INCOME TAX	321,176	(24,969)
<i>Less: Government Grants - COVID Assistance</i>		
Government Grant (Budget 2020-21)	(581,333)	(250,000)
Government Grant (Budget 2021-22 received 28 June 2021)	(550,000)	0
	339,550	75,000
<i>Less: prima-facie tax impact at 30%</i>		
Total items not included in underlying NLAT	(792,283)	(175,000)
UNDERLYING NET LOSS AFTER TAX	(471,107)	(199,969)

Items not included in Underlying NLAT are government grants received for revenue substitution or relating to support for future business activities;

- Government Grants received (\$581.3m) include revenue substitution for Airservices as a result of waiving 100 per cent of air service charges for eligible domestic flight operators for the period February to December 2020.
- Government Grants received (\$550m) in late June 2021 through the Budget 2021-22 measures represented payments upfront to provide certainty for ongoing operations and planning, support the continued provision of critical air services and the waiver of domestic air services and provide reserves to support cash flow and management of supplier costs.

GOING CONCERN

Airservices reported a net profit of \$321.2m in the financial year ended 30 June 2021 compared to a net loss of \$25.0m in the previous financial year. The financial result this year is primarily driven by the substantial increase in government grants received to subsidise lost revenues and critical operating costs, including a grant of \$550m received prior to the close of the financial year on 28 June 2021.

This year's financial results were driven by the continued impact of COVID-19 quarantine and border lockdown measures on the aviation industry, offset by government financial assistance. Nevertheless, the Board consider Airservices to be a going concern and able to meet its debts and obligations as they fall due, on the following basis:

- Continued funding and support from the Department of Infrastructure, Transport, Regional Development and Communications. To date, the entity has received \$1,132m by way of government financial assistance for the financial year 2021 (2020-21), which includes an upfront payment of \$550m in late June 2021 to support ongoing provision of critical air services in future periods. Refer to Note 1.1 Revenue for further details.
- In addition, Airservices has a number of short and long-term debt facility arrangements, which will provide the ability to balance our short and long-term funding needs. Total unused debt facilities at 30 June 2021 is \$1,030m; refer to Note 3.4 'Standby arrangements and unused credit facilities' for further details.

No adjustments have been made to the financial statements relating to the recoverability and classification of the recorded asset amounts or the amounts and classification of liabilities that might be necessary should Airservices not continue as a going concern.

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BASIS OF PREPARATION

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.

Compliance with IFRS

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

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.

USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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:

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| – Recoverability of trade and other receivables | Note 2.1 |
| – Valuation of property, plant, equipment and intangibles | Note 2.3 |
| – Recoverable amount of other financial assets | Note 2.6 |
| – Measurement of lease liabilities | Note 2.7 |
| – Long Service Leave & Early Retirement Benefits | Note 4.1 |
| – AvSuper defined benefits | Note 4.2 |

NEW ACCOUNTING STANDARDS

Adoption of new Australian Accounting Standards requirements

There were no new standards issued prior to the sign-off date applicable to the current reporting period that had a material effect, and are 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.