NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. Our Funds Management

This section identifies Airservices Australia's funding structure.

3.1 CASH AND CASH EQUIVALENTS

	2020 $'000	2019 $'000
Cash and cash equivalents		
Cash at bank and in hand	**43,608**	36,006
Deposit at call	**264,200**	80,700
Term deposits	**210,000**	265,000
Total cash and cash equivalents	**517,808**	381,706

(A) CASH AT BANK AND IN HAND

Cash at bank has a floating interest rate of 0.45 per cent (30 June 2019: 1.45 per cent) for balances up to $25m. For balances greater than $25m, the interest rate is 0.25 per cent (30 June 2019: 1.25 per cent). 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 0.25 per cent (30 June 2019: 1.25 per cent). These 11am cash deposits are rolled over on a daily basis.

(C) TERM DEPOSITS

This represents $35m maturing on 28 July 2020, $40m maturing on 16 September 2020, $60m maturing on 22 September 2020, $35m maturing on 14 October 2020 and $40m maturing on 28 October 2020. Term deposits have a weighted average interest rate of 0.75 per cent.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3.2 RECONCILIATION OF CASH AND CASH EQUIVALENTS

	2020 $'000	2019 $'000
Reconciliation of net profit/(loss) after income tax to net cash flows from operations		
Net profit/(loss) after income tax	**(24,969)**	62,407
Adjustments for:		
Depreciation expense	**152,443**	141,650
Impairment recognised for property, plant and equipment	**2,994**	6,405
Reversal of previous asset write-downs	**(485)**	(955)
Net gain on sale/write-down of non-current assets	**-**	(710)
Net loss on sale/write-down of non-current assets	**790**	2,258
Fair value adjustments to derivatives	**-**	(1,410)
AvSuper defined benefit contributions movement (after tax)	**(33,448)**	(27,363)
Change in assets		
(Increase)/decrease in gross receivables	**73,899**	(1,312)
(Increase)/decrease in inventories	**(165)**	(99)
(Increase)/decrease in prepayments	**620**	923
(Increase)/decrease in other assets	**(875)**	(6,733)
(Increase)/decrease in deferred tax	**(29,995)**	(27,095)
Change in liabilities		
Increase/(decrease) in employee benefits	**60,521**	61,134
Increase/(decrease) in allowance for impairment	**20,020**	(1,138)
Increase/(decrease) in legal provisions	**(537)**	981
Increase/(decrease) in other liabilities	**(57,470)**	100,658
Increase/(decrease) in other provisions	**5,587**	(226)
Increase/(decrease) in creditors and accruals	**5,220**	12,427
Increase/(decrease) in revenue to be returned to customers provision	**15**	102
Net cash flow from operating activities	**174,165**	321,904

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3.3 BORROWINGS

	2020 $'000	2019 $'000
Unsecured borrowings		
Current [1]	**479,593**	4,989
Non-current [2]	**671,599**	672,354
Total borrowings	**1,151,192**	677,343

Notes:

1. This represent amounts issued under a $975m medium term note program, a $300m commercial paper program and two committed standby cash advance facilities. It includes a $275m medium term note tranche maturing 19 November 2020, a $10m commercial paper tranche maturing 8 July 2020, a $25m commercial paper tranche maturing 23 July 2020, a $5m commercial paper tranche maturing 21 August 2020, a $20m commercial paper tranche maturing 30 September 2020, a $75m commercial paper tranche maturing 5 October 2020, a $60m cash advance maturing on 23 September 2020 and a $10m cash advance maturing on 24 September 2020.

2. This represents amounts issued under a $975m medium term note program and includes a $200m tranche maturing on 15 May 2023, a $200m tranche maturing on 15 May 2026 and a $275m tranche maturing on 15 May 2030.

3.4 STANDBY ARRANGEMENTS AND UNUSED CREDIT FACILITIES

	2020 $'000	2019 $'000
Unused credit facilities - bank overdraft	**5,000**	5,000
Borrowing facilities		
Commercial paper program	**300,000**	300,000
Medium term note program	**975,000**	975,000
Committed standby cash advance facilities	**535,000**	180,000
Uncommitted 11am borrowing	**60,000**	60,000
Total borrowing facilities	**1,870,000**	1,515,000
Amount utilised	**(1,155,000)**	(680,000)
Unused borrowing facilities	**715,000**	835,000

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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.

Committed standby cash advances

Airservices standby cash advances are short term bank loans that are held to maturity and have cash flows that solely represent principal and interest. All committed standby cash advances are classified under AASB 9 as financial liabilities at amortised cost.

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 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 (FECs) and Interest Rate Swaps (IRSs) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Fair value measurements

The fair values of Airservices FECs and 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 uses only observable market data as inputs. This has not changed as a result of the COVID-19 pandemic.

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 2020, if netting was applied to the FEC portfolio, then FEC financial assets of $681,128 would have reduced by FEC financial liabilities of $3,169,301 to the net liability amount of $2,488,173 (30 June 2019: FEC financial assets of $709,022 would have been reduced by FEC financial liabilities of $1,973,853 to the net liability amount of $1,264,831).

If netting was applied to the IRS portfolio, then IRS financial assets of $16,687,904 would have been reduced by IRS financial liabilities of $17,675,456 to the net liability amount of $987,552 (30 June 2019: IRS financial assets of $15,784,746 would have been reduced by IRS financial liabilities of $13,756,379 to the net asset amount of $2,028,367).

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.

There is no secondary market for committed standby cash advances as they are executed under bilateral agreements with bank counterparties. As a result, their fair value is equal to the carrying amount. Refer to Note 2.4 for the fair value measurement basis of these instruments.

	AASB 9 accounting classification	Carrying amount 2020 $'000	Fair value 2020 $'000	Carrying amount 2019 $'000	Fair value 2019 $'000
Assets					
Forward exchange contracts	FVTPL	**681**	**681**	709	709
Cash and cash equivalents	AC	**517,808**	**517,808**	381,706	381,706
Receivables	AC	**32,743**	**32,743**	126,662	126,662
Interest rate swaps	FVTPL	**16,688**	**16,688**	15,785	15,785
Total assets		**567,920**	**567,920**	524,862	524,862
Liabilities					
Forward exchange contracts	FVTPL	**3,169**	**3,169**	1,974	1,974
Interest rate swaps	FVTPL	**17,675**	**17,675**	13,756	13,756
Medium Term Notes	AC	**946,378**	**994,600**	672,354	712,458
Trade and other payables	AC	**121,495**	**121,495**	106,766	106,766
Commercial Paper	AC	**134,814**	**134,905**	4,989	4,991
Standby cash advances	AC	**70,000**	**70,000**	-	-
Total liabilities		**1,293,531**	**1,341,844**	**799,839**	**839,945**

NOTES:

AC – Amortised Cost

FVTPL – Fair Value Through Profit and Loss

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 residual 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 $200m. Counterparty credit exposure is assessed using the principles of the 'Current Exposure Method'. As at 30 June 2020, the maximum risk exposure to all authorised counterparties after applying the Current Exposure Method was $548.1m (30 June 2019: $471.8m).

Airservices is exposed to credit risk arising from potential default of debtors. This is equal to the total amount of trade and other receivables (2020: $32.7m and 2019: $126.7m). Airservices has assessed the risk of default on payment and has allocated $22.3m in 2020 (2019: $2.3m) 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 2020 $'000	Not past due nor impaired 2019 $'000	Past due or impaired 2020 $'000	Past due or impaired 2019 $'000
Loans and receivables	**19,283**	95,781	**30,129**	29,073
Total	**19,283**	95,781	**30,129**	29,073

Airservices is exposed to concentration of risk with respect to trade receivables. 50 per cent of revenues earned are from the following dominant operators: Qantas Group (including Jetstar), Virgin Group (including Tiger Airways Australia).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Liquidity risk

Liquidity risk management is concerned with ensuring there are sufficient funds available to meet financial commitments in a timely manner while 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, while 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.

2020	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	-	-	-	-	-	121,495	121,495
Standby cash advances	0.96	-	70,337	-	-	-	70,337
Commercial paper	0.63	135,000		-	-	-	135,000
Medium term notes	3.42	-	299,581	261,200	511,750	-	1,072,531
Derivative							
Interest rate swaps[1]	-	-	(7,371)	(9,899)	526	-	(16,744)
Interest rate swaps[2]	-	-	5,899	11,537	602	-	18,038
Net financial liabilities		135,000	368,446	262,838	512,878	121,495	1,400,657

Notes:

1. Weighted average interest rates as at 30 June were pay float at 0.15% and receive fixed at 2.84%.

2. Weighted average interest rates as at 30 June were pay fixed at 2.52% and receive float at 0.15%.

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[3]	-	-	(6,604)	(8,655)	(870)	-	(16,129)
Interest rate swaps[4]	-	-	3,717	9,837	638	-	14,192
Net financial liabilities		5,000	22,176	525,213	212,768	106,766	871,923

Notes:

3. Weighted average interest rates as at 30 June were pay float at 1.59% and receive fixed at 3.33%.

4. Weighted average interest rates as at 30 June were pay fixed at 2.73% and receive float at 1.61%.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 +/- 0.09 per cent (2019: +/- 0.20 per cent).

Airservices has adopted a simplified approach to calculate market risk sensitivities for foreign exchange contracts. A standard sensitivity variable of 8.41 per cent (2019: 8.70 per cent) 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	
2020	**Carrying amount $'000**	**Change in risk variable +/-%**	**Profit and loss $'000**	**Equity $'000**	**Profit and loss $'000**	**Equity $'000**
Currency risk						
Buy USD	180	8.41	-	(1,145)	-	1,338
Buy EUR	(2,668)	8.41	(101)	(3,062)	119	3,431
Interest rate risk						
Cash and cash equivalents	517,808	0.09	452	-	(452)	-
Medium term notes	946,378	-	-	-	-	-
Interest rate swaps	(988)	0.09	19	-	-	-
Commercial paper	134,814	0.09	(122)	-	122	-

			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	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 per cent hedge effectiveness. All foreign currency exposures have a greater than 95 per cent certainty of occurring, as all exposures are committed. As a result of the COVID-19 pandemic, Airservices conducted a review of its capital expenditure program and where foreign currency exposures were no longer identified as having a greater than 95 per cent certainty of occuring, all applicable FECs were cancelled and cash flow hedge accounting for those hedge relationships was terminated.

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 per cent. 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	**2020 $'000**	**2019 $'000**	**2020 EURO/$1**	**2019 EURO/$1**
Maturity				
3 months or less	**5,855**	5,944	**0.5961**	0.6131
Greater than 3 months but less than 1 year	**6,492**	16,407	**0.5896**	0.6011
Greater than 1 year	**30,262**	34,389	**0.5519**	0.5550

	Sell Australian Dollars		Average Exchange Rate	
Buy US Dollars	**2020 $'000**	**2019 $'000**	**2020 US/$1**	**2019 US/$1**
Maturity				
3 months or less	**4,889**	2,189	**0.7068**	0.7382
Greater than 3 months but less than 1 year	**6,801**	2,820	**0.6711**	0.7582
Greater than 1 year	**2,797**	5,814	**0.7394**	0.7590

Capital management

Airservices is a price regulated government-owned corporate commonwealth entity with a capital management strategy that currently targets a long-term gearing ratio of 40-50 per cent with short term buffers of +/-15 per cent. This target is aligned to Airservices risk appetite statement and provides for a minimum investment grade credit rating of 'BBB'.

When managing capital structure, Airservices considers its current and forecast net debt and shareholder's equity positions to develop funding and liquidity strategies that achieve the longer term optimal capital structure and provide a balance between cost and risk. These strategies are then incorporated into the annual planning cycles.

Airservices reviews its longer term optimal capital structure on a regular basis and there were no changes to Airservices approach to capital management during the year.