NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 2020.

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 16 September 2020.

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:

– 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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Impact of Coronavirus (COVID-19)

COVID-19, which is a respiratory illness caused by a new virus, was declared a world-wide pandemic by the World Health Organisation in March 2020. Measures to slow the spread of the virus have since had a significant impact on global economies and equity, debt and commodity markets. Airservices has considered the impact of the COVID-19 pandemic and other market volatility in preparing its financial statements.

While the specific areas of judgement has not changed, the impact of the COVID-19 pandemic has resulted in the application of further judgement within certain areas. Given the dynamic and evolving nature of the COVID-19 pandemic and limited recent experience of the economic and financial impacts of such a pandemic; Airservices has formed estimates based on information available as at 30 June 2020. The actual economic conditions are likely to be different from the estimates used. This may result in material differences between the accounting estimates applied and the actual results of Airservices for future periods.

Processes applied

As a consequence of the COVID-19 pandemic and in preparing these financial statements, management has:

- re-evaluated whether there were any additional areas of judgement or estimation uncertainty beyond what has been disclosed below.
- updated its economic outlook–principally for the purposes of input to its Expected Credit Loss (ECL) model through the application of forward-looking information, but also for input into the impairment analysis of financial and non-financial asset classes and disclosures such as fair value disclosure of financial assets and liabilities.
- reviewed external market communications to identify other COVID-19 pandemic related impacts
- reviewed public forecasts and experiences from previous downturns
- conducted several internal processes to ensure consistency in the application of the expected impact of the COVID-19 pandemic across all asset classes
- assessed the carrying value of its assets and liabilities and determined the market impact thereon as a result of market inputs and variables impacted by the COVID-19 pandemic
- ran multiple stress testing scenarios, integral to the capital adequacy assessment process and going concern assumption
- considered the impact of the COVID-19 pandemic on Airservices financial statement disclosures

Impact of COVID-19 on estimation uncertainty

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 ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. The estimation uncertainty is associated with:

- the extent and duration of the disruption to the travel and aviation sector 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 key economic factors including GDP, employment and house prices). This includes the disruption to increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other quarantining activities
- the effectiveness of government measures that have and will be put in place to support the domestic economy and the aviation industry through this disruption and economic downturn.

Going concern

Airservices reported a net loss of $25.0m in the financial year ended on 30 June 2020 compared to a net profit of $62.4m in the previous financial year. Net current assets deficiency of $255.5m (2019: $152.6m net current assets) include borrowings and working capital facilities of $479.6m (2019: $5.0m).

This year's financial results were influenced by the downturn experienced by the aviation industry as a result of the COVID-19 pandemic quarantine measures enforced by governments restricting international and domestic airways activity. Nevertheless, the Board consider Airservices to be a going concern on the basis of the following:

- Continued funding and support from the Department of Infrastructure, Transport, Regional Development and Communications. To date, the entity has received $250m by way of government financial assistance and a commitment of further funding of $581.8m for the 2020-21 financial year. Refer to Note 1.1 Revenue for further details.
- In addition, Airservices has entered into a number of new short and long-term debt facility arrangements which will provide it with the ability to balance its short and long-term needs. As of 30 June 2020, the total uncommitted debt facilities is $715m. Refer to Note 3.4 'Standby arrangements and unused credit facilities' for further details.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

The Board considers Airservices to be a going concern, able to meet its debts and obligations as they fall due.

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.

NEW ACCOUNTING STANDARDS

Adoption of new Australian Accounting Standard requirements

Airservices applied AASB 16 Leases 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 16 applies to annual reporting periods beginning on or after 1 July 2019. Airservices has applied AASB 16 as of 1 July 2019. As a result, Airservices has changed its accounting policy for leases as detailed below. AASB 16 replaces existing lease accounting guidance and contains significant changes to the accounting treatment applied to leases. It requires a single accounting model to be applied to all types of leases, with the primary change being a requirement for lessees to recognise assets and liabilities for all leases, except for short-term leases (with a duration of less than twelve months) and leases of low-value assets.

To ensure consistency for Whole of Government reporting, Airservices will adopt the Department of Finance's position and apply AASB 16 on 1 July 2019 using the modified retrospective approach. Accordingly, comparative information has not been restated and continues to be reported under AASB 117 Leases and associated guidance.

Airservices has applied the practical expedient to not apply the new recognition requirements to short-term leases and leases of low-value assets. The lease payments under these contracts are generally recognised on a straight-line basis over the lease term as other expenses in the Statement of Comprehensive Income.

Impact of new definition of a lease

The change in the definition of a lease mainly relates to the concept of control. AASB 16 defines a lease as an arrangement in which a customer obtains the right to control the use of an identified asset for a period in exchange for consideration. Airservices applies the definition of a lease, and related guidance set out in AASB 16 to all lease contracts entered into or modified on or after 1 July 2019.

Impact on lessee accounting

As a lessee, Airservices previously classified leases as operating, or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to the ownership of the underlying asset to Airservices.

Applying AASB 16, for all leases other than those that are short term or leases of low-value assets, Airservices:

- recognises a lease liability measured at the present value of future minimum lease payments, discounted using the incremental borrowing rates
- measures the right-of-use asset at its carrying amount as if AASB 16 had been applied since the commencement date, discounted using the incremental borrowing rates at the date of initial application
- recognises depreciation on right of use assets and interest on lease liabilities in the statement of comprehensive income
- separates the total amount of cash paid into a principal portion (financing activities) and interest (operating activities) in the statement of cash flows.

Payments made before the commencement date and incentives received from the lessor are also included in the carrying amount of the right-of-use asset.

Airservices applies the following practical expedients when applying AASB 16 to leases previously classified as an operating lease under AASB 117:

- Applies the modified retrospective model on initial application of AASB16.
- Recognises a right-of-use asset for leases previously classified as an operating lease at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease immediately before the date of initial application.
- Adjusts retained earnings for the de-recognition of lease incentive and straight-lining provisions recognised under AASB117 and Interpretation 115.
- Applies a single discount rate to a portfolio of leases with similar characteristics.
- Applies the exemption not to recognise right of use assets and liabilities for leases less than twelve months in duration.
- Adjusted the right of use assets by the amount of AASB 137 onerous contract provision immediately before the date of initial application, as an alternative to impairment review.
- Excludes initial direct costs from measuring right of use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Impact on Transition of AASB 16	1 July 2019
Right-of-use assets - property, plant and equipment	126,269
Lease liabilities	(121,833)
Retained earnings	(8,874)

The following table reconciles Airservices minimum lease commitments disclosed in the entity's 30 June 2019 annual financial statements to the amount of lease liabilities recognised on 1 July 2019:

	1 July 2019
Minimum operating lease commitment as at 30 June 2019 (GST Inclusive)	219,512
Minimum operating lease commitment as at 30 June 2019 (GST Exclusive)	199,556
Less: non-lease components that do not meet recognition criteria of AASB 16[1]	(9,629)
Less: commitments subject to variable payments under managed services[2]	(41,204)
Less: short-term leases not recognised under AASB 16	(754)
Less: low value leases not recognised under AASB 16	(11,349)
Plus: effect of extension options reasonable certain to be exercised	4,751
Undiscounted lease payments	**141,371**
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(25,024)
Plus: additional lease liabilities because of the initial application of AASB 16 at 1 July 2019	5,486
Lease liabilities recognised at 1 July 2019	**121,833**

Notes:

1. Non-lease components that do not meet recognition criteria of AASB16 including Software as a Service and other support services.

2. Operating lease commitments that were subject to variable payments under the managed services contract for Infrastructure as a Service.

Where the incremental borrowing rate is used, Airservices will reference a 30-year Australian Medium-Term Note (MTN) corporate bond yield curve which has been built to reflect our costs of borrowings. The curve can be used to represent the entity's borrowing rate across asset categories and tenures.

No other new standards issued prior to the sign-off date apply 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.