

AIRSERVICES AUSTRALIA



Annual Report

2006–2007

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LETTER OF TRANSMITTAL

19 September 2007

The Hon Mark Vaile MP
Deputy Prime Minister
Minister for Transport and Regional Services
Parliament House
CANBERRA ACT 2600

Dear Deputy Prime Minister

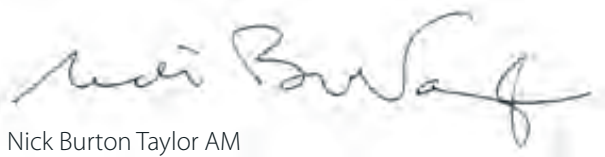
The members of the Board of Airservices Australia hereby submit to you the Airservices Australia Annual Report for the period 1 July 2006 to 30 June 2007.

This report has been prepared in accordance with the requirements of the *Air Services Act 1995* and in accordance with section 9 of the *Commonwealth Authorities and Companies Act 1997* (CAC Act).

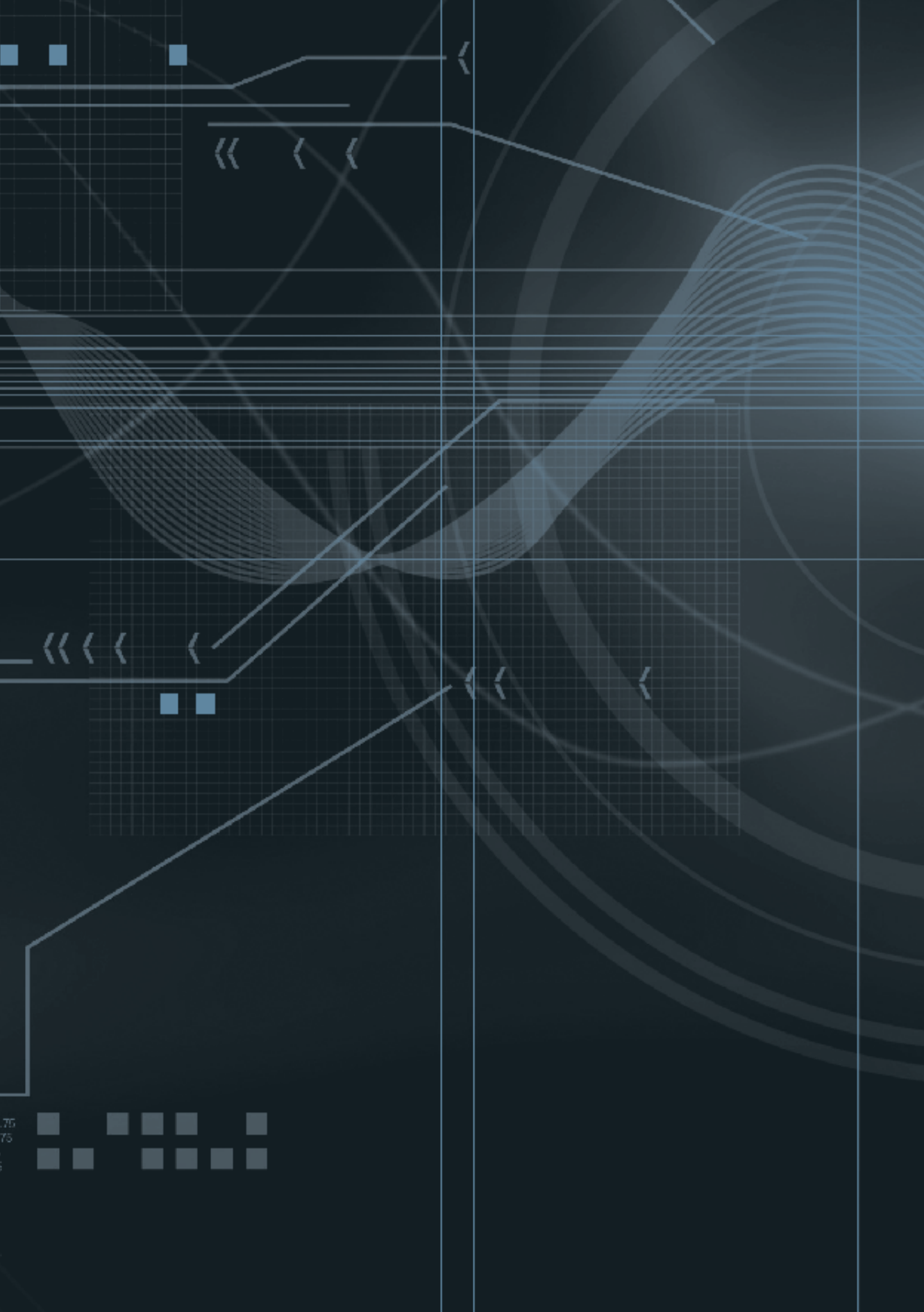
Under section 9 of the CAC Act, Airservices Australia Board members are responsible for producing an annual report in accordance with both the rules of that Act and the Finance Minister's Orders.

The report was approved by the Board.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nick Burton Taylor', is written over a light grey rectangular background.

Nick Burton Taylor AM
Chairman



CHAIRMAN'S REPORT

2006–07 has been a demanding year in the aviation industry and for Airservices Australia. With high fuel prices, increasing presence of low cost carriers and security concerns, the industry is looking for improved operational efficiency and greater use of leading edge technology.



This year the Board agreed a new Corporate Plan to take effect from 1 July 2007 and operate until 2012. The Plan sets out the strategic direction, business outlook, strategic and target outcomes for the organisation. The groundwork for much of the future has taken place over the past year.

To position the organisation to be responsive to emerging challenges significant reform in the shape of a business remake has been undertaken. The focus has been to better tailor air traffic control and other service delivery to the differing needs of the various industry sectors. A great deal of effort has been put into meeting with, consulting and informing industry. I am pleased to report that the reorganisation into a Service Delivery Environment is underway and that significant progress has been achieved.

Work done during the year resulted in the successful transfer, on 1 July 2007, of airspace classification and designation functions from Airservices to the Civil Aviation Safety Authority (CASA). This has removed the last vestige of airspace regulation from the organisation, allowing us to give a dedicated focus to our core business of air traffic management.

The Board of Airservices sees Automatic Dependent Surveillance-Broadcast (ADS-B) as a potential future civilian air traffic surveillance and separation tool. ADS-B has the potential to greatly enhance our air traffic system capability and provide more comprehensive services to pilots.

Airservices Australia has progressed with the program for implementing ADS-B in Australian upper airspace. Five new ADS-B ground stations were commissioned during July and August, bringing the total number in operation to 10. Under the Upper Airspace Program, 28 ground stations are planned at strategic locations to provide almost nationwide air traffic control surveillance capability above 30 000 feet.

Twelve months ago, the airline industry was quietly working toward cutting down its emissions. In 2006–07 the International Air Transport Association and the United Nations encouraged the aviation industry to take a more prominent role in reduction of greenhouse gasses. While air navigation service providers have a very limited carbon foot print they can play a significant role in reducing the emissions made by their customers. Airservices has been at the forefront of such initiatives and will continue to lead in the implementation of practices and procedures to reduce fuel burn and, consequently, carbon emissions.

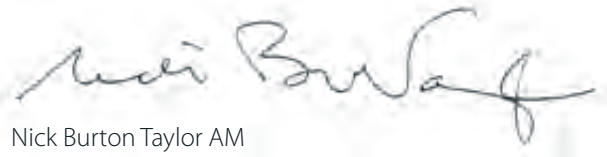
The Board has maintained a regional agenda with continued attention to the development of our neighbourhood strategy. Key partners are Indonesia and Papua New Guinea. Collaboratively, we have established a Regional Safety Roadmap Working Group. The working group is just one part of the systematic engagement with our neighbours to standardise safety management within the subregion. Airservices commitment to these partnerships stems from the desire to harmonise safety and operational regimes so as to achieve a seamless airspace between ourselves and our neighbours.

Airservices continues to build on its business development activities in the Persian Gulf, India and China with the planned establishment of regional representation in these key areas. During the year Airservices won a contract in Mumbai at Chhatrapati Shivaji International Airport to assist in the development of an internationally recognised aviation rescue and fire fighting capability.

Philippa Stone resigned as a Director of Airservices on 29 June 2007 to take up an appointment with the International Air Services Commission. Ms Stone had been a Director of Airservices since early 2005 and made a very strong contribution to the Board. I thank her for her commitment to the aviation industry and Airservices.

We will advance with all our strategic directions in the coming year. We anticipate improving delivery of our domestic services whilst also strengthening our relationships in the neighbourhood.

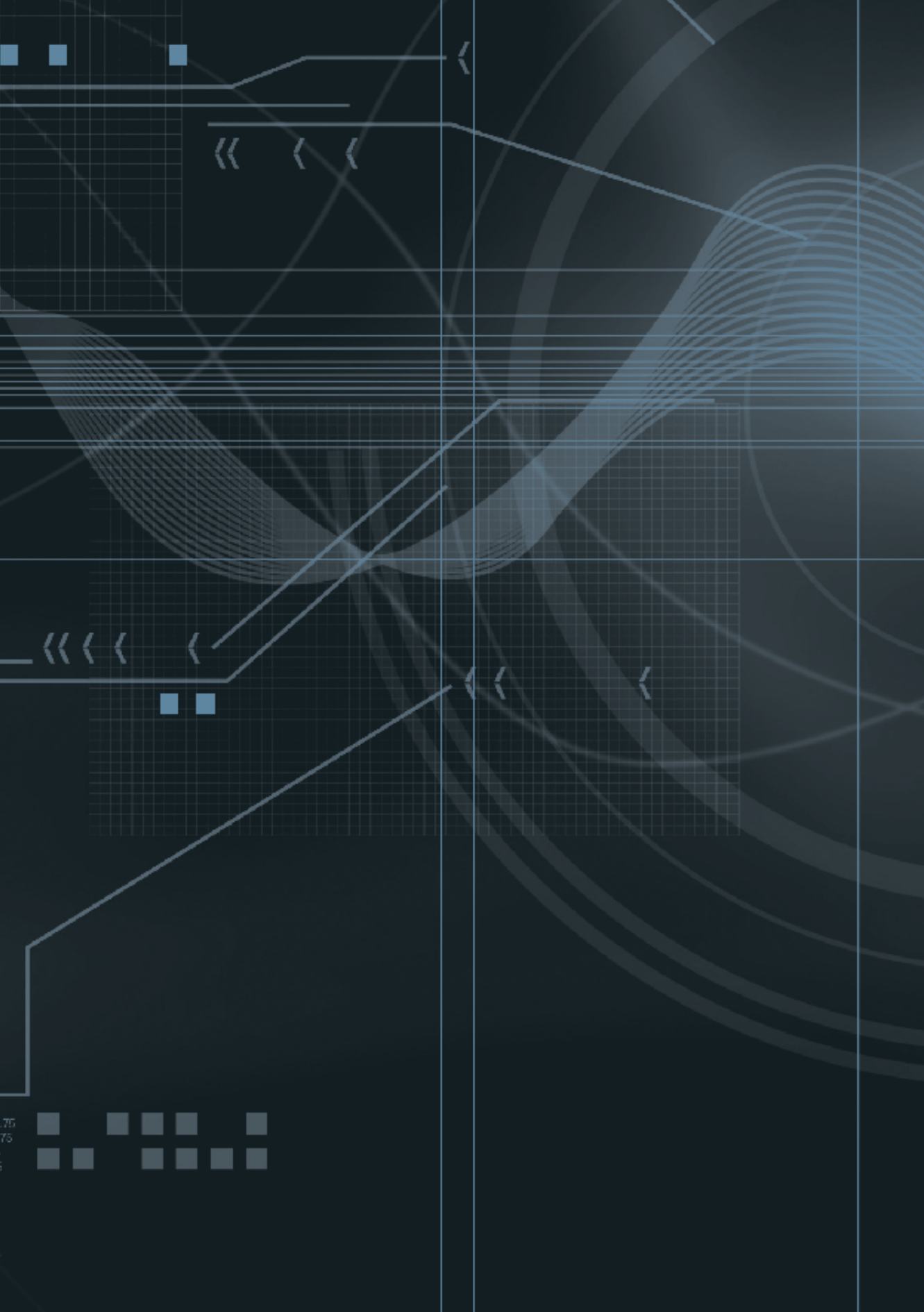
In doing so, we intend to maximise the potential of emerging and existing technologies to improve our services and to address community concerns about carbon emissions to the greatest extent that we are able.

A handwritten signature in black ink, appearing to read 'Nick Burton Taylor', with a stylized flourish at the end.

Nick Burton Taylor AM

Chairman

30 June 2007



CHIEF EXECUTIVE OFFICER'S REPORT

In November 2006, the Board adopted a new vision for Airservices Australia —to be a focussed provider of air navigation and aviation services, with our competitive edge built on safety and the application of leading edge technology.



I am pleased to report that we are well on the way. The organisation is now being operated as a business.

The year 2006–07 was one of both consolidation and further organisational change. The benefits of the restructure in 2005–06 are becoming evident across the organisation. In air traffic control—our core business—we have begun the move to a service delivery environment, rather than one based on geographic delineation. This transition is an important first step towards building the Airservices Australia of the future.

Safety

Safety is, and always will be, Airservices' number one priority and an ongoing focus of the Board, Executive team and staff. An important step towards improved safety occurred during the year with the implementation of a common risk management framework with the other major organisations involved in airspace management—the Civil Aviation Safety Authority (CASA), the Department of Transport and Regional Services and Defence.

Airservices updated its 'Just Culture' program to standardise managerial decision making, built a new operational database to improve the understanding of potential risks at major regional airports throughout Australia and implemented the second Normal Operations Safety Survey

to identify potential risk while continuing to work with general aviation to minimise runway incursions and controlled airspace incursions.

During 2006–07, Airservices expanded its work with neighbouring nations with a view to developing improved and harmonised safety across the region. We hosted the inaugural Asia–Pacific Air Navigation Service Provider (ANSP) Conference from 16 to 18 August 2006 to progress the Regional Safety Roadmap agreed to by the International Civil Aviation Organization. ANSPs, airlines and regulators from 12 countries in the Asia–Pacific region attended the conference and agreed to a work plan that included regional cooperation on seamless airspace trials and on safety benchmarking.

Airservices has engaged an external safety consultant—former United Kingdom NATS Chief Executive Officer and Chairman Bill Semple—whose task is to question everything we do. Mr Semple's contributions over the past year have been significant.

Environmental leadership

The organisation continues to devote major effort to the task of minimising carbon emissions by the aviation industry. We implemented a number of operational reforms, which will be improved in 2007–08. These initiatives are detailed in the body of this report.

Operational and technological efficiency

The development of the Ground-based Augmentation System (GBAS) continued during the year and, in late November 2006, Airservices equipment was employed for the world's first GBAS landing involving fee-paying passengers. GBAS will eventually replace instrument landing systems around the world.

The update of technology systems was an ongoing feature of Airservices operations during the year. Advanced surface movement guidance and control systems are expected to be operational at Brisbane, Melbourne and Sydney airports by 2008. These systems will replace existing surface surveillance radar, providing air traffic controllers with a comprehensive view of the airports for greater operational efficiency and safety in all weather conditions.

Planning and approval for other key projects during the year included stage one of the National Towers project for the replacement of control towers at Melbourne, Adelaide, Canberra and Rockhampton airports over the next three years, the Telecommunications Infrastructure Network Replacement (TINR) project to provide high-speed, broadband digital communications by 2008

and Wide Area Multilateration (WAM) - a new terminal area surveillance system for airspace servicing Sydney, Launceston and Hobart airports.

Australia's newest aviation rescue and fire fighting (ARFF) station at Hamilton Island was officially opened by the Parliamentary Secretary to the Deputy Prime Minister and Minister for Transport and Regional Services, Mrs De-Anne Kelly, in March 2007. The station will provide a first response to emergencies at the airport, ensuring the safety of the hundreds of thousands of tourists visiting the island each year.

Commercial activity

A major continuing initiative is the development of the commercial activities of the organisation. These are focussed both on geographic regions (Gulf, India and China) and on our core expertise. Additionally the organisation has been involved in a neighbourhood strategy referred to by the Chairman in his report. To support the commercial strategy, Airservices has opened offices in Dubai, New Delhi and more recently in Singapore.

In 2007, Airservices signed an agreement with Mumbai International Airport Ltd to provide ARFF consultancy services at India's busiest airport, the Chhatrapati Shivaji International Airport.

The commercial aspects of the organisation's operations are expected to show further improvement during the coming year.

Finance

Airservices recorded a strong result for the year, with net profit after tax of \$106.8 million, an increase of \$13.2 million on 2005-06. This result equates to a return on average equity after tax of 30.4 per cent compared to a target of 25.3 per cent in Airservices' Corporate Plan.

The profit for the year reflected continued airways growth, mainly in domestic operations, the impact of asset revaluations and increased costs being limited to once-off increases following the success of cost management initiatives during the year.

As part of the long-term pricing agreement approved by the Australian Competition and Consumer Commission and in line with a risk-sharing arrangement, some \$14.9 million was returned to customers during the year.

Airspace regulation

A milestone in the past year was the transfer of regulatory functions from the Airspace and Environment Regulatory Unit to the Office of Airspace Regulation in CASA, marking the end of Airservices involvement in regulation. I would like to record my special thanks to the many Airservices and CASA staff who ensured a smooth transition of this important function.

Our people

Airservices employs about 3 000 people. It is due to their dedication and hard work that we are able to maintain an impressive safety record, while delivering improved efficiencies to the Australian and international aviation industry. During any period of change the morale of staff needs to be closely monitored and during the annual employee survey conducted in May, I am pleased to report a high degree of response and an improvement in the levels of staff engagement.

My thanks to all our staff for what has been another year of substantial progress.

A handwritten signature in black ink that reads "Greg Russell". The signature is written in a cursive style with a horizontal line underneath the name.

Greg Russell
Chief Executive Officer
30 June 2007

CORPORATE OVERVIEW

Enabling legislation, objectives and functions

Airservices Australia operates under the *Air Services Act 1995* and is also subject to the *Commonwealth Authorities and Companies Act 1997* (the CAC Act).

Amendments to the Air Services Act in March 2007 authorised the corporation to participate in a wider range of external and international business opportunities.

Under the Act, Airservices provides the following services and facilities:

- for the purpose of Australia or another country giving effect to the Chicago Convention or to another international agreement relating to the safety, regularity or efficiency of air navigation or
- otherwise for purposes relating to the safety, regularity or efficiency of air navigation, whether in or outside Australia
- promoting and fostering civil aviation
- co operating with the Executive Director of Transport Safety Investigation in relation to investigations under the *Transport Safety Investigation Act 2003* that relate to aircraft
- carrying out activities to protect the environment from the effects of, and the effects associated with, the operation of:
 - Commonwealth jurisdiction aircraft, whether in or outside Australia or
 - other aircraft outside Australia
- any functions prescribed by regulations in relation to the effects of, and with, the operation of Commonwealth jurisdiction aircraft, whether in or outside Australia or other aircraft outside Australia
- any functions conferred on Airservices under the *Air Navigation Act 1920* or the *Aviation Transport Security Act 2004* or by regulation
- consultancy and management services relating to any of the above matters.
- services and facilities, whether or not related to aviation, for a purpose other than one that is mentioned or implied in any of the above. If doing so:
 - is within the executive or legislative powers of the Commonwealth

- utilises Airservices spare capacity
- maintains or improves the technical skills of Airservices employees and
- does not impede Airservices capacity to perform its other functions

Airservices is responsible for the provision of air traffic services, an aeronautical information, radio navigation and telecommunications service and aviation rescue and fire fighting services.

The Air Services Regulations 1995 gave Airservices Australia various functions, including:

- designating air routes and airways
- making directions for air routes, airways and facilities
- making determinations in respect of aerodromes and airspace
- publishing particulars of air traffic services
- declaring prohibited, restricted or danger areas
- publishing declarations
- designating flying training areas

In the day-to-day performance of Airservices' functions, it is subject to and empowered by a range of other legislation. A full list is available on our website at <http://www.airservicesaustralia.com>

Annual reporting requirements and responsible minister

Airservices Australia is accountable to the Australian Parliament and to the Government through the Minister for Transport and Regional Services, the Hon Mark Vaile MP.

Under the Air Services Act and section 9 of the CAC Act, the corporation must provide an annual report for tabling in Parliament.

The report has been prepared in accordance with the Air Services Act, the CAC Act and the Finance Minister’s Orders.

Airservices Australia’s vision and values	
Our vision:	To be a focussed provider of air navigation and aviation services, with our competitive edge built on safety and the application of leading-edge technology.
Our values:	<div>We recognise the need for:<ul style="list-style-type: none">• Keeping safety first• A collective, consistent sense of organisational identity• Strong, credible and accountable leadership• Our management and staff to be outward looking, both present and future oriented, and to embrace challenges proactively• A spirit of unity, teamwork and trust.</div>

In 2007, Airservices released its Corporate Plan for the period from 1 July 2007 to 30 June 2012. The plan continues the broad strategic direction set out in the previous plan. However, there has been some refinement of the business strategies and supporting key actions and programs. Significant changes from the previous plan include:

- a new Airservices Vision Statement focussing on the safety and technology drivers of the business
- changed planning assumptions for transfer of regulatory functions and activity growth rates, and additional assumptions related to the Minister’s Statement of Expectations

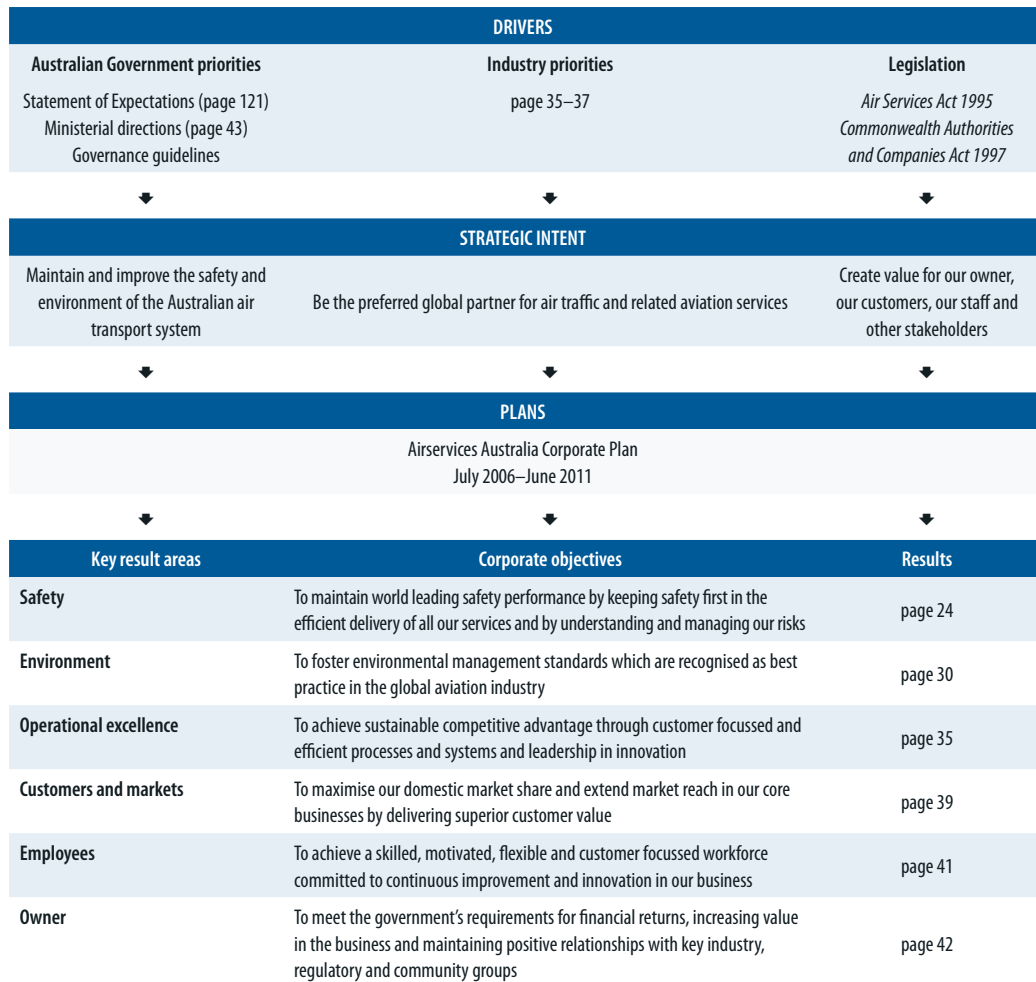
- additional programs, such as neighbourhood support and air traffic control reform.
- focussing business growth on the expansion of our core service lines and the development and commercialisation of global navigation satellite solutions products and Automatic Dependent Surveillance–Broadcast managed services in domestic and international markets.

Airservices Australia's strategic intent, articulated in the corporation's 2006–2011 Corporate Plan, is to:

- maintain and improve the safety and environment of the Australian air transport system
- be the preferred global partner for air traffic and related aviation services
- create value for our owner, our customers, our staff and other stakeholders.

Figure 1 shows the links between Airservices Australia's corporate objectives and strategies and the results against key performance indicators detailed in the Report of Operations.

FIGURE 1 PERFORMANCE FRAMEWORK



Principal activities

FIGURE 2 THE AUSTRALIAN FLIGHT INFORMATION REGION



Airservices Australia is a body corporate wholly owned by the Australian Government.

Airservices is responsible for providing safe and environmentally sound air traffic management and related services to the aviation industry in the Australian Flight Information Region (FIR) and, under contract with the Governments of Solomon Islands and of Nauru, in the upper airspace of the Honiara and Nauru FIRs.

We provide communication, navigation and surveillance and air navigation services over 11 per cent of the world's surface. This includes the Australian FIR (see Figure 2) and international airspace over the Pacific and Indian oceans.

Airservices Australia delivers:

- en route and terminal air traffic services
- aeronautical data services, such as charts and departure and approach procedures
- tower services at 26 airports

- aviation rescue and fire fighting services at Australia's 19 busiest international and domestic regular public transport airports
- environmental services
- management of the Australian national air navigation infrastructure
- international and domestic aviation consultancy

Airservices manages more than four million aircraft movements each year, and maintains a \$512 million fixed asset base at more than 600 sites around Australia.

Our customers include airlines, the general aviation industry including sport and recreational flyers, the Australian military and airport owners.

Airservices Australia is a world leader in the technological development of advanced communication, navigation and surveillance systems. We work with the International Civil Aviation Organization to share information and advances in aviation technology and to maintain global aviation safety standards.

In Australia, we work closely with other government organisations concerned with aviation safety, regulation and search and rescue, such as the Department of Transport and Regional Services, the Civil Aviation Safety Authority, the Australian Transport Safety Bureau and the Australian Maritime Safety Authority.

Further information about Airservices Australia can be found on our website:
<http://www.airservicesaustralia.com>

Corporate structure

In 2006–07, Airservices Australia operated through the following business groups:

- Air Traffic Control
- Air Traffic Control Reform
- Airspace and Environment Regulatory Unit
- Audit and Assurance
- Aviation Rescue and Fire Fighting

- Business Development
- Business Services
- Corporate Affairs
- Corporate Finance
- Future Direction
- People and Change
- Safety Management
- Technology and Asset Services

The managers of the business groups form the Executive Committee, which advises the CEO on operational matters and is responsible for formulating strategies and policies for Board consideration.

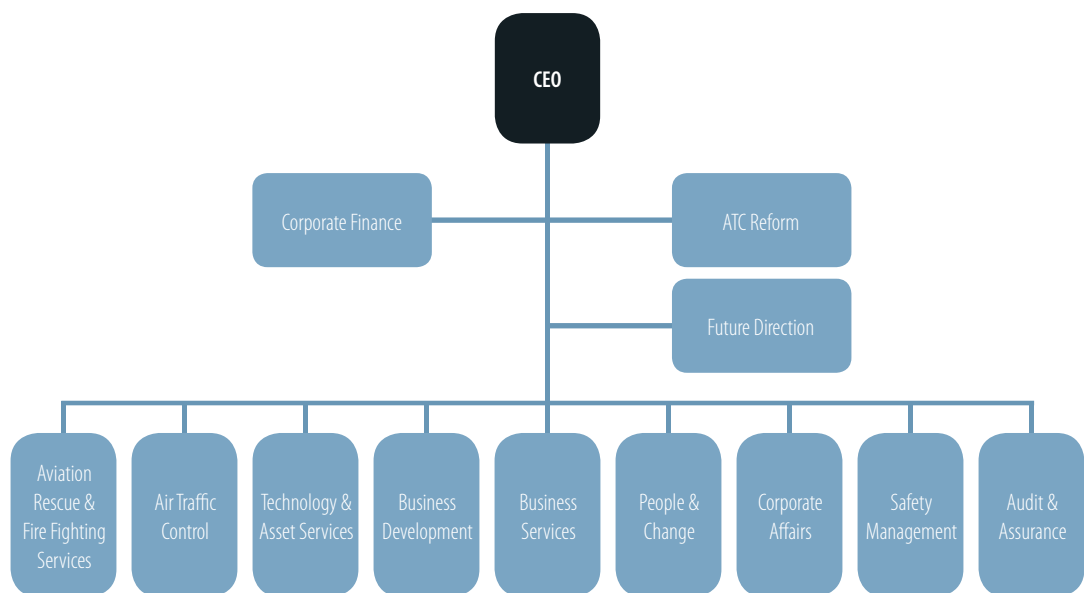
The members of the Executive Committee are shown in Table 1.

TABLE 1 MEMBERS OF THE EXECUTIVE COMMITTEE, 30 JUNE 2007

Mr Greg Russell	Chief Executive Officer
Mr Ken McLean	General Manager Air Traffic Control
Mr Stephen Angus	General Manager Air Traffic Control Reform
Ms Michelle Bennetts	General Manager Audit and Assurance
Mr Alan Barber	General Manager Aviation Rescue and Fire Fighting
Mr Wayne Emery	General Manager Business Development
Mr Neal O'Callaghan	General Manager Business Services
Mr Richard Dudley	General Manager Corporate Affairs
Mr Andrew Clark	General Manager Corporate Finance
Mr Brian Prendergast	General Manager Future Direction
Ms Caroline Fleming	General Manager People and Change
Mr Jason Harfield	General Manager Safety Management
Mr Alastair Hodgson	General Manager Technology and Asset Services

At 30 June 2007, Airservices Australia employed 2 996 permanent staff across Australia. Our workforce included specialists in air traffic control, aviation rescue and fire fighting, engineering, technical services, information technology, human resource management, communications, legal services, security, safety, environment, financial management and administration. Appendix 4 includes staffing statistics.

FIGURE 3 AIRSERVICES AUSTRALIA BUSINESS STRUCTURE AT 30 JUNE 2007



Airservices Pacific Incorporated

Airservices Pacific Incorporated, a fully owned subsidiary of Airservices Australia incorporated in Delaware in the United States, is responsible for providing air traffic control services under contract to the United States Federal Aviation Administration. The services are delivered from five control towers: three towers on the islands of Hawaii, one on Guam and one on Saipan.

Airservices Pacific's corporate governance is managed by a board comprising:

- Mr Greg Russell (Chair)
- Mr Tim Abberton (CEO)
- Mr Roger Ray (formerly of the Federal Aviation Administration and based in the United States)
- Mr Ken McLean
- Mr Alan Barber (until 31 March 2007)
- Mr Andrew Clark (from 1 April 2007).

In addition, the Board is supported by a Chief Finance Officer and company secretariat positions.

Corporate governance

Airservices Australia is governed by a Board appointed by the Minister for Transport and Regional Services. The Board is committed to best practice in corporate governance and regularly reviews its corporate governance arrangements.

The Board

The Air Services Board consists of a Chairperson, a Deputy Chairperson, the Chief Executive Officer and six other members (non-executive directors).

Other than the CEO, who is appointed by the Board, all members are appointed by the Minister on a part-time basis.

The Board sets Airservices Australia's objectives, strategies and policies, and ensures that the corporation performs its functions properly, effectively and safely. The Board delegates responsibility for the management of the corporation to the CEO.

Each year, the Board conducts a formal evaluation of its own performance and the performance of its committees.

Further information on Board membership is in Appendix 1.

Board committees

Meeting and membership information for each Board committee is shown in Appendix 1.

The *Audit Committee* assists the Board in ensuring that an effective system of risk management and internal control is maintained, assures the objectivity and reliability of financial reports and helps ensure that Airservices Australia and its Board members comply with all legislative and other Government obligations (including obligations under the CAC Act). Membership consists of non-executive directors. The Board Chair is an ex officio member of the committee. Any member of the Board is entitled to attend the committee's meetings.

The *Safety and Environment (Operations) Committee* ensures that Airservices is compliant with all legislation and government and Board policies and is meeting its safety responsibilities, environmental responsibilities (other than regulatory functions carried out through the Airspace and Environment Regulatory Unit) and its occupational health and safety responsibilities. Its membership consists of up to five non-executive directors and the Board Chair and CEO, who are ex officio members. Any member of the Board is entitled to attend the committee's meetings.

The *Safety and Environment (Regulatory) Committee* ensures that changes to Australian-administered airspace and the provision of environmental regulatory services are consistent with law and with Airservices' regulatory responsibilities. Membership consists of up to five non-executive directors and the Board Chair and CEO, who are ex officio members. Any member of the Board is entitled to attend the committee's meetings.

The *Remuneration Committee* recommends remuneration for the CEO after consultation with the Remuneration Tribunal and reviews the CEO's performance. The committee also reviews the principles applied by the CEO in determining remuneration packages, performance reviews for the CEO's direct reports and CEO succession. Membership consists of the Board Chair as committee chair, at least one other non-executive Board member and the CEO.

The *Security Committee* monitors the corporation's development, implementation and auditing of security strategies, policies and procedures. Membership consists of the Board Chair as committee chair, two non-executive directors and the CEO. The Board Chair and CEO are ex officio members of the committee.

The *New Business Committee* considers new business proposals and reviews the commercial integrity of proposals requiring urgent approval out of session. Where appropriate, the New Business Committee approves the execution by the CEO of contracts in excess of the CEO's normal financial delegation. Membership comprises the Board Chair as committee chair and the CEO.

Ethical standards

Airservices Australia uses Board-endorsed policy, Chief Executive management instructions and other People and Change policies and procedures to inform staff about ethical standards.

As a condition of their employment, all staff must comply with a code of conduct while at work and as corporate representatives. The code, which includes guiding principles for handling conflicts of interest, is available from our website.

Risk management

Airservices Australia is committed to best practice risk management and sees it as integral to excellence in corporate governance.

The organisation's risk management policy is supported by a Board-endorsed Enterprise Risk Management Framework that sets out the requirements for risk management throughout the organisation.

Managers are accountable for identifying and managing risks within their areas of responsibility. They must ensure that they are kept informed of how those risks are being managed and report to the CEO.

The CEO reports regularly to the Board on significant risks to the organisation's objectives and their management. The General Manager Business Services reports to each Board Audit Committee meeting on initiatives to maintain and improve the organisation's risk management system. As defined by their charters, the Board committees assist the Board to oversight the management of specific risk areas.

Corporate planning

Airservices Australia produces an annual corporate plan in accordance with the Airservices Act and the CAC Act. The plan analyses our operating environment, outlines our corporate and financial strategies, specifies the targets we want to achieve and sets out the benchmarks and key performance indicators we use to measure our performance (see Figure 1).

Our current corporate plan is available at our website:

<http://www.airservicesaustralia.com/aboutus/corpddocuments/corporateplan.pdf>

Standards of Service Charter

Airservices Australia's Standards of Service Charter establishes the standards of service that customers can expect from us and the options available to them if they believe those standards are not being met.

The charter is available from our offices and from our website:

<http://www.airservicesaustralia.com/aboutus/corpddocuments/charter.pdf>

Adverse effect of non-commercial commitments

As reported in Note 5c of the financial statements, included in operating expenses are direct costs of community service activities, totalling \$3.8 million. The community service activities funded by Airservices Australia last year included environmental services (a noise and flight path monitoring system) and the operation of aircraft noise inquiry lines.

REVIEW OF OPERATIONS

Operational results

Key result area: Safety

To maintain world-leading safety performance by keeping safety first in the efficient delivery of all our services and by understanding and managing our risks.

To provide a more effective safety system, in 2006–07 Airservices Australia started work on integrating the organisation's operational and occupational safety management systems. This integration signals our intention to approach personal safety and operational safety in a similar manner and will lead to a simplification of our management systems.

A new safety policy was signed in 2006–07. The policy focusses on:

- enhancing the skills of our people
- providing equipment that supports performance
- developing processes that facilitate our ability to identify and control risk

This work will continue through the 2007–08 financial year.

An internally developed software system for lodging operational risks and reporting the monitoring of results was replaced by software that allows the use of the 'BowTie' methodology. The methodology helps clean analysis of risk mitigation controls that are preventative as well as mitigators which can be deployed after an adverse event to mitigate the consequences. It enables the development of clear relationship diagrams between risk, mitigation and control that can be readily understood by staff throughout the organisation and by our key stakeholders.

Airservices Australia has worked with the Civil Aviation Safety Authority, the Department of Transport and Regional Services and the Department of Defence to develop a common risk management framework. The framework provides consistent risk principles, criteria, agreed processes and data sources on which risk management activities are to be based. The framework enables the agencies to increase the integrity of their risk management processes and deliver consistency and transparency in decision making.

Airservices Australia conducted its second validation of the Normal Operations Safety Survey technique, which uses over-the-shoulder observations to collect data on normal operations.

The observers identify:

- threats, such as similar call signs and system malfunctions
- errors, such as missed or incorrect read-backs, call-sign confusion and inadequate coordination
- undesirable states (situations with reduced safety margins) within the normal air traffic service operating environment

We analysed the collected data from en route, terminal area and, for the first time, tower operations and used it to develop appropriate strategies to improve overall system safety.

We also assessed ab initio air traffic control (ATC) training strategies to determine opportunities for improvement.

Airservices Australia worked with Indonesia's Directorate General of Civil Aviation to develop an approach to a subregional safety program across air navigation service providers (ANSPs). The goal was to achieve a common approach to safety management in the the Indonesian, Timor, Papua New Guinea and Australian regions. We delivered a successful two-day integrated safety management system course to senior managers from the Directorate-General and the two Indonesian ANSPs (AP1 and AP2) in Singapore in late 2006. We also facilitated a Regional Safety Roadmap Working Group workshop in Bali and a follow-up sub-group workshop involving Papua New Guinea, Indonesia, East Timor and Australia in Jakarta in June 2007.

Safety accountabilities are a standard component of role statements for staff. During the year, 165 newly implemented role statements were approved or were in the process of being approved. All included clearly outlined safety accountabilities.

The corporation updated the 'Just Culture' program, which provides a standardised classification mechanism for behaviours involved in events leading to an undesirable safety outcome and a policy statement was issued by the executive. Just Culture aims to ensure common understanding within the organisation of the line between acceptable and unacceptable behaviour. The policy standardises managerial decision making, providing fair and equitable means of dealing with those who have been involved in a negative safety event. Managers across the organisation were required to brief their staff on the implications of the policy.

Workshops were held with non-operational business groups to develop a greater understanding of their indirect role in the organisation's safety performance. Action plans were developed at individual and group levels to strengthen understanding of safety management processes and values.

New safety promotion folders, entitled 'Safety Matters', were distributed to all staff in operational and technical areas. The folders give staff easier access to a wide range of safety information, including:

- lessons learned from incident investigations
- news and information about relevant safety issues
- outcomes of safety audits
- developments from across the world on relevant safety issues
- safety statistics, including information on the safety outcome key performance indicators and safety profile activity
- occupational health and safety alerts and lessons learnt

The folders were complemented by promotional posters and monthly feedback on safety performance.

All managers have completed refresher training through the online safety and environment training package. Airservices Australia staff also ran safety management courses in Taiwan, Hong Kong, Malaysia and Saudi Arabia.

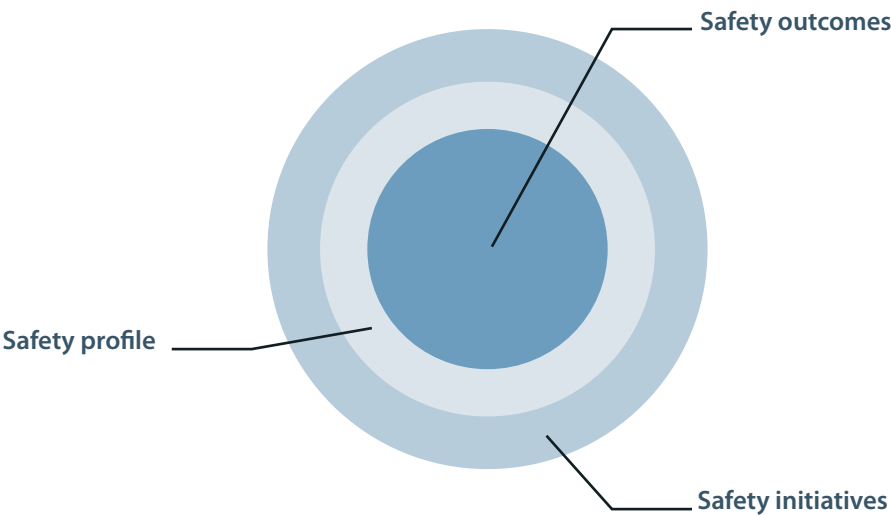
Key performance indicators: Safety

Airservices Australia has a very comprehensive approach to safety management and measurement. Our safety key performance indicators (KPIs) are structured into three groups: outcomes, profile and initiatives. Headline metrics relate to safety outcomes with measures being captured for the three major services that we provide: air traffic control, aviation rescue and fire fighting and technology and asset services.

Our safety KPIs are supported by performance measures that aim to place the 'headline' into context by measuring safety profile factors, such as compliance with safety regulations, safety culture metrics and service restoration times. The underlying rationale is that concentrating solely on negative safety outcomes does not provide a suitable context for improving performance.

We also measure the number of safety initiatives implemented, although no target is assigned. Such measures indicate how much effort has been exerted to improve the safety profile and positively influence safety outcomes.

FIGURE 4 STRUCTURE OF AIRSERVICES AUSTRALIA'S SAFETY KPIs



The scheme for ATC incident categorisation is based on a four-level safety severity incident (SSI) index, as shown in Table 2

TABLE 2 SAFETY SEVERITY INCIDENT CLASSIFICATION

Level of control resolved by (barrier)	Definition	Incident classification
Providence	Errors that either were not captured at all or were identified by airborne system defences, such as ground proximity warning systems or traffic collision advisory systems.	SSI 1
Pilot/other industry participants	ATC errors that were detected by pilots or other industry participants.	SSI 2
Air Traffic Services, but not effectively	ATC errors that were identified and rectified by ATC but not in an effective or efficient manner.	SSI 3
Air Traffic Services	Errors that were both identified and rectified in an appropriate manner by the ATS system.	SSI 4

The targets for 2006–07 and out years are based on performance in 2004–05 for SSI 1 and a combined category of SSI 2 and SSI 3. The Board has deliberately set targets which are very demanding, recognising that increasing traffic flow and consequent risk complexity would make it difficult to achieve them. Nonetheless, they remain the targets to strive for.

During 2006–07, Airservices Australia:

- did not meet the zero target for SSI 1 occurrences
- exceeded the target in general aviation aerodrome procedures towers (Figure 5)
- did not meet the target in the radar tower and en route segments (Figures 5 and 6)
- missed the target by a very marginal degree in the regional towers and terminal manoeuvring area segments (Figure 7)
- met the requirement for no critical infrastructure failures
- exceeded requirements for containing both aircraft and structural fires to the area of origin

Four SSI 1 incidents were reported, the same number as in 2004–05 and 2005–06. As noted above, we did not expect this performance standard to be achieved. However, the zero target provides an impetus for improvement. A high-level safety strategy has been endorsed to provide a framework within which the organisation can work to eliminate such high-risk occurrences.

The minor underperformance in the radar tower and en route segments has been investigated, but no pattern or systemic problem is evident from the range of incidents. However, we have identified a need for less reliance on procedural barriers to error and for more effective error recovery. A remedial program and a new design philosophy are now being used in operations.

FIGURE 5 TOWER SEGMENTS: TARGETS AND PERFORMANCE FOR SSI 2 AND SSI 3 INCIDENTS

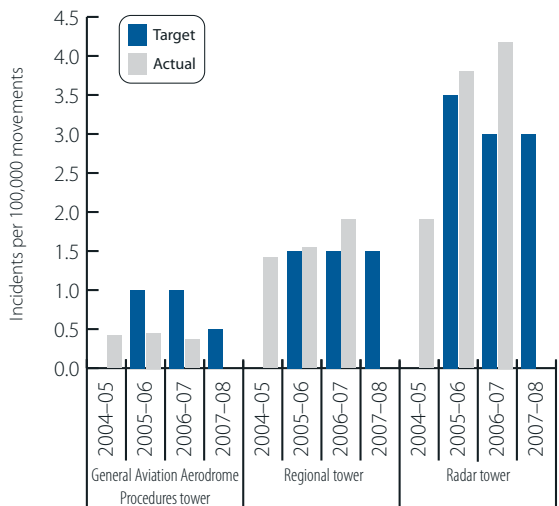


FIGURE 6 EN ROUTE SEGMENTS: TARGETS AND PERFORMANCE FOR SSI 2 AND SSI 3 INCIDENTS

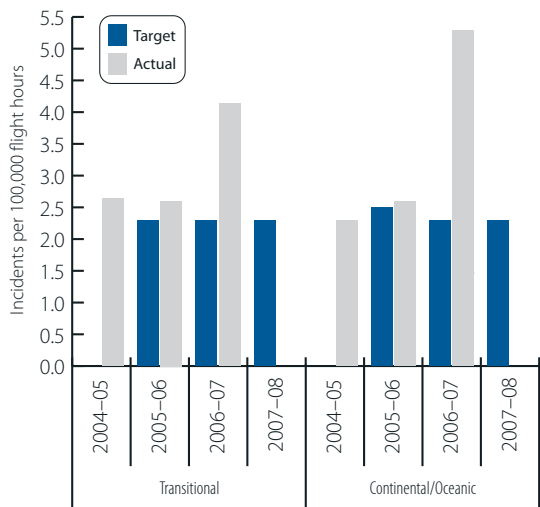
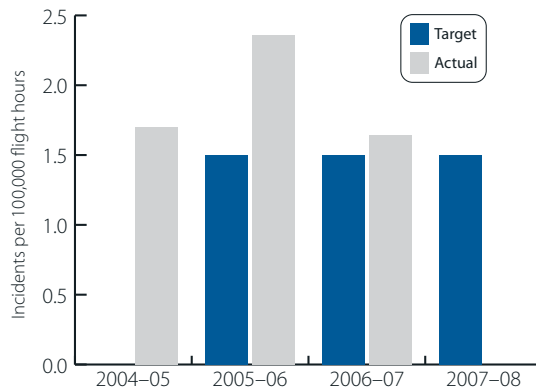


FIGURE 7 TERMINAL MANOEUVRING AREA SEGMENT: TARGETS AND PERFORMANCE FOR SSI 2 AND SSI 3 INCIDENTS



The organisation met, and in some cases exceeded, targets associated with safety profile measures. These measures included:

- Safety Culture Index: an employee-based opinion survey
- no late for completion requests for corrective action issued by our safety regulator
- percentage of occasions on which agreed times for service restoration were met
- target level of safety for reduced vertical separation minima operations
- ARFF incident response and completion times for aircraft and non-aircraft occurrences
- ARFF effectiveness measured by the time each station was available at the required category of readiness

Key result area: Environment

To foster best practice environmental performance through sustainable business practices

In 2006–07, Airservices Australia undertook a range of operational initiatives and arrangements to reduce the level of aviation-related greenhouse gas emissions, including the following:

- *Pre-departure tactical management.* This initiative manages the timing of flight departures better by taking into account all factors affecting the air traffic network.

- *Long-range Optimal Flow Tool.* This air traffic management tool is used to predict landing times, delays and optimal arrival times for aircraft arriving in Sydney, the national aviation hub. Air traffic controllers pass information to pilots as they cross into Australian airspace, some three to four hours away from Sydney, and pilots then adjust their cruise speed to reduce delays in Sydney. This reduces fuel burn and emissions, as aircraft burn less fuel at high altitudes than at low altitudes.
- *Continuous descent approaches.* This trial program, in conjunction with Boeing, allows aircraft to fly a continuous and uninterrupted descent, at idle power, from cruise altitude to the runway. These approaches reduce the amount of fuel burn and emissions, with early results showing a saving of more than 1 000 kilograms of CO₂ per flight.
- *Required navigation performance (RNP) procedures.* Airservices introduced new approach procedures to take advantage of the high-precision navigation systems now being fitted to aircraft. RNP procedures use satellite navigation and sophisticated cockpit systems to avoid terrain and weather constraints, increase fuel efficiency and considerably reduce greenhouse gas emissions. During trials in Brisbane in early 2007, each flight saved an average of 280 kilograms of fuel and about 900 kilograms of CO₂. RNP approaches and departures were introduced for suitably equipped aircraft at Alice Springs, Cairns, Coolangatta, Brisbane, Hobart, Townsville, Canberra and Ayers Rock.
- *Flextracks.* Flextracks ('flexible tracks') are daily 'non-fixed' air traffic routes optimised for the prevailing weather. They allow aircraft to 'ride' the winds rather than fly a fixed route. Airservices Australia's flextracks were used widely throughout the year between Australia and airports in Asia and the Middle East. For example, one flight between the Middle East and Sydney reduced flying time by more than 43 minutes and fuel burn by more than 8.4 tonnes.
- *High-fidelity simulation of aviation emissions.* Airservices Australia began work with the University of New South Wales to develop ATOMS (Air Traffic Operations Management Simulator), a high-fidelity computer simulation to model the environmental impact of aviation. The simulation will model current impacts and quantify improvements from advanced air traffic management techniques. Quantitative analysis will be crucial to Airservices' work with industry and government to improve the environmental performance of Australian aviation.

In conjunction with the Civil Aviation Safety Authority (CASA), Qantas and Sydney Airport Corporation Ltd, we introduced a satellite-based precision approach system into Sydney International Airport for trial purposes. Qantas, which used Boeing B737–800s to land, demonstrated significant fuel savings.

Airservices Australia provides monthly reports to the Department of Transport and Regional Services (DOTARS) on curfew operations and compliance with the *Sydney Airport Curfew Act 1995* and associated regulations. After discussions with DOTARS in 2006, we agreed to changes from January 2007 in the way the curfew data is analysed and presented in the reports. The revised format aligns the reports more closely with regulatory provisions, making non-compliances more explicit. The changes were also applied to the reports on curfew operations at Adelaide and Coolangatta airports.

The Australian National Audit Office audited the *Sydney Airport Demand Management Act 1997* in March 2007. The audit included Airservices Australia's role in monitoring the implementation and administration of the movement limit and slot management scheme at the airport. While none of the audit recommendations specifically referred to Airservices Australia, improvements have been made to our data management and other process controls.

To manage Airservices Australia's environmental impacts and business risks, 93 proposed air traffic control changes, 15 proposed changes to ground-based operations and 39 current ground-based operations were recorded in our risk management system for environmental risk assessments.

We conducted environmental audits at sites across Australia and audits of our environmental management system (EMS) at Canberra, Coolangatta and Melbourne airports. We completed a review of contaminated sites and established a register that identified 67 sites with contamination problems, nine of which were rated 'high risk'. In line with our philosophy of continuous improvement, an environmental management procedures reference document was developed for all project managers.

Airservices Australia's corporate EMS, which is aligned to ISO 14001, was upgraded to reflect the organisation's new structure. We substantially improved the environmental legal and other requirements register.

In January 2007, Airservices Australia's EMS for ground-based operations at Gold Coast Airport was certified under ISO 14001. In May and June 2007, our EMSs at certified sites were subjected to a triennial ISO 14001 recertification audit. The recertification provides a positive incentive for seeking certification of further sites in 2007–08.

Sixteen environmental incidents and two non-conformances were reported during the year. We took appropriate preventive or corrective action for each incident. Most incidents were rated

as minor to insignificant; only a small number, involving spills of small quantities of fuel or fire fighting agent, were rated as having moderate consequences.

More than 110 Airservices staff were given environmental training and more than 650 completed the online environment module of the safety and environment training package. About 2 400 personnel completed the environment module of Airservices Australia's online legal compliance training package. Project managers undertook two-day environmental training courses in Brisbane, Canberra and Melbourne.

In line with the Australian Government's 2004 decision to remove all regulatory functions from Airservices Australia, 2006–07 was the final year of operation of the Airspace and Environment Regulatory Unit (AERU) within the corporation. On 1 July 2007, airspace regulatory functions under the Air Services Regulations Part 2 were transferred to the Office of Airspace Regulation at CASA. Some environmental functions previously undertaken by AERU will remain with Airservices, including the operation of the Noise Enquiry Unit, wake turbulence investigations, aircraft noise levy collection, aircraft noise certificates and the technical endorsement of Australian Noise Exposure Forecasts and Indexes.

In addition to preparing for the transfer of regulatory functions, AERU assessed 142 airspace change proposals for safety and environmental impact during the year, up from 79 in 2005–06. The increase was mostly due to AERU taking on board all the short-term airspace changes that were previously dealt with by our operations centres in Brisbane and Melbourne.

For further details of our work to protect the environment, see 'Environmental protection and ecologically sustainable development' in Appendix 2.

Key performance indicators: Environment

A key environmental performance indicator measures the numbers of environmental legal non-compliances and significant environmental risks not fully managed

Table 3 shows our performance over the past three financial years.

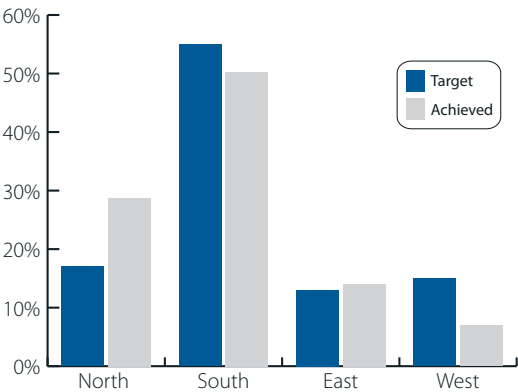
TABLE 3 MANAGEMENT OF ENVIRONMENTAL LEGAL NON-COMPLIANCE AND SIGNIFICANT ENVIRONMENTAL RISKS 2004–05 TO 2006–07

Year	Item	Actual	Target
2004–05	Environmental legal non-compliances	0.0	0.0
	Significant environmental risks not fully managed	0.0	2.0
2005–06	Environmental legal non-compliances	1.0	0.0
	Significant environmental risks not fully managed	0.0	2.0
2006–07	Environmental legal non-compliances	0.0	0.0
	Significant environmental risks not fully managed	0.0	2.0

Another key performance indicator measures performance against the Sydney Airport Long Term Operating Plan, which includes noise-sharing principles. Plan targets are shown in Figure 8, and reflect achievements as close to targets as practicable, given traffic management, weather, and forecast and prevailing wind conditions.

Performance in 2006–07, measured as percentages of actual runway end movements, was above plan targets for the north and east and below for the south and west.

FIGURE 8 SYDNEY AIRPORT LONG TERM OPERATING PLAN: RUNWAY END IMPACTS, JULY 2006 TO JUNE 2007



Key result area: Operational excellence

To achieve sustainable competitive advantage through customer focussed and efficient processes and systems and leadership in innovation

Airservices Australia commenced the redesign of Australian airspace into the service delivery environment (SDE), with the first significant changes in June 2007. The SDE project—to be implemented nationally over the next three years—seeks to enhance the safety and efficiency of air traffic management operations with flow-on benefits to industry customers, stakeholders, staff and the corporation.

The project will enhance safety and efficiency through a national rather than a geographic approach to service delivery, national system management, national resourcing and national procedures and standardisation.

Service delivery focusses on:

- *Upper airspace*: fixed and user preferred routes over continental Australia and in oceanic airspace (not airport operations)
- *Regional*: regional towers and user-defined operations involving all Class D and Class C control towers and all classes of regional airspace below flight level 28,500 feet (continental) and flight level 24,500 feet (along the east coast)
- *East coast services*: 'gate to gate' operations into major city airports, including regional and long-haul traffic

In March 2007, we implemented the first round of changes to the air traffic control (ATC) management structure to support the move to an SDE. The restructure reduced the layers of management to ensure greater accountability, better management and communication and improved staff engagement.

The International Civil Aviation Organization (ICAO) Asia Pacific Regional ADS-B Task Force made recommendations on Automatic Dependent Surveillance-Broadcast (ADS-B) data sharing and ADS-B deployment. Airservices Australia maintained leadership in ADS-B, global navigation satellite systems and required navigation performance standards development at a global level through our chairmanship of key ICAO working groups and task forces.

Airservices ordered 20 more ground stations to be placed at en route radar sites around Australia to progress the implementation of ADS-B aircraft tracking in upper airspace.

A Ground-based Augmentation System (GBAS) landing trial for appropriately equipped Qantas aircraft was introduced at Sydney International airport.

In early 2007, the trial of new information delivery mechanisms commenced for regional and general aviation towers. This screen-based technology improves the ability of controllers to access flight and weather information.

We implemented a terminal operations reporting system to ensure consistent daily reporting of aerodrome and terminal area performance for Brisbane, Melbourne, Sydney, Cairns, Adelaide and Perth. The extension of this reporting into en route environments is under consideration.

Development and production of a national airport performance report has introduced reporting of airborne delay, airport capacity and demand in real time. This reporting structure provides a continuous improvement strategy for operational terminal management.

Airservices developed and produced a Tower–Terminal Control Unit Integration Plan for Adelaide, Perth, Melbourne, Sydney, Brisbane and Cairns terminals. The plan is a roadmap for structural enhancements to operations.

In March 2007, the Parliamentary Standing Committee on Public Works held a public hearing on Airservices Australia's national towers program proposal. The committee's report was approved by Parliament in June. Stage 1 of the program involves replacing ATC towers at Adelaide, Canberra, Melbourne and Rockhampton. With a design contract to be let in late 2007, construction work is expected to be completed by 2010.

Airservices Australia chaired the Capacity and Service Improvement Forum of the Australian Strategic Air Traffic Management Group and its National Cross Industry Working Group. This group comprises of key industry stakeholders, including Airservices Australia, Qantas, Jetstar, Virgin, Regional Express, Brisbane Airport Corporation, Sydney Airport Corporation Ltd and Melbourne International Airport. The working group meets every three months to discuss and report on matters of operational significance to the aviation industry, to identify key issues that affect gate-to-gate trajectory optimisation and to work on strategies to optimise services.

A new Aviation Rescue and Fire Fighting (ARFF) station at Hamilton Island airport was officially opened in March 2007 by the Parliamentary Secretary to the Deputy Prime Minister and Minister for Transport and Regional Services, Mrs De-Anne Kelly.

The ARFF vehicle modernisation program continued with three new fire vehicles placed at airports around Australia and 20 more ordered for delivery over three years to standardise the fleet. Two new Domestic Response Vehicles were positioned in Sydney and Melbourne.

We extended our subscription to Greenfleet nationally to plant 56 trees to offset greenhouse gas emissions for each ARFF fire truck in the fleet and commenced a national digital radio replacement program at all stations for completion by mid-2008.

Coolangatta airport fire station was granted ISO 14001 certification recognising its sound environmental management systems. Work continues on certification for all ARFF locations in 2007–08.

Key performance indicators: Operational excellence

In 2006–07, Airservices used three main key performance indicators to measure operational excellence

Aviation rescue and fire fighting operational preparedness was measured by the ability to provide required levels of services, as determined by CASA regulations. The target was 100 per cent and actual was 99.78 per cent.

The effectiveness of corrective maintenance of airways system equipment was measured as a percentage of restoration times met. Airservices has met the target of 95 per cent since it was set in 2003–04.

The numbers of service failure notifications (incidents significant enough to require remedial attention) for air traffic management facilities indicate system performance in three categories: Category 1 events involve a loss of life (we have always achieved our target of zero); Category 2 events are those that could have led to a loss of life (target zero, exceeded only once); and Category 3 events have other potentially serious operational consequences. All notifications are investigated and appropriate corrective action is taken. In 2006–07, there were eight Category 3 notifications.

FIGURE 9 AVIATION RESCUE AND FIRE FIGHTING OPERATIONAL PREPAREDNESS, PER CENT

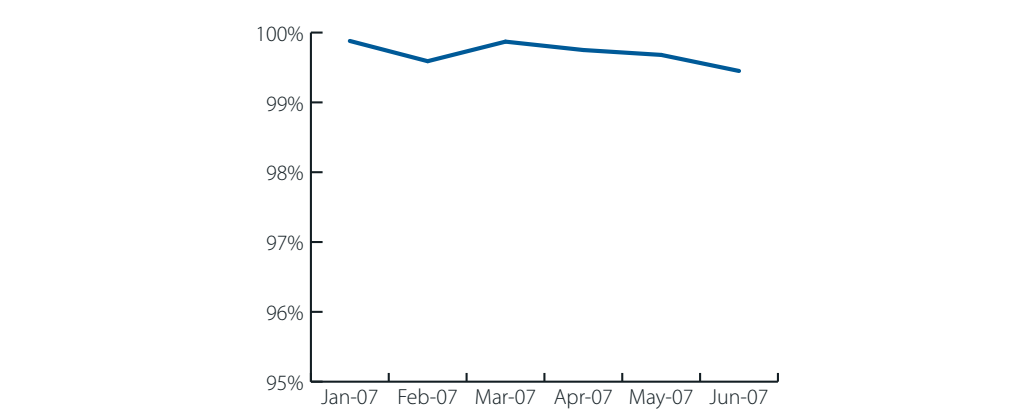


FIGURE 10 CORRECTIVE MAINTENANCE:RESTORATION TIMES MET, PER CENT

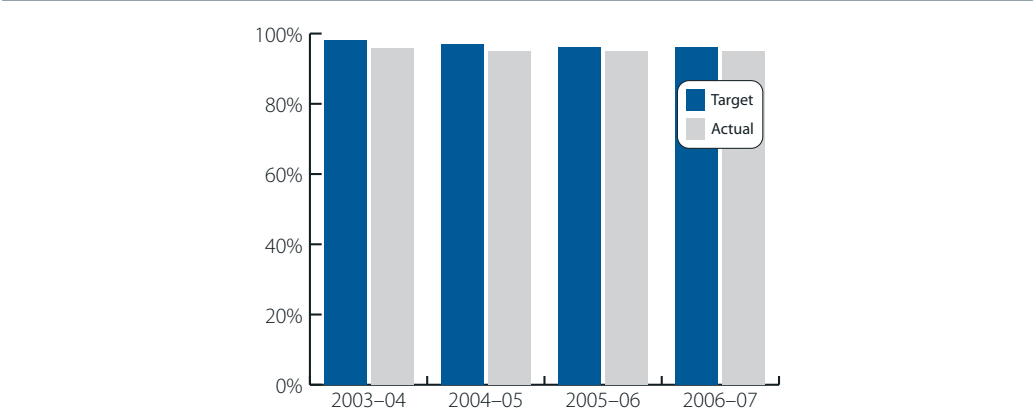
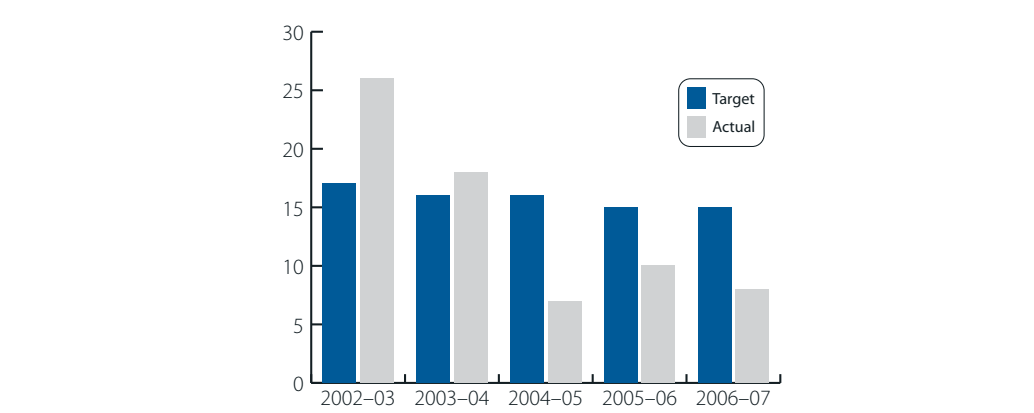


FIGURE 11 SERVICE FAILURE NOTIFICATIONS, CATEGORY 3



Key result area: Customers and markets

To maximise our domestic market share and extend international market reach in our core businesses by delivering superior customer value

Airservices Australia continued to strengthen its international commercial relationships during 2006–07.

Highlights included the opening of a representative office in Dubai, the delivery of consultancy and contract management services in air traffic, safety and aviation rescue and fire fighting (ARFF) in the Gulf, India and China and safety and training projects in Indonesia and Papua New Guinea (PNG).

Airservices continued to work closely with DOTARS, the Department of Foreign Affairs and Trade, AusAID and Austrade to build relationships with Indonesia and PNG in the development of aviation safety and systems. Recent cooperation between the organisations has resulted in a new \$24 million aviation and maritime safety program with Indonesia.

We played the key role in supporting an Indonesian regional ADS-B trial based on the deployment of three ground stations at strategic locations covering busy air routes. The trial demonstrated the benefits of sharing electronic surveillance data across Flight Information Region boundaries to enhance safety.

We also developed improvements to Indonesia's Makassar Advanced Air Traffic System, assisted the Indonesian Government with its implementation and provided the first of a number of Indonesian air traffic control radar and data-link training courses in our Brisbane centre in June 2007.

Airservices and the PNG Civil Aviation Authority signed terms of reference to work together to accelerate the deployment of ADS-B in PNG based on a 'managed service' acquisition approach. The first site is expected to be operational at Port Moresby by October 2007. PNG will be given access to surveillance data from the Airservices ADS-B site at Thursday Island by December 2007. Training for PNG en route personnel began at our Melbourne Training College in June 2007.

In other training work during the year, we completed the delivery of six aviation English training courses to Chinese air traffic controllers in conjunction with the Royal Melbourne Institute of Technology and began area tower training for Bahrain operators at the Melbourne Training College.

A commercial management process has been implemented, providing improved tracking of commercial proposals and bids, opportunity qualification and risk management assessment.

Business processes for developing our domestic and international commercial operations are underway. We have identified opportunities for consultancy and service provision in the Persian Gulf and India, to be pursued in 2007–08.

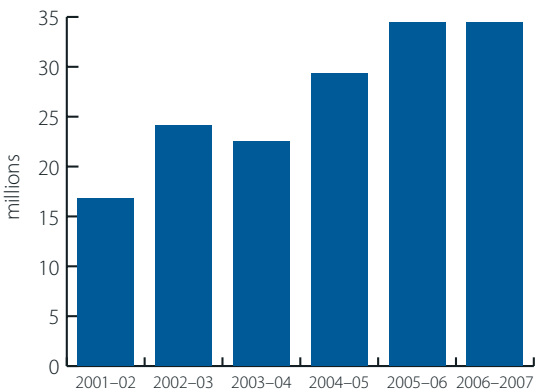
Further work planned for 2007–08 includes the following:

- Initial meetings to develop memoranda of communications with the Philippines and Malaysia for regional cooperation on aviation safety and operations are to be held in December 2007. We expect to sign the memorandums by June 2008.
- We will establish Airservices Australia representative and branch offices in Singapore by September 2007 and in India by December 2007, respectively.
- We will develop and begin the implementation of an engagement strategy for the International Civil Aviation Organization, especially in Southeast Asia. This will include work on the regional safety roadmap and seamless airspace concepts.

Key performance indicators: Customers and markets

In 2006–07, Airservices outcome for other commercial revenue (non-monopoly) revenue was \$34.44 million, which was consistent with the 2005–06 year.

FIGURE 12 COMMERCIAL (NON-MONOPOLY) REVENUE, 2001–02 TO 2006–07



Key result area: Employees

To achieve a skilled, motivated, flexible and customer focussed workforce committed to continuous improvement, innovation and growth in our business

In early 2007, Airservices Australia centralised support for human resources by removing the human resource function in Brisbane and Melbourne to consolidate the People and Change business group in Canberra. Relationship managers support all business groups, with a team of specialists advising on such matters as recruitment, workplace relations, senior management remuneration, relocations and human resource procedures.

The national recruitment unit relocated from Melbourne to Canberra in March 2007 to work more closely with other People and Change staff and have a greater understanding of strategic business plans and objectives.

We have progressively centralised training to achieve greater integration and higher efficiency and to improve our oversight of training standards, curriculum design, learning needs and innovation in training delivery methods.

The air traffic control (ATC) restructure during the year, which focussed on the delivery of core business, included the centralisation of human resources functions and a strategic national approach to improving people management. This has resulted in a more streamlined approach to human resources management. The restructure also streamlined job roles and accountabilities, based on a leadership capability model, resulting in improvements and efficiencies in training. Changes in technology will accelerate this trend.

To adjunct existing recruitment programs, in May and June 2007, Airservices Australia ran a global recruitment program for 30 additional experienced air traffic controllers.

Airservices Australia has adopted succession planning principles and processes and created a general manager succession pool. Work began on the development of an air traffic controller career model, to be introduced in 2007–08, which will improve staff development and succession planning.

In order to attract and retain a flexible, high-performance workforce, we have encouraged the use of individual Australian Workplace Agreements (AWAs). A new, more flexible approach to AWAs allows managers and employees to select from a number of clause options tailored to their circumstances and business needs.

For staff under certified agreements, we continued to use facilitative arrangements to allow individuals and groups of employees and their managers to tailor working arrangements to suit local conditions.

The ATC reform process included the creation of ATC line manager positions offered either on an AWA basis or within a collective framework negotiated directly with the corporation.

Recognising the importance of leadership, Airservices Australia introduced a 'Leaders Leading' program. Activities in 2006–07 included:

- three-day workshops for around 310 managers
- three-day 'train the trainer' workshops for ATC Level 3 managers
- overview and teamwork sessions at the request of managers

Key performance indicators: Employees

Airservices Australia measures and reports on the level of employees' engagement with their work. The employee engagement index is determined from our annual employee opinion survey.

Results for 2006–07 showed a significant increase in employees' engagement (with their job and the organisation), from 29 per cent in 2005–06 to 45 per cent in 2006–07. This figure is above the average Australian benchmark of 31 per cent and exceeds the target of 37 per cent set for 2006–07.

Key result area: Owner

To meet the government's requirements for financial returns, increasing value in the business and maintaining positive relationships with key industry, regulatory and community groups

During 2006–07, the corporation achieved the required rate of return, approved by the Australian Competition and Consumer Commission on a rolling five-year basis and taking into account unfunded community service obligations and government-required initiatives.

To improve our risk management control and reporting system and to ensure that all significant risks are identified and managed, we developed and obtained Board endorsement of an Enterprise Risk Management Framework, implemented in December 2006.

In March 2007, the Minister issued a Statement of Expectations to the Board in accordance with the requirements of the Uhrig review of corporate governance. The Board is committed to meeting the Minister’s expectations and has responded with a Statement of Intent.

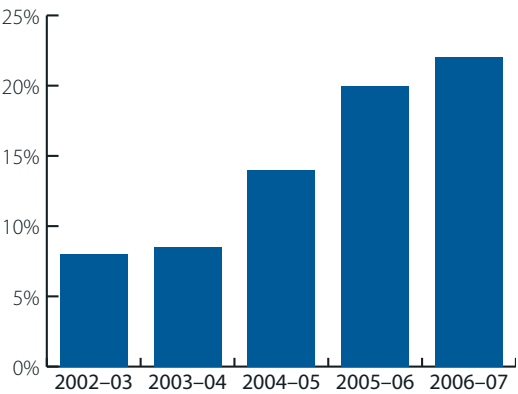
During the year, there was heavy focus on transition of the airspace regulatory functions to CASA, which took place on 1 July 2007. Airservices will continue to work closely with CASA on airspace and other regulatory issues.

Building stakeholder relationships continues to be a key focus for Airservices Australia and we actively participated in industry and other stakeholder forums during the year.

Key performance indicators: Owner

In 2006–07, earnings before interest and tax as a percentage of revenue increased to 22 per cent, from 20 per cent in 2005–06. This is due mainly to growth in airways activity.

FIGURE 13 EARNINGS BEFORE INTEREST & TAX, PERCENTAGE OF REVENUE, 2002–03 TO 2006–07



Ministerial directions

During 2006–07, the minister made no new formal directions to Airservices Australia under section 16 of the *Air Services Act 1995*. Current directions from previous years are at table 6 page 120.

Stakeholder involvement and consultation

During 2006–07, Airservices Australia consulted widely with stakeholders in Australia and overseas. Consultations took place with governments, airline operators, aerodrome operators, regulators, general aviation operators, corporation staff and the community. New stakeholder management positions were created to improve interaction and consultation with airlines, airports, government agencies and the public.

Financial results

Airservices Australia's 2006–07 after-tax return on average equity of 30.4 per cent, above the 25.3 per cent target provided for in the Corporate Plan 2006–2011, was achieved largely through increased airways activity leading to revenue growth exceeding higher costs. Operating profit after tax increased by 14.1 per cent compared to last year's result, rising to \$106.8 million. During the year, the corporation paid the government \$65.3 million in dividends.

Income

Total income for the year was \$728.7 million, compared to \$683.5 million in the previous year. Airways revenue grew by 5.2 per cent across the year, with net sales of \$676.7 million. A revaluation of our property, plant and equipment resulted in \$12.1 million being recorded as revenue, as required under applicable accounting standards.

Expenses

Overall expenses increased by \$27.6 million compared to 2005–06. Employee costs increased by \$12.1 million, mainly due to the booking of significant provisions for eligible termination payments related to planned restructure initiatives. There was also an increase in our supplier expenses of \$13.8 million, mainly related to external costs for capital projects being written off after cancellation of a supplier's contract and reclassification of costs previously included in employee expenses.

Significant changes in the state of affairs during the financial year

Changes to legislation

The *Airports Act 1996* was amended in 2006–07 to prevent the provision of air traffic services and rescue and fire fighting services at airports without the approval of the Civil Aviation Safety Authority. No other legislative changes during 2006–07 had an effect on the operations of the corporation.

Regulatory changes

The Civil Aviation Safety Authority took over responsibilities for assessing and managing airspace change proposals through the Office of Airspace Regulation on 1 July 2007. These functions were previously carried out by Airservices Australia. There were no other regulatory changes during the year that affected our operations.

Developments since the end of the financial year

No developments since the end of the financial year are likely to affect the future operations of Airservices Australia.

AIRSERVICES AUSTRALIA



Financial Statements

For the year ended June 2007

Financial statements

For the year ended 30 June 2007



INDEPENDENT AUDITOR'S REPORT

To the Minister for Transport and Regional Services

Matters relating to the Electronic Presentation of the Audited Financial Statements

This auditor's report relates to the financial statements published on the website of the Airservices Australia Group for the year ended 30 June 2007. The Directors are responsible for the integrity of both the annual report and its web site.

The auditor's report refers only to the primary statements, schedules and notes named below. It does not provide an opinion on any other information which may have been hyperlinked to/from the audited financial statements.

If the users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements in Airservices Australia's annual report.

Scope

I have audited the accompanying financial statements of the Airservices Australia Group which comprise: a statement by Directors, Chief Executive Officer and General Manager Finance; consolidated income statement; consolidated balance sheet; consolidated cash flow statement; consolidated statement of recognised income and expenses; consolidated schedule of commitments; summary of significant accounting policies; and other explanatory notes. The Airservices Australia Group comprises both Airservices Australia and the entity it controlled during the year.

The Responsibility of the Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997* and the Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether

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Financial statements

For the year ended 30 June 2007

due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers internal control relevant to the Airservices Australia Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airservices Australia Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

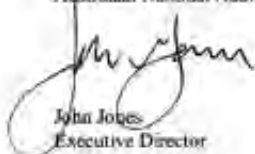
In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

Audit Opinion

In my opinion, the financial statements of the Airservices Australia Group:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, and the Australian Accounting Standards (including the Australian Accounting Interpretations); and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Airservices Australia Group's financial position as at 30 June 2007 and of its financial performance and its cash flows for the year then ended.

Australian National Audit Office



John Jones
Executive Director

Delegate of the Auditor-General
Canberra

29 August 2007

Financial statements

For the year ended 30 June 2007

Statement by Directors, Chief Executive Officer and General Manager Finance

For the year ended 30 June 2007

In our opinion, the attached financial statements and notes are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the Commonwealth Authorities and Companies Act 1997.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Airservices Australia Group will be able to pay its debts as and when they become due and payable.

This statement is made in accordance with a resolution of the directors:

		
Nick Burch Taylor AM Chairman	Greg Russell Chief Executive Officer	Andrew Clark General Manager Finance

Cairns, 24 August 2007

Consolidated Income Statement

For the year ended 30 June 2007

	Notes	2007 \$'000	2006 \$'000
CONTINUING OPERATIONS			
INCOME			
Airways revenues	5b	676,659	643,388
Finance income	5a	633	2,384
Other commercial revenue	5b	34,442	34,415
Miscellaneous income	5b	4,868	831
Total Revenue		716,602	683,018
Gains			
Reversal of previous asset write-downs	5b	12,106	2,442
Total Gains		12,106	2,442
TOTAL INCOME		728,708	683,460
EXPENSES			
Employee expenses	5a	395,776	383,666
Suppliers		118,010	104,217
Depreciation	13	39,850	42,768
Amortisation	14	12,258	10,300
Finance costs	5a	8,914	6,371
Net loss on disposal of assets	5a	592	442
TOTAL EXPENSES		575,400	547,764
PROFIT BEFORE INCOME TAX		153,308	135,696
Income tax expense	6	46,554	42,100
NET PROFIT AFTER INCOME TAX		106,754	93,596

Consolidated Balance Sheet

As at 30 June 2007

	Notes	2007 \$'000	2006 \$'000
CURRENT ASSETS			
Cash and cash equivalents	9	8,874	25,874
Trade and other receivables	10	76,185	74,180
Prepayments		9,195	2,846
Inventories		360	65
Assets classified as held for sale	11	655	816
TOTAL CURRENT ASSETS		95,269	103,781
NON-CURRENT ASSETS			
Land and buildings	13	159,616	137,887
Infrastructure, plant and equipment	13	352,379	300,700
Intangible Assets	14	56,910	54,350
Defined benefit fund asset	17	111,144	77,988
Deferred tax assets	12	9,934	32,104
TOTAL NON-CURRENT ASSETS		689,983	603,029
TOTAL ASSETS		785,252	706,810
CURRENT LIABILITIES			
Trade and other payables	15a	91,636	104,181
Provisions	15a	116,049	132,918
Interest bearing loans and borrowings	16	44,884	100,020
TOTAL CURRENT LIABILITIES		252,569	337,119
NON-CURRENT LIABILITIES			
Interest bearing loans and borrowings	16	99,409	-
Provisions	15b	48,262	51,703
TOTAL NON-CURRENT LIABILITIES		147,671	51,703
TOTAL LIABILITIES		400,240	388,822
NET ASSETS		385,012	317,988
SHAREHOLDER'S EQUITY			
Contributed equity		222,190	222,190
Reserves	18a	49,303	39,633
Retained earnings	18b	113,519	56,165
TOTAL EQUITY		385,012	317,988

Consolidated Cash Flow Statement

For the year ended 30 June 2007

	Notes	2007 \$'000	2006 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		770,825	753,024
Payments to suppliers and employees (inclusive of goods and services tax)		(604,132)	(586,201)
Borrowing costs		(7,507)	(6,415)
Income tax paid		(40,802)	(38,996)
Net cash flows from operating activities	28	118,384	121,412
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		3,688	4,309
Purchase of property, plant and equipment		(118,603)	(102,000)
Purchase of intangible assets		-	(38)
Interest received		747	1,759
Net cash flows used in investing activities		(114,168)	(95,970)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(65,300)	(43,100)
Proceeds from borrowing		144,084	-
Re-payment of borrowing		(100,000)	-
Net cash flows used in financing activities		(21,216)	(43,100)
Net increase/ (decrease) in cash and cash equivalents		(17,000)	(17,658)
Cash and cash equivalents at beginning of period		25,874	43,532
CASH AND CASH EQUIVALENTS AT END OF PERIOD	9	8,874	25,874

Consolidated Statement of Recognised Income & Expenses

As at 30 June 2007

	Notes	2007 \$'000	2006 \$'000
NET INCOME RECOGNISED DIRECTLY IN EQUITY (NET OF DEFERRED TAX)			
Current year net revaluation	18a	12,237	(80)
Foreign exchange hedge	18a	(2,098)	(9)
Exchange difference on translation of foreign operations	18a	(5)	30
Actuarial gains/losses	18b	15,436	40,882
TOTAL NET INCOME RECOGNISED DIRECTLY IN EQUITY		25,570	40,823
Profit for the year		106,754	93,596
TOTAL RECOGNISED INCOME & EXPENSES FOR THE YEAR		132,324	134,419

Consolidated Schedule of Commitments

As at 30 June 2007

	2007 \$'000	2006 \$'000
COMMITMENTS		
CAPITAL COMMITMENTS		
Infrastructure, plant and equipment	83,380	113,882
	83,380	113,882
OTHER COMMITMENTS		
Operating leases	72,638	105,522
Other commitments	45,683	29,893
	118,321	135,415
COMMITMENTS RECEIVABLE	(18,457)	(24,818)
TOTAL NET COMMITMENTS	183,244	224,479
CAPITAL COMMITMENTS BY MATURITY		
Within one year	48,263	81,920
After one year but no more than five years	27,656	31,962
More than five years	7,461	-
TOTAL CAPITAL COMMITMENTS	83,380	113,882
OPERATING LEASES BY MATURITY		
Within one year	14,796	18,248
After one year but not more than five years	26,142	52,347
More than five years	31,700	34,927
TOTAL OPERATING LEASES	72,638	105,522
OTHER COMMITMENTS BY MATURITY		
Within one year	21,098	14,642
After one year but not more than five years	23,152	14,133
More than five years	1,433	1,118
TOTAL OTHER COMMITMENTS	45,683	29,893
COMMITMENTS RECEIVABLE BY MATURITY		
Within one year	(7,846)	(11,338)
After one year but not more than five years	(8,639)	(11,536)
More than five years	(1,972)	(1,944)
TOTAL COMMITMENTS RECEIVABLE	(18,457)	(24,818)

NB: Commitments are GST inclusive where relevant.

Operating leases are effectively non-cancellable and comprise:

Nature of lease	General description of leasing arrangement
Leases for office accommodation	Airservices Australia Group leases are subject to differing review mechanisms which can include fixed increases every two years. The initial periods of office accommodation leases are still current and each may be renewed depending on their individual option periods.
Leases for computer equipment	A number of operating leases for the provision of computer equipment are in place. A majority of these items have a lease term of 2 to 3 years, with some printers having a lease term of up to 5 years. It is Airservices Australia Group's general practice that at the completion of the lease term, these items are returned to the lessor.

No contingent rentals exist.



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that is probably needed by some other staff, I say



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Notes to the financial statements

For the year ended 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all reporting years presented, unless otherwise stated. All amounts are shown in thousands of dollars and are expressed in Australian dollars, unless disclosure of the full amount is specifically required.

a. Basis of Preparation

The financial report is required by clause 1(b) of Schedule 1 to the Commonwealth Authorities and Companies Act 1997 and is a general purpose financial report. The report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), Finance Minister's Orders (being the Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 1 July 2006)), and other authoritative pronouncements and Accounting Interpretations issued by the Australian Accounting Standards Board.

Compliance with International Financial Reporting Standards (IFRS)

Australian Accounting Standards include Australian equivalents to IFRS (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Airservices Australia Group thereto comply with IFRS.

New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. Airservices Australia Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038].

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. Airservices Australia Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Airservices Australia Groups financial instruments.

Notes to the financial statements

For the year ended 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

a. Basis of Preparation (cont.)

(ii) AASB-1 10 Interim Financial Reporting and Impairment

AASB-1 10 is applicable to reporting periods commencing on or after 1 November 2006.

The Group has not recognised an impairment loss in relation to financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the Group's financial statements.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value and certain classes of property, plant and equipment.

Significant accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's 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 Note 3.

b. Principles of consolidation

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. They are de-consolidated from the date that control ceases.

The consolidated financial statements incorporate the assets and liabilities of Airservices Pacific Incorporated (API) which is controlled by Airservices Australia as at 30 June 2007. API's reporting date is 30 June. Airservices Australia and API together are referred to in this financial report as the Airservices Australia Group, the Group, or the consolidated entity. The effects of all transactions between these two entities are eliminated in full.

Notes to the financial statements

For the year ended 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

b. Principles of consolidation (cont.)

For accounting purposes, Airservices Australia Group also controls (as defined in UIG interpretation 112) four special purpose entities which are involved in the US cross-border arrangement in relation to equipment associated with The Australian Advanced Air Traffic System (TAAATS) and radar systems. However, as Airservices Australia Group has no ownership interest in these entities and they are immaterial to the Group, these entities are not consolidated but instead are disclosed in note 8.

The parent entity and consolidated entity's results are not considered materially different for the year ended 30 June 2007 and therefore the parent entity results are not separately disclosed in this financial report.

c. Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Airservices Australia Group and the subsidiary are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of API is the United States dollar while that of Airservices Australia is the Australian dollar. The presentation currency of both entities is the Australian dollar.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Exchange differences arising from the settlement of these transactions are taken to the income statement. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date, with any exchange differences being taken to the income statement

(iii) Group companies

As at the reporting date the assets and liabilities of API are translated into Australian dollars at the rate of exchange prevailing at the balance sheet date and the income statement is translated at the weighted average exchange rate for the year. The exchange differences arising on the retranslation are taken directly to a separate component of equity.

Notes to the financial statements

For the year ended 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

d. Revenue recognition

Rendering of services

Revenue is recognised when services are rendered for both airways and commercial 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). In accordance with the Long Term Pricing Agreement implemented in January 2005, revenue in excess of the risk sharing threshold agreed with customers and revenue related to new CASA regulations which have not yet been introduced, have been set aside in a provision against airways revenue or raised as a credit note.

Sale of goods

Revenue is recognised when significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

e. Property, plant and equipment

Asset recognition threshold

Purchases of property, plant and equipment are recognised initially at cost in the Balance Sheet, except for purchases less than \$1,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total). The threshold was reduced from \$10,000 to \$1,000 during the year.

Notes to the financial statements

For the year ended 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

e. Property, plant and equipment (cont.)

Cost and valuation

Property, plant and equipment are measured at cost or at fair value, less, where applicable, accumulated depreciation and any accumulated impairment losses.

Assets purchased by Airservices Australia Group are initially recorded at cost and represent costs directly attributable to the acquisition. Labour and direct overheads incurred in installation are capitalised and added to the cost. Assets constructed by Airservices Australia Group are initially recognised at the cost of materials, labour and direct overheads.

All costs associated with repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Revaluations

Following initial recognition at cost, property, plant and equipment are carried at a revalued amount which is the fair value at the date of the revaluation. Fair value is determined by reference to market based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Where there was no market based evidence of fair value due to the specialised nature of some of the buildings, plant and equipment, an estimate of the fair value was used by the valuer based upon a depreciated replacement cost approach.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet unless it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in profit or loss. Any revaluation deficit is recognised in the income statement, except that a decrease offsetting a previous surplus for the same asset is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus is accounted for net of deferred tax in the asset revaluation reserve.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Notes to the financial statements

For the year ended 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

e. Property, plant and equipment (cont.)

Revaluations (cont.)

Independent valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at the balance sheet date.

Revaluations are conducted by an independent qualified valuer.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition, calculated as the difference between net disposal proceeds and carrying value, is included in the income statement in the year the asset is derecognised.

Impairment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable, and, as a minimum, at least annually.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which it belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a market determined risk adjusted discount rate. Any impairment losses are recognised immediately in the income statement. Non-financial assets that suffer an impairment are reviewed for possible reversal of the impairment at each reporting date.

Leases

Operating lease payments where the lessor effectively retains substantially all of the risks and benefits of ownership of leased assets are included in the determination of the operating profit in equal instalments over the lease term.

Notes to the financial statements

For the year ended 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

e. Property, plant and equipment (cont.)

Leases (cont.)

Leases of fixed assets where substantially all the risks and benefits incidental to ownership of the asset, but not legal ownership, are transferred to Airservices Australia Group are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the present value of minimum lease payments, including any guaranteed residual values, and fair value.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are accounted for as an expense.

Depreciation

Property, plant and equipment, excluding freehold land, are depreciated at rates based upon their expected useful lives using the straight line method. The expected useful lives are as follows:

Buildings (including fittings) 10-40 years

Infrastructure, plant and equipment 3-20 years

The assets' useful lives are subjected to regular review and are adjusted if deemed appropriate.

Spares

Asset-specific spare parts (repairable spares) have been treated as plant and equipment and depreciated over the useful life of the parent asset to which they are related.

f. Intangible assets

Intangible assets acquired separately are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement. Software is amortised over 3-10 years.

Research costs associated with in-house developed intangible assets are expensed as incurred. Costs incurred on development projects (relating to the design and testing of new improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its cost can be measured reliably. The carrying value of development costs is reviewed for impairment annually or more frequently if there is evidence to suggest that the carrying value may not be recoverable.

Notes to the financial statements

For the year ended 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

f. Intangible assets (cont.)

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying value of the asset as at that date and are recognised in the income statement.

g. Inventories

Inventories consist of retail and publication material for sale to the aviation industry, and consumable spares used for operational equipment. Inventories are valued at the lower of cost and net realisable value, using the weighted average unit cost method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

h. Trade and other receivables

Trade receivables are initially recognised at amortised cost and subsequently measured at fair value less allowance for impairment. The terms of all invoices are 28 days. Collectability of trade receivables is reviewed on an ongoing basis. Receivables which are known to be uncollectable are written off. An allowance for impairment is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial. Historical information on bad debts and the economic environment under which the customers operate in are taken into consideration in determining the allowance. The movement in the allowance for impairment is recognised in the income statement.

i. Trade and other payable

Trade creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods and services have been received (and irrespective of having been incurred).

j. Dividend

Provision is made for the amount of any dividend approved by the Minister for Transport and Regional Services but unpaid, prior to the end of the period.

Notes to the financial statements

For the year ended 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

k. Cash and cash equivalent

Cash in the balance sheet 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 as defined above, net of outstanding bank overdrafts.

l. Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate adjusted by 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.

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, based on those tax rates which are enacted or substantively enacted for each jurisdiction. 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, other than a business combination, that at the time of the transaction did not affect either accounting profit 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 liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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.

Notes to the financial statements

For the year ended 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

l. Income tax (cont.)

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

m. Other taxes

Revenues, expenses and assets are recognised net of GST except.

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated gross of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Commitments and contingencies are disclosed GST inclusive.

n. Recoverable amount of non-current asset.

All assets are subjected to impairment tests at each reporting date. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made. Where the carrying amount exceeds the recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for each asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash flows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a market-determined risk adjusted discount rate.

Notes to the financial statements

For the year ended 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

o. Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of consideration received net of any directly attributable transaction costs.

After initial recognition, loans and borrowings are subsequently measured at their amortised cost. Interest is accrued (using the effective interest rate method) over the period it becomes due and is recognised in the income statement at that time.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

p. Provisions

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where some or all of a provision is to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash payments using interest rates on national government-guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows. When discounting is used, the increase in provision due to the passage of time is recognised as a finance cost.

q. Employee benefits

Classification of employee entitlements

Where employees are entitled to take their accrued annual leave or long service leave during the next 12 months, the provision relating to these employees is recorded as a current liability, even though the employee may not be expected to take the leave for an extended period.

Notes to the financial statements

For the year ended 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

q. Employee benefits (cont.)

Wages, salaries and annual leave

Liabilities for wages, salaries and annual leave are recognised, and are measured as the amount unpaid at the reporting date at pay rates which will be applicable when paid, in respect of employees' services up to that date.

Valuation

Employee benefit provisions for long service leave, early retirement benefit and superannuation are assessed by qualified actuaries on a half yearly basis. Various actuarial assumptions are required when determining the Group's obligations, and these are discussed at Note 3 and Note 17.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Early retirement benefit

A liability for early retirement benefit is recognised within the provision for separations and redundancies in accordance with the Airservices Australia Certified Agreement 2005-2008, and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government-guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Notes to the financial statements

For the year ended 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

q. Employee benefits (cont.)

Superannuation

Contributions are made predominantly to AvSuper (sponsored by Airservices Australia) and Commonwealth Superannuation Administration (ComSuper) which administers the Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation (PSS) funds. AvSuper has a defined benefit section and a defined contribution section within its fund. Contributions to the AvSuper defined benefit fund are made in accordance with advice received from the fund's actuary. Contributions to defined contribution funds are in accordance with the corporation's certified agreement, having regard to legislative requirements. Contributions to ComSuper for the PSS and CSS funds are in accordance with actuarial reports as notified by the Department of Finance and Administration.

Contributions to all funds except the AvSuper defined benefit fund are recognised as an expense as they become payable. With respect to the AvSuper defined benefit fund, the net of current service costs, interest costs and the expected return on fund assets is recognised in the income statement, whereas actuarial gains and losses are recorded directly in equity.

A liability or asset in respect of the AvSuper defined benefit superannuation plan is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated half yearly by an independent actuary. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

r. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments.

Notes to the financial statements

For the year ended 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

s. Derivative financial instruments

Airservices Australia Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are stated at fair value.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined as the difference in present value, discounted using current market rates, of future cash flows.

For the purposes of hedge accounting, foreign currency hedges are classified as fair value hedges as they hedge exposures to changes in the fair value of a recognised asset or liability. For foreign currency hedges that satisfy the conditions for hedge accounting, the gain or loss on the hedging instrument is recognised directly in equity. In relation to foreign exchange hedges that do not meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement.

t. Assets classified as held for sale

Assets are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the asset is recognised at the date of de-recognition.

Assets are not depreciated or amortised while they are classified as held for sale. Assets classified as held for sale are presented separately from the other assets in the balance sheet.

Notes to the financial statements

For the year ended 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

u. Working capital

Although the Group's current liabilities exceed current assets as at the end of the current reporting period, this is mainly a result of the disclosure requirements of the accounting standards. Due to a large proportion of the Group's employees being presently entitled to long service leave and accrued recreation leave, these provisions are classified as current liabilities, even though the employees are expected to take the leave over an extended period of time (i.e. beyond 12 months). Also, an interest bearing loan in the form of a commercial paper facility was treated as current due to it maturing on the 16th July, however this facility was rolled over, and is expected to continue to be rolled over on a monthly basis.

2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures.

Risk management is carried out by a central treasury unit under policies approved by the Board. Group treasury identifies, evaluates and hedges financial risk in close co-operation with the Group's operating units based on clear principles for overall risk management, as well as written instructions covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

As a result of the nature of the Group's business and internal policies dealing with the management of financial risk, the Group's exposure to: market, credit, liquidity, cash flow, and fair value interest rate risk is considered to be low.

Notes to the financial statements

For the year ended 30 June 2007

3 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

AvSuper defined benefit plan

Various actuarial assumptions are required when determining the Group's obligations under the AvSuper defined benefit plan. The assumptions relied on for the year to 30 June 2007 are discussed in Note 17 (g).

Long Service Leave and Early Retirement Benefits

Various actuarial assumptions are required when determining the Group's obligations for Long Service Leave and Early Retirement Benefit Scheme. The assumptions relied on for the year to 30 June 2007 include; salary increases of 2% immediately, 2% in December 2007, 2% p.a. for other promotional increases, and salary increases of 4% p.a. for subsequent years; and a discount rate of 6.2% p.a. (being the 10 year Commonwealth Government Bond rate at 30 June 2007).

4 SEGMENT REPORTING

Airservices Australia operates predominantly in the Australian Aviation Industry.

Notes to the financial statements

For the year ended 30 June 2007

5 PROFIT FROM CONTINUING OPERATIONS

	2007 \$'000	2006 \$'000
a. Profit from Continuing Operations before income tax is arrived at after including the following items of revenue and expenditure:		
Revenue		
Finance income		
- Investments	479	1,470
- Deposits	61	95
- Interest rate swap fair value gain	-	650
- Other	93	169
Total finance income	633	2,384
Expenses		
Employee expenses		
- Wages and salaries	256,584	252,173
- Superannuation (defined contribution funds)	21,477	21,432
- Leave and other entitlements	83,230	91,744
- Separation and redundancies	21,358	5,252
Employee expenses (excluding defined benefit superannuation expense)	382,649	370,601
Net defined benefit superannuation expense recognised in employee expenses		
- Current service cost	32,839	32,517
- Interest cost	29,332	25,926
- Expected return on fund assets	(49,044)	(45,378)
Defined benefit superannuation expense	13,127	13,065
Total employee expenses	395,776	383,666
Finance costs		
- Loans	6,970	6,243
- Interest rate swap fair value loss	1,605	-
- Other	339	128
Total finance costs	8,914	6,371
Decrease in allowance for impairment (receivables)	(53)	(1,301)
Bad debts written off	145	372
Total bad and doubtful debt expenses	92	(929)
Operating lease charges	17,552	17,394

Notes to the financial statements

For the year ended 30 June 2007

5 PROFIT FROM CONTINUING OPERATIONS (cont.)

	2007 \$'000	2006 \$'000
a. Profit from Continuing Operations before income tax is arrived at after including the following items of revenue and expenditure (cont.):		
Gain/ (loss) from sale/ (write-off) of non-current assets		
- Proceeds from disposal of assets	3,688	4,309
- Written-down value of disposed assets	(3,824)	(4,497)
Net loss from sale of non-current assets	(136)	(188)
Written down value of scrapped assets	(456)	(254)
Net loss from disposal of assets	(592)	(442)

Notes to the financial statements

For the year ended 30 June 2007

5 PROFIT FROM CONTINUING OPERATIONS (cont.)

b. Supplementary Analysis of the Income Statement for the year ended 30 June 2007.

2007	Airways Activities	Other Commercial Activities	Total Commercial Activities	Community Service Activities	Profit from Ordinary Activities
	\$'000	\$'000	\$'000	\$'000	\$'000
Airways revenue	676,659	-	676,659	-	676,659
Other commercial revenue	-	34,442	34,442	-	34,442
Total sales revenue	676,659	34,442	711,101	-	711,101
Finance income	633	-	633	-	633
Miscellaneous income	4,868	-	4,868	-	4,868
Reversal of previous asset write-downs	12,106	-	12,106	-	12,106
Total income	694,266	34,442	728,708	-	728,708
Total expenses	539,816	31,784	571,600	3,800	575,400
Net profit/(loss) before tax	154,450	2,658	157,108	(3,800)	153,308
Income tax expense/(refund)	46,901	807	47,708	(1,154)	46,554
Net profit/(loss) after tax	107,549	1,851	109,400	(2,646)	106,754

2006	Airways Activities	Other Commercial Activities	Total Commercial Activities	Community Service Activities	Profit from Ordinary Activities
	\$'000	\$'000	\$'000	\$'000	\$'000
Airways revenue	643,388	-	643,388	-	643,388
Other commercial revenue	-	34,415	34,415	-	34,415
Total sales revenue	643,388	34,415	677,803	-	677,803
Finance income	2,384	-	2,384	-	2,384
Miscellaneous income	831	-	831	-	831
Reversal of previous asset write-downs	2,442	-	2,442	-	2,442
Total income	649,045	34,415	683,460	-	683,460
Total expenses	513,099	30,935	544,034	3,730	547,764
Net profit/(loss) before tax	135,946	3,480	139,426	(3,730)	135,696
Income tax expense/(refund)	41,919	1,341	43,260	(1,160)	42,100
Net profit/(loss) after tax	94,027	2,139	96,166	(2,570)	93,596

Notes to the financial statements

For the year ended 30 June 2007

5 PROFIT FROM CONTINUING OPERATIONS (cont.)

c. Community Service Activities

The cost of community service activities undertaken by Airservices Australia Group and charged to operations during the year to meet the specific requirements of the government, considered by the Board to be non-commercial in nature, comprise:

	2007	2006
	\$'000	\$'000
Provision for environmental information (reports, statistics and maps) by:		
- Environmental Services Branch	484	262
- Noise and Flight Path Monitoring System	2,920	3,013
Noise inquiry lines	396	455
Total costs	3,800	3,730

Included in the profit from ordinary activities before income tax is \$3.800m (2006: \$3.730m) in direct costs for community service activities undertaken by Airservices Australia Group and charged to operations during the year to meet specific requirements of the government.

Notes to the financial statements

For the year ended 30 June 2007

6 INCOME TAX

a. Income Tax Expense

	2007	2006
	\$'000	\$'000
Current tax	52,727	42,648
Deferred tax	(6,173)	(548)
Income tax expense attributable to profit from continuing operations	46,554	42,100

b. Reconciliation of income expense to prima facie tax payable

	2007	2006
	\$'000	\$'000
Profit from continuing operations before income tax expense	153,308	135,696
Prima facie income tax expense at 30%	45,992	40,709
Tax effect of amounts which are not deductible/assessable in calculating taxable income:		
- Provision for Tax Law Amendment Act (No. 2)	80	11
- Non-deductible legal costs	84	344
- Non-assessable legal settlement	(480)	-
- Other non-deductible expenditure	294	130
- Depreciation of revalued assets	4,332	1,831
- Revaluation of non-current assets	(3,632)	(733)
- Research and development tax incentive	(116)	(192)
Income tax expense	46,554	42,100

7 DIVIDENDS

A final dividend for the year ended 30 June 2006 of \$34.5m (2006: \$21.5m) was paid in February 2007. An interim dividend for the year ending 30 June 2007 of \$30.8m (2006: \$21.6m) was paid in June 2007.

Notes to the financial statements

For the year ended 30 June 2007

8 INVESTMENTS IN CONTROLLED ENTITIES

Airservices Pacific Incorporated (API)

Airservices Australia has owned 100% of API, based in Delaware in the United States of America, since December 2004. The investment comprises 1,000 shares at a nominal value of US\$1.00 per share.

Airservices Australia previously made available a loan facility of US \$0.700m to API at normal commercial terms and conditions in December 2004 which was repaid with interest in December 2006. A second facility of US \$0.700m was made available in September 2005. This facility was fully drawn in December 2006 to repay the maturing issue and meet working capital requirements. The new facility expires in December 2009 but can be repaid with interest at any time prior to maturity. As at 30 June 2007 the principal amount of the loan equates to AUD \$0.826m.

Special Purpose Entities

In accordance with the indicators of control for accounting purposes detailed in UIG Interpretation 112, Airservices Australia Group controls four special purpose entities which are involved in the US cross-border arrangement in relation to equipment associated with 'The Australian Advanced Air Traffic System' (TAAATS) and radar systems discussed in note 29. However the issued capital in these entities, which totals US\$4,000, is not owned by Airservices Australia Group but is held by two finance companies. These entities are not consolidated due to materiality.

Notes to the financial statements

For the year ended 30 June 2007

9 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	2007	2006
	\$'000	\$'000
Cash at bank and on hand	3,774	6,374
Deposits at call	5,100	19,500
	8,874	25,874

(a) Cash at bank and on hand

Cash at bank has a floating interest rate of 5.75% (30 June 2006: 5.25%). Cash on hand is non-interest bearing.

(b) Deposits at call

The deposits have a floating interest rate of 6.25% (30 June 2006: 5.75%). These 11am cash at call deposits are rolled over on a daily basis.

10 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	2007	2006
	\$'000	\$'000
Trade receivables	72,563	71,808
Allowance for impairment	(622)	(675)
	71,941	71,133
Other receivables	606	1,713
Accrued revenue and interest	3,638	1,334
Total current receivables	76,185	74,180

Other receivables are mainly comprised of balances associated with salary sacrifice arrangements.

11 ASSETS CLASSIFIED AS HELD FOR SALE

A total of four land assets have been identified as surplus to the requirements of Airservices Australia Group and have been classified as assets held for sale. The decision to dispose of the above assets has been endorsed by the Board of Directors and their disposal is expected to be completed within the 2007–08 financial year. The carrying amount of the assets amounted to \$0.655m (30 June 2006: \$0.816m). Note that two of these assets (with carrying amounts totalling \$325k) were sold subsequent to balance date with settlement occurring on 6 August 2007.

Notes to the financial statements

For the year ended 30 June 2007

12 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	2007	2006
	\$'000	\$'000
The balance comprises temporary differences attributed to:		
<i>Amounts recognised in the income statement</i>		
Accelerated depreciation for accounting purposes	4,922	7,651
Allowance for impairment	187	202
Employee benefits	58,649	59,049
Provision for revenue to be returned to customers	851	4,470
Provision for legal costs	-	78
Interest rate swap	257	(224)
Cross-border transaction provision	473	481
Accruals	970	775
	66,309	72,482
<i>Amounts recognised directly in equity</i>		
Foreign exchange hedge reserve	(891)	(4)
Revaluation of land, buildings, plant and equipment	(22,141)	(16,978)
Defined benefit asset	(33,343)	(23,396)
	(56,375)	(40,378)
Net deferred tax assets	9,934	32,104
Movements:		
Opening balance at 1 July	32,104	61,374
Credited/ (charged) to the income statement	(6,173)	566
Credited/ (charged) to equity	(15,997)	(29,836)
Closing balance at 30 June 2007	9,934	32,104

Notes to the financial statements

For the year ended 30 June 2007

13 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

Revaluation of land, buildings, plant and equipment

The valuation basis for land, buildings, plant and equipment is fair value. Fair value is determined by reference to market based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Where there was no market based evidence of fair value due to the specialised nature of some of the buildings, plant and equipment, an estimate of the fair value was used by the valuer based upon a depreciated replacement cost approach.

Airservices Australia Group engaged accredited valuers CB Richard Ellis to value its land and Aon Valuation Services for the valuation of buildings, plant and equipment. The reversal of prior year revaluation decreases (for the same asset) were recognised by crediting the income statement. In all other cases, the revaluation surplus net of deferred income taxes was credited to the asset revaluation reserve.

The effective date of the revaluation was 30 June 2007.

Item	Land \$'000	Buildings \$'000	Total land and buildings \$'000	Plant and equipment \$'000	Assets under construction \$'000	Total \$'000
Gross value - 1 July 2006	36,030	105,393	141,423	208,401	128,154	477,978
Additions	-	25	25	4,980	98,507	103,512
Commissioned assets under construction	-	3,317	3,317	50,095	(53,412)	-
Assets under construction commissioned as software (refer note 14)	-	-	-	-	(14,741)	(14,741)
Revaluations	10,554	8,486	19,040	(19,152)	-	(112)
Disposals	-	(177)	(177)	(12,144)	-	(12,321)
Assets transferred from held for sale	161	-	161	-	-	161
Reclassifications	150	(150)	-	(315)	-	(315)
Gross value – 30 June 2007	46,895	116,894	163,789	231,865	158,508	554,162
Accumulated depreciation - 1 July 2006	-	(3,536)	(3,536)	(35,855)	-	(39,391)
Depreciation charged	-	(8,560)	(8,560)	(31,290)	-	(39,850)
Revaluations	-	7,808	7,808	21,895	-	29,703
Disposals	-	115	115	7,256	-	7,371
Accumulated depreciation – 30 June 2007	-	(4,173)	(4,173)	(37,994)	-	(42,167)
Net book value – 30 June 2007	46,895	112,721	159,616	193,871	158,508	511,995

Notes to the financial statements

For the year ended 30 June 2007

13 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT (cont.)

Revaluation of land, buildings, plant and equipment (cont.)

Item	Land \$'000	Buildings \$'000	Total land and buildings \$'000	Plant and equipment \$'000	Assets under construction \$'000	Total \$'000
Gross value - 1 July 2005	14,543	98,004	112,547	169,749	111,724	394,020
Additions	-	19	19	6,138	104,134	110,291
Commissioned assets under construction	240	9,189	9,429	66,244	(75,673)	-
Assets under construction commissioned as software (refer note 14)	-	-	-	-	(12,031)	(12,031)
Revaluations	22,064	(2,301)	19,763	(27,369)	-	(7,606)
Disposals	(1)	(178)	(179)	(7,364)	-	(7,543)
Assets transferred to held for sale	(816)	-	(816)	-	-	(816)
Reclassifications	-	660	660	1,003	-	1,663
Gross value – 30 June 2006	36,030	105,393	141,423	208,401	128,154	477,978
Accumulated depreciation - 1 July 2005	-	(2,611)	(2,611)	(30,378)	-	(32,989)
Depreciation charged	-	(9,032)	(9,032)	(33,736)	-	(42,768)
Revaluations	-	8,618	8,618	27,031	-	35,649
Disposals	-	149	149	2,231	-	2,380
Reclassifications	-	(660)	(660)	(1,003)	-	(1,663)
Accumulated depreciation – 30 June 2006	-	(3,536)	(3,536)	(35,855)	-	(39,391)
Net book value - 30 June 2006	36,030	101,857	137,887	172,546	128,154	438,587

Notes to the financial statements

For the year ended 30 June 2007

13 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT (cont.)

Revaluation of land, buildings, plant and equipment (cont.)

Carrying amounts that would have been recognised if land, buildings, plant and equipment were measured using the cost model:

	2007 \$'000	2006 \$'000
Land		
At cost	3,938	3,791
Buildings		
At cost	207,512	206,614
Accumulated depreciation	(125,374)	(118,951)
Net carrying amount	82,138	87,663
Plant and equipment		
At cost	601,323	588,050
Accumulated depreciation	(371,964)	(367,085)
Net carrying amount	229,359	220,965

14 NON-CURRENT ASSETS – INTANGIBLE ASSETS (SOFTWARE)

	2007			2006		
	Internally developed software \$'000	Other intangible assets \$'000	Total intangible assets \$'000	Internally developed software \$'000	Other intangible assets \$'000	Total intangible assets \$'000
Gross value – 1 July	78,958	26,878	105,836	67,047	26,750	93,797
Additions	-	84	84	38	-	38
Transferred from assets under construction	14,741	-	14,741	11,903	128	12,031
Disposals	(61)	-	(61)	(30)	-	(30)
Gross value – 30 June	93,638	26,962	120,600	78,958	26,878	105,836
Accumulated amortisation – 1 July	(42,723)	(8,763)	(51,486)	(35,998)	(5,217)	(41,215)
Amortisation for the year	(8,647)	(3,611)	(12,258)	(6,754)	(3,546)	(10,300)
Disposals	54	-	54	29	-	29
Accumulated amortisation – 30 June	(51,316)	(12,374)	(63,690)	(42,723)	(8,763)	(51,486)
Net intangibles – 30 June	42,322	14,588	56,910	36,235	18,115	54,350

Notes to the financial statements

For the year ended 30 June 2007

15 PROVISIONS AND PAYABLES

a. Current payables and provisions

	2007	2006
	\$'000	\$'000
Current payables		
Suppliers		
- Trade payables	10,147	15,197
Employees		
- Salaries and wages	6,604	4,952
- Superannuation	653	693
- Recreation leave	31,902	31,655
Revenue received in advance	2,645	2,742
Interest payable	829	788
Group tax payable	3,110	3,265
Accrued payroll tax	1,483	2,492
Net goods and services tax payable	9,376	7,295
Other accrued expenses	24,887	35,102
Total current payables	91,636	104,181
Current provisions		
Employee benefits		
- Long service leave	93,969	92,613
- Separations and redundancies	10,491	11,131
Workers compensation	496	389
Taxation	8,156	13,377
Revenue to be returned to customers	2,837	14,899
Cross-border transaction	100	250
Litigation and legal costs	-	259
Total current provisions	116,049	132,918
Total current provisions and payables	207,685	237,099

b. Non-current provisions

Employee benefits		
- Long service leave	10,527	15,211
- Separations and redundancies	33,672	32,035
Workers compensation	2,588	3,103
Cross-border transaction	1,475	1,354
Total non-current provisions	48,262	51,703

Notes to the financial statements

For the year ended 30 June 2007

15 PROVISIONS AND PAYABLES (cont.)

c. Movement in provisions (excluding Employee benefits)

	2007	2006
	\$'000	\$'000
(i) Revenue to be returned to customers (Current)		
Carrying amount at start of period	14,899	-
Additional provisions recognised	2,837	18,178
Credit notes issued	(14,866)	-
Unused amount reversed	(33)	-
Payments	-	(3,279)
Carrying amount at end of period	2,837	14,899
(ii) Cross border transaction (Current/Non-current)		
Carrying amount at start of period	1,604	3,716
Unused amount reversed	-	(2,000)
Payments	(29)	(112)
Carrying amount at end of period	1,575	1,604
(iii) Litigation and legal costs (Current)		
Carrying amount at start of period	259	1,266
Unused amount reversed	-	(65)
Payments	(259)	(942)
Carrying amount at end of period	-	259

d. Description of provisions

Revenue to be returned to customers

The provision of \$2.8m is for revenue to be returned to customers in relation to new Aviation Rescue and Fire Fighting regulatory costs anticipated under the LTPA, but which will not be incurred for at least twelve months (30 June 2006: \$2.7m). For the 2007 year, airways revenue did not exceed the risk sharing threshold that was agreed to under the Long Term Pricing Agreement (LTPA), hence there is no additional airways revenue to be returned to customers for the current year (30 June 2006: \$12.2m). Under the LTPA, revenue in excess of 5% of projected activity is available to be returned to customers subject to consultation.

Notes to the financial statements

For the year ended 30 June 2007

15 PROVISIONS AND PAYABLES (cont.)

d. Description of provisions (cont.)

Cross border transaction

This provision represents compliance and monitoring costs which will be paid over the term of the cross-border financing arrangement discussed in note 29.

Litigation and legal costs

This provision includes the estimated legal costs to be incurred by Airservices Australia Group on ongoing matters which commenced prior to 30 June 2007.

Workers compensation

These provisions represent Airservices Australia Group's self insured liability for workers compensation prior to 1 July 1989.

Separations and redundancies

This includes \$31.7m (30 June 2006: \$34.8m) in early retirement benefits which have been elected to be taken by employees as a lump sum on retirement. Also, \$12.5m (30 June 2006: \$8.3m) relates to redundancy provisions in relation to the restructuring of the organisation.

16 INTEREST-BEARING LOANS AND BORROWINGS

	2007	2006
	\$'000	\$'000
Unsecured loans – Bank loans		
- Current (1)	44,884	100,020
- Non-Current (2)	99,409	-
Total Interest Bearing Liabilities	144,293	100,020

(1) The current year amount represents an outstanding issue under the \$300m commercial paper facility which was issued on 15 June 2007 and matures on 15 July 2007. The prior year balance represents a medium term bond that matured in November 2006.

(2) This represents a medium term bond entered into on 15 November 2006 which matures in November 2011.

Notes to the financial statements

For the year ended 30 June 2007

17 DEFINED BENEFIT FUND ASSET

a. Superannuation plan

Airservices Australia is the principal sponsor of the superannuation fund, AvSuper. The fund has a defined benefit section and a defined contribution section. The defined benefit section provides benefits based on the length of service and estimated final average salary of each member. The defined contribution section receives fixed contributions and Airservices Australia's legal or constructive obligation is limited to these contributions.

The following sets out details relating to the defined benefits section of the plan.

b. Benefit Asset

The amounts recognised in the balance sheet are determined as follows:

	2007	2006
	\$'000	\$'000
Present value of the defined benefit obligation	(606,379)	(625,327)
Fair value of defined benefit fund assets	717,523	703,315
Net benefit asset – non-current	111,144	77,988

Airservices Australia will continue to contribute to the defined benefit section of the plan in line with the actuary's recommendations.

Note that the present value of the defined benefit obligation has fallen by \$18.9m since 30 June 2006 principally for the following reasons: the discount rate used in calculating the present value increased from 4.8% p.a. to 5.3% p.a. in line with the increase in rates on long term Government Bonds; and the actuarial estimate at 30 June 2006 understated the number of exits and this led to an overstatement of the liability by 4% as at 30 June 2006.

Notes to the financial statements

For the year ended 30 June 2007

17 DEFINED BENEFIT FUND ASSET (cont.)

c. Categories of plan assets

The major categories of plan assets are as follows.

	2007	2006
	\$'000	\$'000
Cash	22,585	17,606
Equity instruments	462,719	490,655
Debt instruments	98,739	112,350
Other assets	133,480	82,704
	<u>717,523</u>	<u>703,315</u>

d. Reconciliations

	2007	2006
	\$'000	\$'000
<i>Reconciliation of the present value of defined benefit obligation:</i>		
Balance at the beginning of the year	625,327	614,364
Current service cost	32,839	32,517
Contribution by members	10,539	10,538
Interest cost	29,332	25,926
Actuarial (gains)/ losses on obligation	(55,855)	(27,049)
Benefits paid	(35,803)	(30,969)
Balance at the end of the year	<u>606,379</u>	<u>625,327</u>

	2007	2006
	\$'000	\$'000
<i>Reconciliation of the fair value of plan assets:</i>		
Balance at the beginning of the year	703,315	618,398
Expected return on the plan assets	49,044	45,378
Actuarial gains/(losses)	(33,804)	31,282
Contributions by Airservices Australia	24,232	28,688
Contributions by members	10,539	10,538
Benefits paid	(35,803)	(30,969)
Balance at the end of the year	<u>717,523</u>	<u>703,315</u>

Notes to the financial statements

For the year ended 30 June 2007

17 DEFINED BENEFIT FUND ASSET (cont.)

e. Net amount recognised in Income Statement

	2007	2006
	\$'000	\$'000
<i>The amounts recognised in the income statement are as follows:</i>		
Current service cost	32,839	32,517
Interest cost on benefit obligation	29,332	25,926
Expected return on plan assets	(49,044)	(45,378)
Total included in employee benefits expense	13,127	13,065
Actual return on plan assets	15,240	76,660

f. Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

	2007	2006
	\$'000	\$'000
Discount rate	5.30%	4.80%
Expected return on plan assets	7.00%	7.00%
Future salary increases	6.00%	6.00%

The expected return on plan assets has been based on historical and future expectations of returns for each of the major categories of asset classes as well as the expected and actual allocation of plan assets to these major categories. This resulted in the selection of an 8% rate of return gross of tax and net of expenses (8% in 2005–06) and a 7% rate of return net of tax and expenses (7% in 2005–06).

Notes to the financial statements

For the year ended 30 June 2007

17 DEFINED BENEFIT FUND ASSET (cont.)

g. Employer contributions

For defined benefit members, the employers contribute at a rate sufficient to ensure that expected benefits are fully funded by the time the benefits become payable, after allowing for member contributions. The required employer rate will vary over time depending primarily on the investment performance of AvSuper and the salary growth of members.

Under the Trust Deed, Airservices Australia (as Principal Employer) is required to determine the contribution rate for the Employers after receiving advice from the AvSuper Actuary and consulting the Trustee.

Actuarial assessments of the Plan are made each year for the Trustee, and the last such assessment was made as at 30 June 2006. As part of the assessment (*), the actuary recommended that the Employers involved with the AvSuper defined benefit fund contribute at the following rates:

12% of gross salary for Air Traffic Controllers (ATCs) (18% prior to 1 February 2007)

9% of gross salary for other employees (15% prior to 1 February 2007)

3% for those employees who remain members of the Commonwealth Superannuation Scheme (CSS).

The actuary recommended a reduction in the employer contribution rates following the recent investment performance of AvSuper being better than the long term investment rate of 7%. Airservices Australia is currently contributing at these rates.

(*) The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the Attained Age Normal Funding Method. This funding method seeks to have benefits funded by means of a total contribution which is expected to be a constant percentage of members' salaries over their future working lifetimes.

Total employer contributions expected to be paid by Airservices Australia for the year ended 30 June 2008 amount to \$17.6m.

Notes to the financial statements

For the year ended 30 June 2007

17 DEFINED BENEFIT FUND ASSET (cont.)

g. Employer contributions (cont.)

The economic assumptions used by the actuary to make the funding arrangements were a long term investment earning rate of 7% per annum (net of fees and taxes), a salary increase of 7% for ATC's and 5.5% p.a. for non ATC's.

h. Net financial position of the plan

In accordance with AAS 25 Financial Reporting by Superannuation Plans, the plan's net financial position is determined as the difference between the present value of the accrued benefits and the net market value of plan assets. This has been determined as at the date of the most recent financial report of AvSuper, and a surplus of \$137.2m was reported.

i. Historic summary

	2007	2006	2005	2004
	\$'000	\$'000	\$'000	\$'000
Plan assets	717,523	703,315	650,946	565,266
Defined benefit plan obligation	(606,379)	(625,327)	(646,699)	(577,952)
Surplus	111,144	77,988	4,247	(12,686)
Experience (gains) / losses adjustments arising on plan liabilities	(34,959)	1,677	584	(6,276)
Experience gains / (losses) adjustments arising on plan assets	(33,804)	31,282	29,460	4,343

Notes to the financial statements

For the year ended 30 June 2007

18 RESERVES & RETAINED EARNINGS

	2007	2006
	\$'000	\$'000
a. Reserves		
Asset revaluation reserve	51,388	39,615
Foreign exchange hedge reserve	(2,107)	(9)
Foreign currency translation reserve	22	27
	49,303	39,633
Movements		
<i>Asset revaluation reserve</i>		
Opening balance	39,615	21,774
Net revaluation	12,237	17,921
Revaluation reserve - disposals (net of deferred tax)	(464)	(80)
	51,388	39,615
<i>Foreign exchange hedge reserve</i>		
Opening balance	(9)	-
Net revaluation	(2,098)	(9)
	(2,107)	(9)
<i>Foreign currency translation reserve</i>		
Opening balance	27	(3)
Net revaluation	(5)	30
	22	27
b. Retained earnings		
Opening balance	56,165	(35,293)
Net profit after tax for the year	106,754	93,596
Dividend paid	(65,300)	(43,100)
Defined benefit fund movements direct to equity (net of deferred tax)	15,436	40,882
Revaluation reserve - disposals (net of deferred tax)	464	80
	113,519	56,165

19 CONTINGENCIES

Currently there are four sites that potentially may have been contaminated by the use or storage of diesel. Based on initial review of these sites, management believes that the cost for any remediation work required to rectify any potential contamination will not be significant.

Notes to the financial statements

For the year ended 30 June 2007

20 STANDBY ARRANGEMENTS AND UNUSED CREDIT FACILITIES

	2007	2006
	\$'000	\$'000
Bank overdraft (expires 1 October 2011)	5,000	5,000
Total credit facilities	5,000	5,000
Amount utilised	-	-
Unused credit facility	5,000	5,000
Loan facilities		
- Commercial paper (only expires if cancelled)	300,000	300,000
- Domestic bond (matures 15 November 2011)	100,000	100,000
- Standby (expires 31 May 2008)	100,000	60,000
- 11am Borrowing (due for review 11 May 2008)	20,000	10,000
Total loan facilities	520,000	470,000
Amount utilised	(144,293)	(100,020)
Unused loan facility	375,707	369,980

21 REMUNERATION OF AUDITORS

	2007	2006
	\$	\$
Auditing services provided by the Australian National Audit Office	308,000	256,100

Audit services for Airservices Australia Group are provided by the Australian National Audit Office and are subcontracted to PricewaterhouseCoopers. Also included in the amount above is \$28,000 relating to the audit of API's Financial Statements.

Taxation services were provided by Pricewaterhouse Coopers during the year which totalled \$75,908.

Notes to the financial statements

For the year ended 30 June 2007

22 REMUNERATION OF DIRECTORS

	2007	2006
	\$	\$
Amounts received, or due and receivable, by Directors	456,079	479,675

The remuneration of the Chief Executive Officer (who was an Executive Director during the year) is disclosed with the remuneration of executives in note 23 and is not included in Director's remuneration. A number of Directors served for only part of the 2007 year as detailed in note 24.

The \$456,079 for 2007 consists of short-term employee benefits (\$418,390) and post-employment benefits (\$37,689).

23 REMUNERATION OF EXECUTIVES

Executive remuneration payments include base salary, termination payments and pay at risk. Remuneration received by the Executive managers, whose remuneration was at least \$130,000, totalled \$4,458,912 (2006: \$4,591,374). Executive managers are those who are concerned with, or take part in, the management of Airservices Australia Group and includes the Chief Executive Officer. The \$4,458,912 for 2007 consists of short-term employee benefits (\$3,699,308); long-term benefits (\$98,190); post employee benefits (\$408,436); and termination benefits (\$252,978). A number of Executives served for only part of the 2007 year as detailed in note 24.

Notes to the financial statements

For the year ended 30 June 2007

24 RELATED PARTY TRANSACTIONS

Directors

The names of persons who were Directors of Airservices Australia Group during the financial year and up to the date of signing these financial statements are as follows:

Chairman	Status	Commenced	Finished
Nick Burton Taylor AM		Ongoing	Current
Deputy Chairman	Status	Commenced	Finished
Christine Goode		Ongoing	Current
Chief Executive Officer	Status	Commenced	Finished
Greg Russell [i]		Ongoing	Current
Alastair Hodgson	Acting	2-Sep-06	8-Sep-06
		4-Dec-06	13-Dec-06
		10-Feb-07	20-Feb-07
Ken McLean	Acting	16-May-07	25-May-07
Jason Harfield	Acting	8-Jun-07	24-Jun-07
Directors	Status	Commenced	Finished
Alice Williams		Ongoing	Current
Henk Meertens		Ongoing	Current
David Forsyth		Ongoing	Current
Philippa Stone		Ongoing	29-Jun-07
Roxley McLennan		Ongoing	Current
Robert Maher		8-Aug-06	Current

[i] Mr Russell is also the ongoing Chairman of the Board of Airservices Australia's wholly-owned subsidiary, Airservices Pacific Incorporated.

Notes to the financial statements

For the year ended 30 June 2007

24 RELATED PARTY TRANSACTIONS (cont.)

Executives

The names of persons who were Executives of Airservices Australia Group during the financial year (excluding the CEO, included above) and up to the date of signing these financial statements are as follows:

Executives	Title	Commenced	Finished
Jason Harfield	GM Safety Management	Ongoing	Current
Neal O'Callaghan	GM Audit & Assurance	Ongoing	15-Mar-07
	GM Business Services	16-Mar-07	Current
Richard Dudley	GM Corporate Affairs	Ongoing	Current
Andrew Clark	GM Aviation Rescue and Fire Fighting	Ongoing	15-Mar-07
	GM Corporate Finance	16-Mar-07	Current
Wayne Emery	GM Business Development	Ongoing	Current
Keith Orkney	GM Technology and Asset Services	Ongoing	14-Mar-07
Stephen Angus	GM AERU	Ongoing	30-Jun-07
	GM ATC Reform	1-Jul-07	Current
Alan Barber	GM Corporate Finance	Ongoing	15-Mar-07
	GM Aviation Rescue and Fire Fighting	16-Mar-07	Current
Alastair Hodgson	GM People & Change	Ongoing	15-Mar-07
	GM Technology and Asset Services	16-Mar-07	Current
Kenneth McLean	GM Air Traffic Control	Ongoing	Current
Brian Prendergast	GM Future Direction	Ongoing	Current
Caroline Fleming	GM People & Change	16-Mar-07	Current
Michelle Bennetts	GM Audit & Assurance	16-Mar-07	Current

Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated.

Certain director-related entities have transactions with Airservices Australia Group that occur within normal customer or supplier relationships on terms and conditions no more favourable than those which it is reasonable to expect Airservices Australia Group would have adopted if dealing with the director-related entity at arm's length in similar circumstances.

Notes to the financial statements

For the year ended 30 June 2007

24 RELATED PARTY TRANSACTIONS (cont.)

Transactions with related parties (cont.)

These transactions include the following entities and have been described below where the transactions are considered likely to be of interest to users of these financial statements:

- Legal services amounting to \$58,673 (2006: \$133,332) have been provided to Airservices Australia Group by Freehills during the year, a firm that is a member of the panel of legal advisors to Airservices Australia and in which Ms Philippa Stone is a partner. Ms Stone resigned from the Board on 29 June 2007.
- Employer superannuation contributions were made to AvSuper Pty Ltd, a superannuation fund, of which Mr Alan Barber and Mr Neal O'Callaghan are trustee directors. Airservices Australia Group is reimbursed by AvSuper Pty Ltd for administrative costs incurred on behalf of the superannuation fund's management.
- To the extent permitted by law, Airservices Australia Group provides indemnities to its directors and officers to complement the insurance arrangements that it has in place.
- Airservices Pacific Incorporated (the wholly owned subsidiary of Airservices Australia) received consulting services from Mr Roger Ray (Director of API) amounting to US\$12k.

25 FINANCIAL INSTRUMENTS

Financial Instruments

Airservices Australia Group is exposed to financial risks arising from movements in interest rates and foreign exchange rates. Airservices Australia uses derivative financial instruments to minimise the impact of adverse movement in rates within the framework of a comprehensive set of risk management policies approved by the Directors. Financial risk is managed centrally and speculative trading is strictly prohibited.

Interest Rate Risk Exposures

The following table summarises the interest rate risk exposures of Airservices Australia Group, together with effective interest rates at balance date.

Notes to the financial statements

For the year ended 30 June 2007

25 FINANCIAL INSTRUMENTS (cont.)

Interest Rate Risk Exposures (cont.)

2007	Notes	Average interest rate	Floating interest rate	Fixed interest maturing in:			Non-interest bearing	Total
				1 year or less	1 to 5 years	More than 5 years		
				\$'000	\$'000	\$'000		
Financial assets								
Cash and deposits	9	6.09%	7,500	-	-	-	1,374	8,874
Receivables	10	-	-	-	-	-	76,185	76,185
Total			7,500	-	-	-	77,559	85,059
Financial liabilities								
Trade and other payables (2)	15	-	-	-	-	-	59,734	59,734
Bank loans – bonds	16	6.41%	-	-	99,409	-	-	99,409
Interest rate swaps (1)		-	100,000	-	(100,000)	-	-	-
Interest rate swaps (1)		-	(70,000)	21,000	49,000	-	-	-
Commercial Paper	16	6.33%	44,884	-	-	-	-	44,884
Total			74,884	21,000	48,409	-	59,734	204,027
Net Financial Assets / (Liabilities)			(67,384)	(21,000)	(48,409)	-	17,825	(118,968)

2006	Notes	Average interest rate	Floating interest rate	Fixed interest maturing in:				Total
				1 year or less	1 to 5 years	More than 5 years	Non-interest bearing	
				\$'000	\$'000	\$'000	\$'000	
Financial assets								
Cash and deposits	9	5.63%	24,981	-	-	-	893	25,874
Receivables	10	-	-	-	-	-	74,180	74,180
Total			24,981	-	-	-	75,073	100,054
Financial liabilities								
Trade and other payables (2)	15	-	-	-	-	-	72,526	72,526
Bank loans – bonds	16	6.49%	-	100,020	-	-	-	100,020
Interest rate swaps (1)		-	100,000	(100,000)	-	-	-	-
Interest rate swaps (1)		-	(77,000)	-	77,000	-	-	-
Total			23,000	20	77,000	-	72,526	172,546
Net Financial Assets / (Liabilities)			1,981	(20)	(77,000)	-	2,547	(72,492)

(1) Notional principal amounts

(2) This item excludes amounts for staff recreation leave liabilities

Notes to the financial statements

For the year ended 30 June 2007

25 FINANCIAL INSTRUMENTS (cont.)

Reconciliation of net financial assets/(liabilities) to net assets

	Notes	2007 \$'000	2006 \$'000
Net financial assets/(liabilities) as above		(118,968)	(72,492)
Other current assets		10,210	3,727
Non-current assets	12,13,14,17	689,983	603,029
Current provisions (including recreation leave)	15	(147,951)	(164,573)
Non-current provisions	15	(48,262)	(51,703)
Net assets as per Consolidated Balance Sheet		385,012	317,988

Forward Exchange Contracts

Forward exchange contracts are used to hedge Airservices Australia Group's exposure to foreign currency exchange rate risk. This arises primarily from committed transactions relating to capital expenditure program undertakings, asset sales and revenue earned from international activities. At balance date, the details of outstanding contracts are (Australian dollar equivalents):

Sell US Dollars	Buy Australian Dollars		Average Exchange Rate	
	2007 \$'000	2006 \$'000	2007 \$US/\$1	2006 \$US/\$1
Maturity				
3 months or less	-	-	-	-
Greater than 3 months but less than 1 year	-	949	-	0.7379
Greater than 1 year	-	-	-	-

Buy EUROS	Sell Australian Dollars		Average Exchange Rate	
	2007 \$'000	2006 \$'000	2007 EURO/\$1	2006 EURO/\$1
Maturity				
3 months or less	-	1,391	-	0.6092
Greater than 3 months but less than 1 year	6,134	622	0.5802	0.6055
Greater than 1 year	6,866	-	0.5845	-

Notes to the financial statements

For the year ended 30 June 2007

25 FINANCIAL INSTRUMENTS (cont.)

Forward Exchange Contracts (cont.)

Buy US Dollars	Sell Australian Dollars		Average Exchange Rate	
	2007 \$'000	2006 \$'000	2007 \$US/\$1	2006 \$US/\$1
Maturity				
3 months or less	7,373	6,588	0.7370	0.7352
Greater than 3 months but less than 1 year	10,510	14,004	0.7316	0.7347
Greater than 1 year	-	13,742	-	0.7334

Credit Risk Exposures

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 Australia Group enters into financial derivative contracts with counterparties with a Standard and Poors' rating of at least AA-.

Net Fair Value of Financial Assets and Liabilities

The carrying amounts and estimated net fair values of financial assets and financial liabilities (including derivatives) held at balance date are given below. The net fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged, or a liability settled in a current transaction between willing parties after allowing for transaction costs.

	2007		2006	
	Carrying amount \$'000	Net fair value \$'000	Carrying amount \$'000	Net fair value \$'000
Financial assets				
Forward exchange contracts	-	(2,971)	-	(12)
Cash and cash equivalents	8,874	8,874	25,874	25,874
Trade and other receivables	76,185	76,185	74,180	74,180
Interest rate swaps	-	(858)	-	811
	85,059	81,230	100,054	100,853
Financial liabilities				
Long term debt	99,409	98,151	100,020	100,934
Trade and other creditors	59,734	59,734	72,526	72,526
	159,143	157,885	172,546	173,460

Notes to the financial statements

For the year ended 30 June 2007

25 FINANCIAL INSTRUMENTS (cont.)

Net Fair Value of Financial Assets and Liabilities (cont.)

The following methods and assumptions were used to estimate the net fair value of each class of financial instrument.

Long-term debt

The net fair value of long-term debt is determined by reference to current market rates.

Forward foreign exchange contracts

The net fair value of forward foreign exchange contracts is determined by reference to current forward rates for contracts with similar maturity.

Interest rate swap agreements

The net fair value of interest rate swap contracts is determined as the difference in present value, discounted using current market rates, of the future interest cash flows.

26 MONIES HELD ON BEHALF OF THIRD PARTIES

Airservices Australia Group has been contracted by the Solomon Islands Civil Aviation Authority and the Republic of Nauru to provide airspace management and accounts receivable services. The contracts require Airservices Australia Group to retain cash received and to remit funds at a later date to the Solomon Islands and Nauru Governments as required under the respective agreements. At balance date, the money held on behalf of third parties totalled \$1.926m (2006: \$1.458m) for the Solomon Islands and \$0.008m (2006: \$0.073m) for Nauru.

27 ECONOMIC DEPENDENCY

Airservices Australia Group is dependent on activity in the Australian aviation industry, of which the Qantas Group is the dominant operator, representing approximately 45% (2006: 42%) of airways revenue earned during the year.

Notes to the financial statements

For the year ended 30 June 2007

28 NOTES TO THE STATEMENT OF CASH FLOWS

	2007	2006
	\$'000	\$'000
Reconciliation of cash and cash equivalents		
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:		
Cash, advances and cash on call	8,874	25,874
Total cash and cash equivalents	8,874	25,874
Reconciliation of net profit after income tax to net cash flows from operations		
Net profit after income tax	106,754	93,596
Adjustments for:		
Depreciation	39,850	42,768
Amortisation	12,258	10,300
Interest received	(747)	(1,759)
Reversal of previous asset write-downs	(12,106)	(2,442)
Net loss on sale/write-off of non-current assets	592	442
Fair value adjustments to derivatives	1,366	(651)
Amortisation of premium on borrowings	-	(47)
Excess AvSuper defined benefit contributions (after tax)	(7,774)	(10,886)
Changes in assets		
(Increase)/decrease in gross receivables	(2,066)	(8,242)
(Increase)/decrease in inventories	(295)	87
(Increase)/decrease in prepayments	351	463
(Increase)/decrease in deferred tax assets	6,173	(567)
Changes in liabilities		
Increase/(decrease) in employee benefits	(880)	(12,714)
Increase/(decrease) in allowance for impairment	(53)	(1,301)
Increase/(decrease) in legal provisions	(259)	(1,007)
Increase/(decrease) in income tax payable	(5,221)	(965)
Increase/(decrease) in cross-border transaction provision	(29)	(2,112)
Increase/(decrease) in creditors and accruals	(7,468)	1,550
Increase/(decrease) in revenue to be returned to customers provision	(12,062)	14,899
Net cash flow from operating activities	118,384	121,412

Notes to the financial statements

For the year ended 30 June 2007

29 CROSS BORDER FINANCING ARRANGEMENT

During the 2003 and 2004 years, Airservices Australia Group completed a cross-border financing arrangement in relation to equipment associated with The Australian Advanced Air Traffic System (TAAATS) and radar systems. The arrangement is for 22.5 years and expires in January 2026.

Airservices Australia Group has provided certain guarantees and indemnities to various participants in the transaction. If certain events occur, Airservices Australia Group could be liable to make substantial payments. The future underlying exposure against which these guarantees and indemnities have been provided are up to a maximum of US\$743m (30 June 2006: US\$758m). At the time of the transaction, expert external advisors considered that unless exceptional, extreme and highly unlikely circumstances arise, Airservices Australia Group would not be required to make a significant payment under these guarantees and indemnities. Management regularly monitors the factors affecting this transaction on an ongoing basis.

AIRSERVICES AUSTRALIA



Appendices

APPENDIX 1: BOARD MEMBERSHIP, MEETINGS AND COMMITTEES

Members of the Board and their terms of appointment

Board members for the period 1 July 2006 to 30 June 2007.



Nick Burton Taylor
(Chairman) AM, BEc, FCA,
FFIN, FAICD, ASIA—
from 28 January 2005

Mr Burton Taylor is a farmer from Boorowa, New South Wales. He has had an extensive career as a professional director and has a broad background in accounting, agriculture, aviation, commerce and small business.

Mr Burton Taylor is Chairman of the Australian Agricultural Company Ltd and the Country Education Foundation of Australia, a director of Hamilton James and Bruce Ltd and a member of Rabo Bank Board of Advice.



Christine Goode
(Deputy Chair) PSM—
from 28 January 2005

Ms Goode has extensive public sector experience in transport, communications and executive management, working at Federal Departmental Deputy Secretary and Chief Executive Officer levels.

Since retiring as Commissioner for Superannuation in 2002, Ms Goode has several Board and Audit Committee appointments. She is a member of the ACT Public Trustee Investment Advisory Board.



**Robert Maher AM, BA—
from 8 August 2006**

Mr Maher is a graduate of the Royal Military College, Duntroon and the Australian National University in Canberra. He served with the Australian Army in Singapore, Malaysia and Vietnam. For the past decade, Mr Maher has provided consulting advice to investment banks and to the commercial defence sector. He has wide experience in the public and private sectors and has extensive knowledge of Australia's economic, business, political and legislative structure.

Mr Maher is a director of Brooker Consulting Company Pty Ltd.



**Henk Meertens BArch—
from 28 January 2005**

An architect, Mr Meertens has been actively involved in recreational and sport aviation for 25 years and has logged more than 3 000 hours flying time in gliders. He was President of the Australian Sport Aviation Confederation from 1996 to 2004 and he has represented the Australian sport and recreational aviation industry at international level and on a number of national forums and committees, including Civil Aviation Safety Authority Regulatory Reviews.

Mr Meertens is a director of Rhibrae Pty Ltd, Wesky Pty Ltd and Cudgegong Soaring Pty Ltd.



**Roxley McLennan AO, AVM
(Rtd)—from 1 May 2006**

Air Vice-Marshal Roxley McLennan retired from the Royal Australian Air Force in March 2006 after a distinguished military career that culminated in him serving as Deputy Chief of Air Force. He has more than 6 000 flying hours, mainly on C130 Hercules aircraft in operational, check and training roles. He is committed to the vision of a single, national air traffic management system for Australia.

Air Vice-Marshal McLennan is Chief Executive of the South Australian Government's Defence Unit.



**David Forsyth BAeroEng,
GradDiplIndEng, FRAeS—
from 28 January 2005**

Mr Forsyth is Chair of the Board Safety and Environment (Regulatory) Committee.

Mr Forsyth is an aeronautical engineer with more than 30 years experience in airline operations and aviation engineering. He is a former Qantas Airways Executive General Manager responsible for flight operations, engineering and maintenance. He was previously General Manager, Qantas Regional Airlines, covering four wholly-owned subsidiaries.

Mr Forsyth is a Board member of Aviation Australia and the Royal Flying Doctor Service of Australia (South-eastern Section), and President of the Royal Aeronautical Society Australian Division.



**Alice Williams BComm, CFA,
FAICD, FCPA—
from 28 January 2005**

Ms Williams is Chair of the Board Audit Committee.

Ms Williams has over 20 years of senior management and board-level experience. She has expertise in strategy and policy development, corporate advisory and funds management, competition policy and regulation and has also consulted for domestic and international airlines.

Ms Williams is a Director of Strategic Analytics (Australia) Pty Ltd, State Trustees Ltd and State Trustees Financial Services Ltd, VLine Passenger Corporation, Guild Insurance & Financial Services Holding Limited and Telstra Sale Company Ltd and is a Commissioner of the Victorian Competition and Efficiency Commission.



**Philippa Stone BA (Hons),
LLB (Hons)—from
28 January 2005
to 29 June 2007**

Ms Stone is a partner and joint national leader of the Equity Capital Markets Group in international legal firm Freehills.

Ms Stone is on the Law Council of Australia's Corporations Law Committee, the Australian Securities and Investments Commission's Equity Offerings Liaison Committee, the Australian Stock Exchange Listing Appeals Committee and the Australian Government's Business Regulatory Advisory Group on the CLERP 9 reforms.

Ms Stone resigned on 29 June 2007 to take up a position on the International Air Services Commission.



**Greg Russell—appointed
Chief Executive Officer on
19 July 2005**

Mr Russell was Chief Operating Officer at Athens International Airport until June 2005 and from 1999 to 2003 Director, Aviation at Sydney Airport Corporation. Previously he was an executive with regional operator Hazelton Airlines for six years and became General Manager of the company. He has also held a range of management positions in private companies and government organisations.

Mr Russell is Chair of Airservices Australia's wholly-owned subsidiary, Airservices Pacific Incorporated.

Corporate Secretary

Mr Paul Menzies-McVey was Airservices Australia's Corporate Secretary to 9 March. Ms Kate Gardiner then acted in the position until the permanent appointment of Ms Ditta Zizi on 14 June 2007.

TABLE 4 MEETINGS OF THE BOARD, BOARD COMMITTEES AND MEMBERS' ATTENDANCE

	Board committees						
	Board	Audit	Safety and Environment (Operations)	Safety and Environment (Regulatory)	Remuneration	Security	New Business ^a
No. meetings convened	11	4	8	3	4	2	0
Members	Number meetings attended						
Nick Burton Taylor ^b	11	0	0	0	4	2	0
Christine Goode	10	4	7	3	4		
David Forsyth ^c	11		8	3			
Robert Maher ^d	10	3					
Roxley McLennan	11		8	2		2	
Henk Meertens	11		8	3			
Philippa Stone	11	4					
Alice Williams ^e	11	4					
Greg Russell ^f	11		8	3	4	2	0

Note: All meetings were held in Canberra, except for one meeting each of the Board and the Safety and Environment (Operations) Committee, which were held in Sydney in March 2007.

a No meetings of the New Business Committee were convened during 2006–07.

b Ex officio member of all Board committees. Chair of Remuneration, Security and New Business committees

c Chair Safety and Environment (Operations) and Safety and Environment (Regulatory) committees

d Board member from 8 August 2006 and Audit Committee member from 1 November 2006

e Chair Audit Committee

f The CEO is not a member of the Audit Committee

Benefits and interests in contracts with Airservices Australia

Details of directors' benefits and interests in contracts with Airservices Australia are set out in Note 24 of the financial statements.

Directors' and officers' indemnities and insurance

In 2006–07, Airservices Australia held a directors and officers liability insurance policy. It is a condition of this policy that the nature of the liability indemnified, the limits of liability and the premium payable not be disclosed to third parties except to the extent that:

- Airservices Australia is required to do so by law or
- the insurer consents in writing to such disclosure

On 20 February 2004, Airservices Australia gave an indemnity to present, past and future directors and officers of the corporation on certain terms and conditions in relation to certain claims arising from acts of war or acts of terrorism. This indemnity continues in force.

On 25 June 2004, Airservices Australia gave an indemnity to present, past and future directors and officers of the corporation on certain terms and conditions in relation to claims arising in connection with them being a director or officer of Airservices Australia. This indemnity continues in force.

On 10 August 2005, Airservices Australia gave an indemnity to present, past and future employees of the corporation undertaking instrument design functions on certain terms and conditions in relation to claims arising in connection with such instrument design functions. This indemnity continues in force.

All three indemnities are consistent with the *Commonwealth Authorities and Companies Act 1997*.

Appendix 2: Statutory and administrative information

Ministerial directions

During 2006–07, the Minister made no formal directions to Airservices Australia under the *Air Services Act 1995*. Ministerial directions still current from previous years are in table 6 at page 120.

Occupational health and safety

In accordance with section 74 of the *Occupational Health and Safety Act 1991* (OHS Act), the following report provides information on OHS matters for Airservices Australia in 2006–07.

Legislative changes to occupational health and safety

In April 2007, changes were made to the OHS Act and Regulations and the *Safety, Rehabilitation and Compensation Act 1988* (SRC Act) and Regulations. The OHS Act changes facilitated more direct consultative arrangements between staff and management. The SRC Act changes determined that there is no longer provision for compensation claims for staff injured while travelling to or from work. These changes will have a positive impact on Airservices Australia's total claim costs.

National Consultative Council occupational health and safety-committee

The OHS sub-committee of the National Consultative Council, composed of Airservices Australia management and union representatives, did not meet during 2006–07.

Occupational health and safety incidents

In accordance with section 68 of the OHS Act one death, one incapacity, 16 dangerous occurrences and nine serious personal injuries were reported to Comcare during 2006–07 (In 2005–06, the figures were one, one, 22 and 12, respectively).

Safety initiative

After the 2005–06 re-alignment of Airservices Australia's organisational structure, OHS policy and procedures were integrated into the Safety Management business group in 2006–07. Accordingly, an OHS System Renovation Program was introduced in January 2007, focussing on four deliverables:

- defined contract, contractor and project management requirements and processes
- improved OHS performance measurement and reporting capability

- a consolidated single intranet site for access to OHS documentation and information
- improved communication and consultation processes with staff

Workers compensation

Airservices Australia's workers compensation premium for 2006–07 was set at 0.31 per cent of salary and wages (0.46 per cent in 2005–06). The Commonwealth average in 2006–07 was 1.77 per cent (1.77 per cent in 2005–06).

Comcare investigations

Comcare investigated two incidents in 2006–07 (none in 2005–06):

- in New South Wales, the potential exposure of technology staff to hazardous radiation in excess of industry standards
- in the Northern Territory, a coupling failure during an Aviation Rescue and Fire Fighting pressure test for equipment integrity

One provisional improvement notice was issued during 2006–07 following the Northern Territory equipment pressure testing investigation (none were issued in 2005–06).

Commonwealth Disability Strategy

Under the Commonwealth Disability Strategy, Airservices Australia fulfils provider and employer roles.

As a provider, the corporation deals with the aviation industry and with aviation customers, including individual members of the Australian community. During the year, we ensured that corporate information was available in a variety of formats for people with disabilities.

In its employer role, Airservices Australia aims to eliminate disability discrimination in the workplace through its equity and diversity program. The corporation continued its membership of Employers Making a Difference Inc, an Australian employers' network promoting and supporting businesses that encourage people with a disability.

Airservices Australia has used the principle of reasonable adjustment to facilitate the permanent employment of people with a disability, for example by providing special computer equipment for employees with visual impairment.

Equity and diversity

During 2006–07, Airservices Australia focussed on the employment of indigenous Australians and the attraction and retention of female employees. An advertising campaign commenced in April 2007 offering career and training opportunities to indigenous Australians in the Northern Territory in consultation with the NT Police and Fire Brigade.

Strategies for attracting and retaining women in the organisation included the provision of flexible working arrangements, subsidised school holiday programs and the implementation of a Work-Life Balance policy to support carer responsibilities.

Some 457 employees completed on-line equity and diversity and cross-cultural awareness training programs.

Aviation security

Airservices Australia maintains a Transport Security Program as required by the *Aviation Transport Security Act 2004* and the Aviation Transport Security Regulations 2005. The program describes the security measures and procedures that the corporation uses to minimise the risk of unlawful interference with aviation and major security threats against critical air traffic, aeronautical navigation, telecommunications and surveillance and emergency facilities.

Fraud control

Airservices Australia has fraud prevention, detection, investigation, reporting and data collection procedures and processes that meet its needs and, where required, those of the Commonwealth Fraud Control Guidelines.

Privacy

The *Privacy Act 1988* requires Airservices Australia to maintain a record of personal information in accordance with clause 3 of Information Privacy Principle 5, including the following details:

- the purpose for which the records are kept
- the class of individuals to which the records apply
- the period for which the records are kept
- details of how individuals can get access to records about themselves.

The corporation's Personal Information Digest record is available on the website of the Office of the Federal Privacy Commissioner at: <http://www.privacy.gov.au>

During 2006–07, the Privacy Commissioner did not undertake any investigations under section 40 of the Privacy Act in relation to Airservices Australia.

Freedom of information

The *Freedom of Information Act 1982* (FOI Act) requires Australian Government agencies to make available information about their organisations, functions and operations and about rules and practices they use in making decisions that affect members of the public.

Powers and functions

Airservices Australia's legislative framework, powers and functions are set out in the Corporate Overview section of this report.

FOI procedures and initial point of contact

Under the FOI Act, the Chief Executive Officer or his authorised officers may grant or refuse access to any document held by Airservices Australia. Within the corporation, the Coordinator FOI and Inquiries in the Office of Legal Counsel makes initial decisions about access and fees.

A request for access to documents must be in writing, enclosing the required \$30 application fee, and state an address in Australia to which notices can be sent. In certain circumstances the fee may not be required or may be remitted. To enable a prompt response and to help the corporation meet its obligations under the FOI Act, you should provide as much information as possible about the documents you are seeking. It is also advisable to include a telephone number or an electronic mail address to allow the coordinator to contact you in case clarification is needed. Applicants may be liable to pay administrative charges for the processing of a request, at rates prescribed by the Freedom of Information (Fees and Charges) Regulations.

Although the *Electronic Transactions Act 1999* provides for FOI requests to be made via electronic mail, a request must be accompanied by the application fee. In most cases no action will be taken on a request received by electronic mail until the application fee is received by post or a request has been made for remission of the application fee. Airservices Australia does not have facilities in place to accept FOI payments electronically.

The address for lodging requests is:

FOI and Inquiries Coordinator
Office of Legal Counsel
Airservices Australia
GPO Box 367
Canberra ACT 2601

Telephone: 02 6268 5108
Fax: 02 6268 5148

Consultative arrangements

Airservices Australia welcomes comment from other organisations and from the public on its policies and practices. The corporation maintains many channels for consultation, including consultative committees, the Airservices Australia website: <http://www.airservicesaustralia.com> Airport Community Consultative Committees, telephone enquiry services, industry and pilot briefings and locally advertised public meetings. The Minister, the Board, the Chief Executive Officer, the Executive and business centre managers also respond to posted comments.

Airservices Australia is a member of various Australian and international aviation bodies, including the Regional Core Planning Group of the International Civil Aviation Organization (ICAO); the ICAO's Air Transport, Air Navigation Commission and Legal panels and technical committees; regional planning groups; the National Association of Testing Authorities; the Air Coordinating Committee; Sydney Airport and Basin development committees; the International Air Transport Association; the Civil Air Navigation Services Organisation; joint Airservices Australia–Defence working parties and committees; the Sydney Airport Community Forum; the Sydney Long Term Operating Plan Implementation and Monitoring Committee; the Central Traffic Management System Steering Group; the Airport Development Committee; the Regional Airspace Users Advisory Committee; the Aviation Policy Group, the Aviation Implementation Group, the Standards Consultative Committee and the Australian Firefighters Council.

FOI activity for financial year 2006–07

Table 5 shows Airservices Australia's FOI activity for 2006–07.

TABLE 5 FREEDOM OF INFORMATION STATISTICS

Activity in 2006–07	Numbers
Requests:	
• On hand at 1 July 2006	1
• New requests received	3
• Total requests handled	4
• Total requests completed at 30 June 2007	4
Outstanding at 30 June 2007	0
Action on requests:	
• Access in full	0
• Access in part	2
• Access refused	1
• Access transferred in full	0
• Request withdrawn	1
Response times: (excluding withdrawn)	
• 0–30 days	2
• 31–60 days	1
• 61–90 days	–
• 90+ days	–
Internal review:	
• Requests received	0
• Decision affirmed	0
• Decision amended	0
• Request withdrawn	0
Review by Administrative Appeals Tribunal:	
• Applications received	0

Ombudsman activity in 2006–07

During the 2006–07 financial year, there were no formal requests for information from the Office of the Commonwealth Ombudsman (2005–06: no requests).

Categories of documents held by Airservices Australia

Documents in the categories listed below are held by Airservices Australia as paper records or on optical, audio or digital media.

Legal and ministerial: legislation affecting the corporation; taxation working documents; Treasury records; insurance files; ministerial briefing papers and correspondence; policy advice, instructions and working papers; legal records, documents, instruments, precedents and advice and FOI Act activity records.

Financial: planning and pricing records; airways charges collection data; financial statements, working papers, reporting documentation and records.

Commercial: corporate property files, policy documents and records; service charter documentation; general correspondence; media reports and press releases; tenders, bids and submissions original contract documents; contracts, agreements and memorandums of association, contract precedent information.

Management and governance: Board submissions, minutes and action records; management meeting submissions, records and minutes; corporate and strategic plans; business management documents, business plans, cases and reports, and service agreements.

Internal procedures: financial and resource management records, internal operating procedures, policy and procedures manuals and instructions; procurement guidelines; budget reports, general ledger records, procedures and manuals; project financial data, approvals, briefs, plans, designs and commissioning reports; project management policy, manuals, processes and procedures; project records, including schedules, contracts and financial records; project documentation, working party and committee reports; statistical information; information technology policy, procedures, specifications, instructions, manuals, standards, reports, maintenance and asset records, back-up tapes; quality management records and procedures and manuals.

Employees: workplace agreements; procedural manuals, employee and personnel management records; service and employment agreements; occupational health and safety records; equity and diversity records and internal staff publications.

Technical: Aeronautical Information Circulars; Aeronautical Information Publications; communication systems handbooks; aeronautical engineering instructions, drawings,

reports, configuration documents and policy documents; operational policy and procedures manuals; communications, surveillance, navigation, testing and maintenance systems and engineering documents; specifications, instructions, manuals, standards, procedures, reports, maintenance records, plans and asset records; documentation of radar tapes and analyses; data communications operations manuals; maps, charts and research and investigation records and statistics of airport operations.

Environment: standards and procedures; records of assessment under Air Navigation (Aircraft Noise) regulations; Australian Noise Exposure Forecasts, Exposure Concepts and Indices and related documents; Noise and Flight Path Monitoring System reports; reports on environmental assessments and records of telephone inquiries and aircraft noise complaints.

Airspace: airspace change proposals and associated data; change assessment guidelines, procedures, standards and manuals; records in support of decisions; audit, monitoring and review procedures, plans and findings; consultation material and website subscription and stakeholder records.

Air traffic control: ATC and separation policy, guidelines, standards, instructions and manuals; training records, standards, curriculum, syllabus and examination records; procedure development records; ATC and flight service daily logs and journals, audio tapes and personnel operational records; navigational maps and charts; aircraft movement data; operational documents and aeronautical charts for pilot navigation and flight planning; pilot education material and aeronautical information publications and operational charts, including en route information and world aeronautical charts.

Safety: airport emergency planning documentation; safety standards procedures and documents; audit reports and records, including on safety cases; aviation accident, incident and investigation records and safety and surveillance system records and manuals.

Aviation rescue and fire fighting: ARFF operational, engineering, quality assurance and safety management procedures and instructions; documents and procedures on recruitment, occupational health and safety, environment, hazardous materials and fire safety; aviation fire fighting manual; Australian Public Safety Training Package and associated training manuals, including module descriptors, assessment manuals and associated records and ARFF systems training/instruction manuals, incident and investigation records.

Categories of documents available for purchase

Airservices Australia sells a wide range of internally and externally produced documents through its Publications Centre in Canberra, including:

- Airservices Australia and Civil Aviation Safety Authority regulatory and operational documents
- logbooks—aircraft, pilot, operational notes, syllabus
- training manuals and practice exams for pilot's licences
- engineering, aerodrome, helicopter, human performance factor, meteorology, GPS and general reference books
- navigation products, videos and chart packages

A comprehensive list of publications and prices is available from the Publications Centre:

Locked Bag 8500

Canberra ACT 2601

Telephone: 1300 306 630 (local call cost)

Fax: 02 6268 5111

Website: <http://www.airservicesaustralia.com/publications>

Superannuation

Airservices Australia's employer superannuation arrangements complied with the requirements of the *Superannuation Benefits (Supervisory Mechanisms) Act 1990* as prescribed by the Minister for Finance in Determination No. 1 of 1994, made under the Act and dated 30 June 1994.

Airservices Australia's employment agreements are generally exempt from the choice of funds regime. Employees covered by them are required to be members of the corporation's superannuation fund, Avsuper.

Avsuper was granted a registrable superannuation entity licence from the Australian Prudential Regulation Authority. All superannuation funds were required to obtain this licence before 1 July 2006 in order to operate as funds.

Avsuper is licensed to operate as a public offer fund. This allows membership for people who are employed outside Airservices Australia and the Civil Aviation Safety Authority.

Judicial decisions and reviews by outside bodies

No judicial decisions or decisions of administrative tribunals during 2006–07 had, or may have, a significant impact on the operations of Airservices Australia.

The Parliamentary Standing Committee on Public Works held a public hearing in March 2007 into an Airservices Australia proposal to replace air traffic control towers at Canberra, Rockhampton, Adelaide and Melbourne airports at an estimated cost of \$103 million (inc GST). The committee's report, approving the project, was cleared by Parliament in June 2007.

Environmental protection and ecologically sustainable development

In 2006–07, Airservices Australia reduced greenhouse gas emissions and protected the environment through such air traffic management initiatives as:

- pre-departure tactical management
- use of the Long-range Optimal Flow Tool
- continuous descent approaches
- required navigation performance (RNP) procedures
- flextracks

See the 'Key result area: environment' in the Review of Operations for full details of these initiatives.

In internal operations, we protected the environment by:

- continuing to reduce water use by progressively installing waterless urinals, flow-restricting taps on sinks and basins and water-saving shower roses
- planting drought-tolerant plants around buildings
- servicing the fire sprinkler services storage tank at our Melbourne centre rather than draining it, to save tens of thousands of litres of water
- meeting the Level 4 water restriction target at our Brisbane centre by reducing its water use by 25 per cent over three years from 27.8 megalitres in 2004–05 to 20.1 megalitres in 2006–07
- reviewing alternatives to dark smoke ARFF fire training activities and establishing industry-leading water capture and recycling services

- adjusting the approach to Perth Airport’s runway 03 Instrument Landing System so that aircraft fly over an industrial area instead of a wildlife park
- introducing E-change, an internal program to improve our environmental performance.

TABLE 6 MINISTERIAL DIRECTIONS STILL CURRENT FROM PREVIOUS FINANCIAL YEARS

Calendar year	Reference number and/or date of issue	Subject
1996	29 May	Handling of aircraft noise complaints at Sydney and other Federal airports
1997	30 July	Progressive implementation of Sydney Long Term Operating Plan
1999	3 May	Responsibilities in relation to the environmental effects of aircraft
2001	24 December	Reimbursement of en route charges to operators covered by Government en route subsidy
2002	14 May	Limitations to the use of Precision Runway Monitor at Sydney
2004	31 August	Provision of approach radar services at specific airports

Appendix 3: Statement of expectations

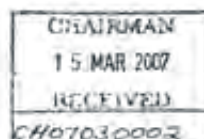


The Hon Mark Vaile MP
Deputy Prime Minister
Minister for Transport and Regional Services
Leader of The Nationals

Reference: 02247-2007

12 MAR 2007

Mr Nick Burton Taylor AM
Chairman
Airservices Australia
GPO Box 367
CANBERRA ACT 2601



Dear Mr Burton Taylor

I am pleased to provide you with this Statement of Expectations. The Statement replaces the letter of 25 October 1999 to the then Airservices Australia (Airservices) Chairman from the former Deputy Prime Minister and Minister for Transport and Regional Services, the Hon John Anderson MP.

The Government acknowledges Airservices' independence as a Commonwealth Authority with statutory functions and responsibilities for the commercial provision of aviation services and facilities.

You have informed me that Airservices is undergoing significant reform and rebuilding. I encourage the continuation of this process, knowing that you will have regard to the full range of statutory responsibilities and Government priorities relevant to Airservices' role. I ask that the Board treat the following as strategic guidance to implement Australian Government policy.

Airservices' public interest role

Airservices is operating in an increasingly complex and regulated environment. Air traffic in the Asia-Pacific region is forecast to grow strongly in the next twenty years. The likelihood of continuing instability in fuel prices and ongoing community concerns about aircraft noise and aviation's impact on climate and air quality will provide the context of that operating environment. Security issues associated with aviation will also continue to be a central issue for industry and governments.

Airservices carries a unique responsibility as the sole commercial provider in Australia of civil air navigation and related services. Its primary function will remain the provision of services and facilities to ensure safe, secure and efficient civil aviation in

Australia and for the purpose of giving effect to Australia's obligations under the Chicago Convention.

I acknowledge the challenge of reconciling these public responsibilities with investing for future aviation growth and earning a commercial rate of return on assets and in doing so in a way that retains the support of industry. I expect that Airservices will, as Commonwealth Authority, balance these commercial objectives with its obligations to the Government, aviation industry and the community.

Airservices is required by legislation to ensure that as far as practicable the environment is protected from the effects of the operation and use of aircraft. The Australian Government places considerable store in these functions and I ask that Airservices devotes sufficient resources to data collection, monitoring, reporting and advice on environmental issues. I expect Airservices to continue to provide noise monitoring, operate a noise enquiry unit for Australian airports and work with the industry to reduce aircraft emissions.

The Sydney Airport Long Term Operating Plan (LTOP) will remain an important element of Airservices' public responsibilities. I ask for Airservices' commitment and cooperation in ensuring the continued effectiveness of the Australian Government's noise management policies and initiatives in Sydney, including continued close cooperation with the Department of Transport and Regional Services (the Department). I ask that you work with the Department to provide an effective monitoring and reporting regime for implementing the LTOP.

The information that Airservices provides to enable monitoring and enforcement of the Sydney Airport curfew, in accordance with the *Sydney Airport Curfew Act 1993*, and fuel spillage incidents, and the timely production of the Annual Noise Exposure Index are important elements of Airservices' public responsibilities. I ask you to work closely with the Department in meeting these responsibilities.

Airservices also has a key role in the administration and regulation of compliance under the *Sydney Airport Demand Management Act 1997*. In particular, it is essential that Airservices maintains robust and reliable data and information for the operation of the Scheme. This will require ongoing cooperative work with the Slot Manager and the Department to ensure that data collection, reporting and decision making meet the requirements and the Scheme in full.

Airservices plays a key role in assisting the Department administer the *Airports Act 1996*. In accordance with the Act the Department will seek Airservices' input and views on Master Plans and Major Development Plans at the leased Federal airports and in relation to airspace protection around those airports. Consistent with the Government's expectations, the airports will seek Airservices' views early in the development of their plans. The Department will also seek Airservices' views following lodgement of a plan with me.

I value Airservices' input on the safety and operational efficiency implications of airport plans. As the relevant legislation prescribes tight timeframes, it is important that Airservices' advice in these areas is timely. I also expect Airservices to have an ongoing role in providing advice on the assessment and implementation of airport plans.

I ask that Airservices continue to progress its Genesis initiative and other steps to work more closely with the Department of Defence to integrate air traffic management and

more efficiently manage Australian airspace. I would like to receive written quarterly reporting on the progress of this work program through 2007.

Airservices has demonstrated initiative in its strategy of assisting neighbouring states to meet their aviation safety obligations. I support the implementation of this 'neighbourhood strategy' as a matter of public policy importance and acknowledge that Airservices provides a key component of the Australian Government's assistance and strategic support to our region. To ensure a coordinated approach to Australia's relations with regional states, I ask Airservices to ensure that I, the Department and other appropriate government agencies are kept fully informed in a timely manner on such activities. I note that these issues are also addressed in the revised non-regulated business guidelines.

Finally, I request that Airservices remain conscious of my responsibilities as Minister for Regional Services and keep me informed in a timely manner of any proposed operational or other changes that could impact on rural and regional Australia.

Airspace regulation

The Australian Government has introduced legislation to implement a range of changes to management and regulation of airspace. As part of these changes the airspace regulation function is to transfer to the Civil Aviation Safety Authority (CASA) on 1 July 2007. I seek Airservices' continuing cooperation in ensuring the smooth transfer of this function and in implementing the Government Ministerial Statement of 14 September 2006 regarding the assessment of remaining National Airspace System characteristics. I also envisage Airservices working closely with the Department in the development of the Airspace Policy Statement. I ask that Airservices devote sufficient resources to the airspace regulatory function, including continuing assessment of airspace reforms, until such time as the transfer is completed.

I also ask that Airservices further develop and increase the capacity and capability of its programme of monitoring the safety of aviation activity at Australian airports, ensuring that the level of air traffic services is appropriate.

While regulatory decisions will appropriately be the responsibility of CASA from July 2007, Airservices has a responsibility to ensure that the safety regulator is kept fully informed of developments that could affect safety. I would like to see an ongoing monitoring programme and, as required, the undertaking of aeronautical studies of key risk environments.

Non regulated business

Airservices' primary focus must be the provision of its core services to customers in Australia. As noted, the Australian Government considers Airservices' 'neighbourhood strategy' as a potentially important contribution to the national interest.

Section 16 of the *Commonwealth Authorities and Companies Act 1997* provides a statutory requirement for the Board to keep the Minister for Finance and Administration, and I fully informed of Airservices' operations. This is coupled with the requirement under section 15 of the aforementioned Act for the Board to give me written particulars of any significant business event such as a proposal to participate in a joint venture or the formation of any subsidiary entities. I would ask that Airservices seek my advice before taking up new business and to consider and ensure:

- in the case of a joint venture, that the party concerned is not likely to bring the Commonwealth into disrepute or expose the organisation and its owner to a loss of public confidence; and
- the commercial or strategic improvements to Airservices do not bring with them liabilities or exposures out of proportion to that benefit.

The revised non-regulated business guidelines provide further detail and reflect the Australian Government's expectations on these issues.

Commercial issues

The Australian Government supports the Board's efforts to consult with and maintain the support of industry. The transparency and level of accountability Airservices demonstrates with its pricing and service decisions will be integral to retaining customer and stakeholder support.

The Government expects the Board to ensure that Airservices operates efficiently, and adds shareholder value to its business. In doing so, it should adopt efficient and sustainable prices for its services that reflect the full cost of resources, including capital employed in delivering the services. The Corporate Planning process will be the principal basis through which the Government agrees the financial targets and the associated business strategies for Airservices. This process will set appropriate financial targets, including dividend forecasts and payout and gearing ratios. The targets and strategies should reflect the Government's desired capital structures and agreed business strategies. I ask Airservices to keep the Australian Government fully informed about any changes to actual or projected results that might be material to future plans and performance.

In accordance with past practice, the Australian Government expects that Airservices will continue to target dividends in the range of 60 per cent of net profit after tax.

It is important that I be kept informed of the Board's strategic view on key aspects of the business and any major challenges, including in areas such as capital replacement and workplace planning.

I am aware that Airservices will shortly be commencing discussions with industry with a view to negotiating new pricing arrangements for aviation rescue and fire fighting services (ARFFS). In this context, I expect Airservices to continue to take account of the interests and capacity of regional Australia and the general aviation sector, and to keep me informed of material developments as discussions proceed.

In carrying out its functions, I expect that Airservices will maintain strong relationships with industry and consult with Australian and international airlines, Australian airports, Defence, the regional and general aviation communities, other international air navigation service providers, and international bodies such as the International Civil Aviation Organization.

I also expect Airservices Australia to consult and work cooperatively with the Department and other portfolio agencies.

Technological developments

Technological developments are having an impact on aviation operations and air traffic management. Careful assessment of the operational, technical and commercial viability of individual options and applications is an important task for Airservices. Emerging technologies will require close attention and thorough consultation with industry, governments and other stakeholders. Airservices will have an important role in identifying the scope for introducing new technology applications and directions for inclusion in the proposed Airspace Policy Statement.

The Australian Government encourages Airservices to ensure that new technologies are safe and add value by improving efficiency, especially for navigation, surveillance and separation capabilities and our airspace management. Consistent with expectations expressed elsewhere in this letter, the Australian Government also requires early notice of any policy or whole-of-government implications of proposed initiatives.

Automatic Dependent Surveillance – Broadcast technology is recognised as having considerable potential as a civilian surveillance and separation tool. Airservices will need to continue to work closely with industry, CASA and the Department of Defence to refine the business case and develop the proposed strategy for Government consideration, so that the best outcome can be achieved for the aviation community and the Australian public.

Aviation security and safety

Airservices has a key role in ensuring the security of Australia's transport sector. The Australian Government expects the organisation to continue to contribute to the development and implementation of security initiatives for the aviation industry. In addition to the adequate protection of Airservices' critical infrastructure, appropriate response mechanisms for dealing with airspace incursions and rogue aircraft will need to be developed and maintained with the Department, CASA, the Department of Defence and other relevant agencies.

Reporting

I expect that the Board will:

- keep me and the Minister for Finance and Administration informed of Airservices Australia's activities and alert us to any significant events, including identifying risks and your risk management strategies, relating to the Airservices Australia's business in a timely manner, including through providing detailed quarterly reports against the Corporate Plan;
- provide information and documentation to the Department to enable me to be kept informed of issues and developments, and work cooperatively to bring forward integrated advice on matters which involve broader portfolio, policy or accountability issues;
- respond to requests from my office and the Department in a timely manner; and
- comply with all relevant corporate governance requirements, including those contained in the *Air Services Act 1993* and the *Commonwealth Authorities and Companies Act 1997*.

To assist you in meeting these expectations, I have attached guidelines to provide further information on significant matters on which I expect to be notified, and the

manner in which I expect this notification to occur, particularly in relation to any commercial opportunities that Airservices may wish to pursue.

I also expect that Airservices, through the Chairman, will provide me with specialist advice on air traffic management issues, ensuring that communication arrangements are in place to provide the relevant information also to the Secretary of the Department in parallel.

As an Australian Government-owned authority, Airservices has an ongoing responsibility to provide advice to the Parliament and the public on its operations. I underline the importance of Airservices providing timely and accurate advice in response to requests for input to ministerial representations, Parliamentary Questions and other information and briefing. I ask that Airservices work cooperatively with the Department so that integrated advice is provided to me on these issues.

Conclusion

I recognise the significant achievements by Airservices and its place as a world leader in air traffic management services. I am confident that the directions set out here will strengthen Airservices and allow it to continue to develop as a business, while ensuring the safety, security and efficiency of Australia's air transport system.

Yours sincerely



MARK VAILE

Appendix 4: Staffing statistics

TABLE 7 NUMBER OF PERMANENT STAFF, BY CLASSIFICATION AND STATE AT 30 JUNE 2007

Job type	State/territory								Total
	ACT	NSW	NT	Qld	SA	Tas.	Vic.	WA	
Executive	13	–	–	–	–	–	–	–	13
Senior Manager	140	12	4	72	3	2	47	3	283
Technology Professional	88	7	–	31	–	–	46	–	172
Senior Technical Officer	1	1	–	3	–	–	6	2	13
Technical Manager	1	3	2	6	2	1	3	1	19
Technical Officer	11	46	10	124	22	4	77	23	317
Air Traffic Controller	13	143	5	376	48	13	327	58	983
ATS Support Specialist	10	5	–	25	–	–	19	–	59
Air Traffic Controller Trainee	–	2	–	8	2	–	31	2	45
Flight Information Service Officer	–	–	–	74	–	–	–	–	74
Flight Service Officer	–	–	–	1	–	–	–	–	1
Flight Data Coordinator	–	–	–	11	–	–	12	–	23
SSO	–	6	–	32	–	–	42	1	81
Fire Fighter	23	64	57	215	33	36	77	48	553
Clerical/Administration	191	14	1	45	3	–	45	4	303
Trades	4	10	1	11	7	–	9	6	48
Other	2	–	–	1	1	–	5	–	9
Total	497	313	80	1035	121	56	746	148	2996

ATS = air traffic services; SSO = Simulator Support Officer

Glossary

ADS-B	Automatic Dependent Surveillance—Broadcast
AERU	Airspace and Environment Regulatory Unit
Air Services Act	<i>Air Services Act 1995</i>
ANSP	Air Navigation Service Provider
ARFF	aviation rescue and fire fighting
ATC	air traffic control
ATS	Air Traffic Services
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CASA	Civil Aviation Safety Authority
CEO	Chief Executive Officer
CSIA	Chhatrapati Shivaji International Airport
DOTARS	Department of Transport and Regional Services (Australian Government)
EMS	environmental management system
FIR	flight information region
FOI Act	<i>Freedom of Information Act 1982</i>
GBAS	Ground-based Augmentation System
government, the	the Australian Government
GPS	Global Positioning System
ICAO	International Civil Aviation Organization
ISO	International Organization for Standardization
KPI	key performance indicator
MP	Member of Parliament
OHS	occupational health and safety

RAAF	Royal Australian Air Force
RNP	required navigation performance
SDE	service delivery environment
SSI	safety severity incident

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