

from the ground up



ANNUAL REPORT |
JULY 2005 – JUNE 2006 |



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AIRSERVICES AUSTRALIA



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Manager, Public Affairs

Airservices Australia

GPO Box 367

Canberra City ACT 2601

Telephone (02) 6268 4111

Fax (02) 6268 5688

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Letter of transmittal

29 August 2006

The Hon. Warren Truss MP
Minister for Transport and Regional Services
Parliament House
CANBERRA ACT 2600

Dear Minister

The members of the Board of Airservices Australia hereby submit to you the Airservices Australia Annual Report for the period 1 July 2005 to 30 June 2006.

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 both with the rules of that Act and with the Finance Minister's Orders.

The report was approved by the Board on 29 August 2006.

Yours sincerely



Nick Burton Taylor AM

Chairman

Chairman's report

The continued growth in the international aviation industry over the past year and resultant flow-on into Asia and Australia have been boosted by major airline mergers, cost-cutting by network airlines, renewed dynamism in our Asia–Pacific region and a new breed of profitable, low-cost carriers building significant new traveller numbers.

The International Civil Aviation Organization's projections show growth in world airline passenger numbers through to 2008 of about 5.8 per cent, with the Middle East region—where major airport construction continues apace—over 10 per cent. For Airservices Australia's operations, Asia–Pacific air traffic is expected to grow above the world average.

However, while the medium- to long-term outlook is positive, with impressive expansion plans by many airline operators and airports and strong fundamentals for economic development, the dramatic rise in fuel prices—a world increase last year of \$30 billion—will continue to challenge the industry for some years.

On the domestic scene, growth in Airservices Australia's regulated services is expected to be about 4 per cent, which is the basis for the corporation's five-year long-term pricing agreement endorsed by the Australian Competition and Consumer Commission. Revenue collected by Airservices Australia in excess of the threshold fixed by the long-term pricing agreement is returned to our aviation customers.

The Board is well aware that rapid technological change, an increased focus on security, environmental concerns and, possibly, contestability of tower air traffic control and aviation rescue and fire fighting services, may all have an effect on future business. In particular, we expect technological change to cause a significant long-term contraction of the corporation's core domestic revenue-earning business—en route air traffic management.

Airservices Australia's capital expenditure over the next five years will exceed \$680 million. This is in keeping with an industry seeking safe, reliable and efficient systems. We must keep up with rapidly changing surveillance and navigational technologies which allow us to fulfil our safety obligations while allowing greater efficiencies within our business and within the operating environment for airlines.

Our fundamental aim is safety, and we are continuing to enhance the safety of our operations at every opportunity. However, over the coming year we also plan to:

- ➔ improve our relationship with shareholders and the way we manage industry relationships
- ➔ continue to reorganise to make us more effective, even while we carry out many major tasks on the agenda
- ➔ enunciate a clear vision for future growth, reflecting Australia's national interests
- ➔ commence a process to differentiate the services we provide to different sectors, to better meet the requirements of our customers.

During the year, the safety function was centralised into one group, which means Airservices now has a 'whole-of-organisation' approach to safety—providing greater overview and a more proactive approach to achieving better outcomes for the corporation and the aviation industry.

The Board endorsed an Enterprise Risk Management Framework which includes constant risk review and assessment of Airservices' safety and operational risks. A Normal Operations Safety Surveillance Program was also introduced at major airports. This is an air traffic control version of the line operating safety audits which are conducted by airlines.

In June 2006, Airservices Australia and the Australian Defence Force announced an important first step towards integrated air traffic management across Australian airspace. We opened a joint terminal control unit at Airservices' Perth international airport facility for all air traffic control services for Perth, the Pearce RAAF base and Jandakot general aviation airport.

RAAF controllers now provide services in the same operational room as Airservices controllers, using world-leading Eurocat air traffic control technology. Further consolidation may result in Australian Defence Force northern approach operations being consolidated into Airservices' Brisbane centre.

The Perth integration is the first stage of project Genesis—established to implement the Integrated Operating Concept, which envisages a single national air traffic management system, removal of duplication, increased efficiency, a sustainable military and civil air traffic control capability, and benefits to aviation through improved airspace.

In October, the Board endorsed a concept of organisational restructure, known as the Service Delivery Environment, which will enable the development of three separate streams of future direction within air traffic control. This will focus on:

- the busy trunk routes from Cairns to Adelaide
- the provision of services from the Middle East and Southeast Asia in upper airspace
- safety and levels of service required to match the specific needs of regional Australia.

The regional stream will include aeronautical studies at regional locations with changing air traffic demographics, the strengthening of relationships with regional airports and airlines, and rapid technological change.

After the major review of the organisation over the past year (as outlined in the Chief Executive Officer's report), the Board is committed to seeing Airservices Australia shape itself into a central and proactive player, bringing the industry together and moving forward with an impressive national aviation agenda.

In April, the Minister for Transport and Regional Services announced two appointments to the Board. Air Vice-Marshal Roxley McLennan AO joined us on 1 May, and Ms Christine Goode PSM was appointed Deputy Chair after 15 months as a member of the Board.

Finally, I wish to thank two members who completed several years on the Board during 2005–06— Air Marshall Les Fisher (Ret.) AO and Captain David Shrubbs. Both made very significant contributions to Airservices Australia during some difficult times for the organisation.



Nick Burton Taylor AM

Chairman

30 June 2006

CEO's report

The past year has seen the implementation of strategies to 'remake' Airservices from the ground up to meet the expectations of our stakeholders, our customers and the aviation industry in general.

Foremost has been a major restructure of the corporation and a complete review of our corporate strategic planning process, with the objective of creating a focused and collaborative organisation based on:

- interdependence and teamwork
- a coherent strategy that drives operational activities
- capabilities to operate effectively
- meeting the needs of all our customers.

Airservices has a proven track record for efficiency improvements, customer focus and performance. We are now building further on these achievements.

Additionally, we continue to contribute to the national interest by ensuring that safe and effective services are delivered domestically and in the Asia–Pacific region, where we are positioning ourselves for a 'leadership' role in aviation and related technology development.

Other key achievements and initiatives during 2005–06 included the signing of two new certified agreements to cover staff for the next three years; the Australian Competition and Consumer Commission's (ACCC's) endorsement of pricing for aviation rescue and fire fighting (ARFF) services; the take-up of major air traffic control initiatives, including flextracks (which save fuel and reduce emissions); the start-up of the new upper airspace surveillance system, Automatic Dependent Surveillance—Broadcast (ADS–B); the invitation of integrated air traffic management with the Australian Defence Force; and the redefining and specific targeting of future commercial business opportunities.

Restructure

We have restructured Airservices to prepare the organisation for growth and to increase efficiency, while keeping a clear focus on providing safe air navigation services to the travelling public and airspace users. Airservices now has a flatter, more streamlined structure, preparing us for competition for air traffic management and ARFF services and for an operational environment of rapidly changing aviation technology.

We have also moved to delineate between accountability for commercial development and our core business, in order to introduce better governance and to provide clearer direction and better stakeholder and regulatory management.

The restructure will lead to a reduction of about 300 positions across the organisation, mainly through removing duplicated functions and realigning some business units. Care has been taken to ensure that there is no adverse impact on safety or on the level of service we provide.

Operations

During the year, Airservices continued the introduction of ADS-B aircraft surveillance technology, with five of 28 ground stations commissioned.

ADS-B technology provides:

- low-cost air traffic control that can replace en route radars and allow surveillance to be provided where there is none today
- for pilots, the ability to be aware of nearby air traffic, which reduces risk
- a base upon which advanced air-to-air applications can be built, improving efficiency and safety.

ADS-B is an enabler for the future of air traffic management worldwide and will allow air traffic controllers to provide more efficient separation services to suitably equipped aircraft in upper airspace (above 30,000 feet).

After successful trials during the year in the Burnett Basin in Queensland, four new ADS-B stations came on line in June 2006 at Longreach, Bourke, Esperance and Woomera.

The introduction of ADS-B for lower airspace, in lieu of en route radars, is now the subject of consultation with the aviation industry and the government to consider the likely costs involved, the timeframe for introduction and the possible phasing of implementation.

There has been a significant take-up by international carriers of flextracks—daily calculations by Airservices that give airlines the flight-planning flexibility to use wind data to plan routes that save fuel and reduce emissions. Further work is required for flextracks to achieve their full benefit. The system has been in operation for 12 months, and users report flight reduction times of over 20 minutes and fuel savings of up to four tonnes per flight.

We opened a refurbished \$2.9 million training college in Melbourne. The facility, which is next to our ATC centre, includes an array of simulators and modern amenities for up to 60 students. We intend to centralise our trainers' activities into this facility to further develop our capability to train international students.

Airservices' ARFF services are growing, with 18 new \$1.2 million fire trucks supplied to airports around Australia and the introduction of services at three new airport locations. Last September, we commenced services at Avalon airport. In October, the Minister for Transport and Regional Services opened a new \$5 million ARFF station at Yulara airport near Uluru, and we added additional resources and staff in May.

In June, a temporary limited operations fire service was established at Hamilton Island airport.

Following the organisational review, Airservices increased its level of consultation with stakeholders by introducing dedicated relationship managers to liaise with governments, airlines, airports and air navigation service providers.

Technology

In June, we signed contracts for new-generation approach radars at eight of Australia's busiest airports—Sydney, Melbourne, Brisbane, Perth, Adelaide, Cairns, Coolangatta and Canberra—plus a transportable radar, to replace 15-year-old surveillance systems by 2008. We will also be installing advanced airport surface surveillance radars, which ensure separation between aircraft, vehicles or both in all weather conditions at Brisbane, Sydney and Melbourne airports.

In October, pilots throughout Australia began using a new \$20 million enhanced high-frequency radio network. The new network significantly improves the reliability, range and safety of Australia's long-range aviation communications system, and can contact international aircraft more than 3700 kilometres offshore. This system operates from our stations at Darwin, Alice Springs, Townsville, Broken Hill, Port Hedland and Perth.

Airservices has partnered with Honeywell International to develop and market worldwide a sophisticated satellite-based navigation aircraft landing system. The Ground-based Augmentation System (GBAS) is expected, over time, to replace existing instrument landing systems at major airports, and the Ground-based Regional Augmentation System (GRAS) will introduce a similar version of the technology into regional Australia. These systems will provide safer operations, especially in low-visibility weather conditions.

Commercial activity and revenue

In December, the ACCC approved a new charging regime for ARFF services at metropolitan and regional airports, to take effect from 1 January 2006. The new pricing model, which follows extensive negotiations with stakeholders during 2005, addresses issues previously raised by the ACCC without unduly penalising emerging regional airports.

As part of the broader long-term pricing agreement, we returned to customers, pursuant to of a risk-sharing arrangement, \$3.3 million that resulted from high activity growth in 2004–05.

The Board endorsed a focused growth strategy in March which will see us target the aviation growth markets of the Persian Gulf region, China and India, while at the same time working with Australia's neighbours to enhance the safety of their air traffic operations.

As part of this initiative, planning commenced on upper airspace trials of ADS-B in Indonesia in association with international airline data communications firm SITA Inc.

One aspect of our overseas dealings that has highlighted the need for the improvements of our recent restructure and the need for improvements to our management systems was the past administration of an upper airspace contract with the Solomon Islands Government. We have assisted the Australian National Audit Office in investigating this matter, as requested by the Minister for Transport and Regional Services.

Airservices also entered into a partnership with German air navigation service provider Deutsche Flugsicherung to pursue commercial aviation business opportunities in the Gulf, India and China.

Airservices Pacific Incorporated, our wholly owned subsidiary, continued to provide air traffic control services at five towers in Hawaii, Guam and Saipan under a United States Federal Aviation Administration contract.

Corporate governance

The Board, management and staff at Airservices are committed to carrying out a program to remake the Airservices business, and to delivering better safety and performance.

Our people

I thank all the staff of Airservices Australia for their contributions and commitment in what has been a difficult and testing year, and, together with a relatively new Board and management team, for positioning the corporation for a new phase in its development.



Greg Russell
Chief Executive Officer
30 June 2006

Corporate overview

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. Warren Truss MP.

Under the *Air Services Act 1995* (Air Services Act) and section 9 of the *Commonwealth Authorities and Companies Act 1997* (CAC Act), the corporation must provide an annual report for tabling in Parliament.

The Board members of Airservices Australia are responsible for the preparation and content of this report, which has been prepared in accordance with the Air Services Act, the CAC Act and the Finance Minister's Orders.

Enabling legislation, objectives and functions

Airservices Australia was established under the Air Services Act on 6 July 1995.

The corporation's reporting and accountability arrangements became subject to the CAC Act when that Act came into force in 1997. This had an impact on the corporation's governance and operations.

In 1999, the government announced its intention to further corporatise Airservices Australia. Securing the status and enhanced business opportunities of a Government Business Enterprise remains a high priority for the corporation.

Amendments to the Air Services Act in September 2003 broadened the corporation's powers and functions under section 8, enabling Airservices Australia to engage in a wider range of external and international business opportunities.

Under the Act, the corporation is responsible for:

- providing facilities to permit safe navigation of aircraft within Australian-administered airspace
- promoting and fostering civil aviation in Australia and overseas
- providing the following services, for the purpose of giving effect to the Chicago Convention or otherwise for purposes relating to the safety, regularity or efficiency of air navigation
 - air traffic services
 - an aeronautical information service
 - rescue and fire fighting services
 - an aeronautical radio navigation service
 - an aeronautical telecommunications service

- cooperating with the Australian Transport Safety Bureau in relation to the investigation of aircraft accidents and/or incidents
- performing activities to protect the environment from the effects of, and the effects associated with, the operation of Commonwealth jurisdiction aircraft
- performing any functions prescribed by the regulations in relation to the effects of, and effects associated with, the operation of Commonwealth jurisdiction aircraft
- performing any functions conferred under the *Air Navigation Act 1920*
- providing consultancy and management services relating to any of the above matters.

The Air Services Regulations 1995 provide Airservices Australia with 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.

Other legislation

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

Airservices Australia's aspiration, mission and values

Our aspiration: empowering people to lead through excellence and innovation.

Our mission: to be the preferred global partner for air traffic and related aviation services.

We will achieve this through:

- keeping safety first
- being an employer and service provider of choice
- world best operations
- profitable growth of commercial activities
- responsible environmental management.

Our values: in achieving our ambitious goals, we recognise the need for honesty, accountability and strong leadership to engender a spirit of unity and trust.

Strategic intent

Airservices Australia's strategic intent, articulated in the corporation's 2005–10 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

DRIVERS		
Australian Government priorities Charter letter (page 124) Ministerial directions (page 42) Governance guidelines ▼	Industry priorities CEO's report (page 5) Stakeholder engagement and consultation (page 42) ▼	Legislation <i>Air Services Act 1995</i> <i>Commonwealth Authorities and Companies Act 1997</i> ▼
STRATEGIC INTENT		
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 ▼
PLANS		
Airservices Australia Corporate Plan July 2005–June 2010 (page 22)		
▼	▼	▼
Key result areas	Corporate objectives	Results
<i>Safety</i>	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	page 24
<i>Environment</i>	To foster best practice environmental performance through sustainable business practices	page 30
<i>Operational excellence</i>	To achieve sustainable competitive advantage through customer focused and efficient processes and systems and leadership in innovation	page 33
<i>Customers and markets</i>	To maximise our domestic market share and extend international market reach in our core businesses by delivering superior customer value	page 36
<i>Employees</i>	To achieve a skilled, motivated, flexible and customer focused workforce committed to continuous improvement, innovation and growth in our business	page 38
<i>Owner</i>	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	page 41

Principal activities

FIGURE 2 THE AUSTRALIAN FLIGHT INFORMATION REGION



Airservices Australia is a government-owned body corporate. We are responsible for providing safe and environmentally sound air traffic management and related services to the aviation industry in the Australian Flight Information Region and the upper airspace of the Honiara and Nauru Flight Information Regions.

The Australian Flight Information Region (see Figure 2) covers more than 11 per cent of the globe, and includes not only Australia's sovereign airspace but also 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 (ARFF) services at Australia's 19 busiest international and domestic regular public transport airports
- design and management of airspace usage
- environmental services
- management of the Australian national air navigation infrastructure
- international and domestic aviation consultancy and project management services.

We service over three million aircraft movements each year, and maintain a \$493 million fixed asset base across 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, satellite-based communication, navigation and surveillance systems. Together with the International Civil Aviation Organization, and its counterparts in Asia and the Pacific, we share information and advances in aviation technology and work 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 Air Transport Safety Bureau and the Australian Maritime Safety Authority.

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

Corporate structure

In September 2005, the Chief Executive Officer (CEO) commissioned an independent review of the organisation. The review found that changes were needed to provide the service and efficiency that our customers expect and to enable the business to grow. The new structure was designed to clarify functional accountability and remove duplication by centralising many support activities, including finance and human resources.

A separate program office was established and charged with the implementation of the new organisational design. The office ensured that the reorganisation resulted in an efficient use of resources without compromising safety. After a significant initial reorganisation on 1 December 2005, further refinements were made until June 2006, when the restructuring was completed and the program office closed.

The previous structure was based on four business groups—Air Traffic Management, Airport Services, Infrastructure Support Services and the Airspace and Environment Regulatory Unit—assisted by a Corporate Services group and Head Office.

The new structure (shown in Figure 4) is flatter and more streamlined. There are now 11 business groups, all of which report directly to the CEO:

- Airspace and Environment Regulatory Unit
- Audit and Assurance
- Safety Management
- Corporate Affairs
- Business Development
- Finance
- People and Change
- Future Direction
- Air Traffic Control
- Technology and Asset Services
- Aviation Rescue and Fire Fighting.

The restructuring was accompanied by a number of improvement projects (including commercial, regulatory and shareholder issues; assets and technology; contracting and procurement; workforce; and cost structure) designed to review our processes and ensure that the organisation worked effectively together. The projects had a particular emphasis on efficiency and cultural change. At the end of the financial year, the process design work for all projects had been completed and the remaining implementation work was handed over to the relevant business units.

The managers of the business groups form the Executive Committee.

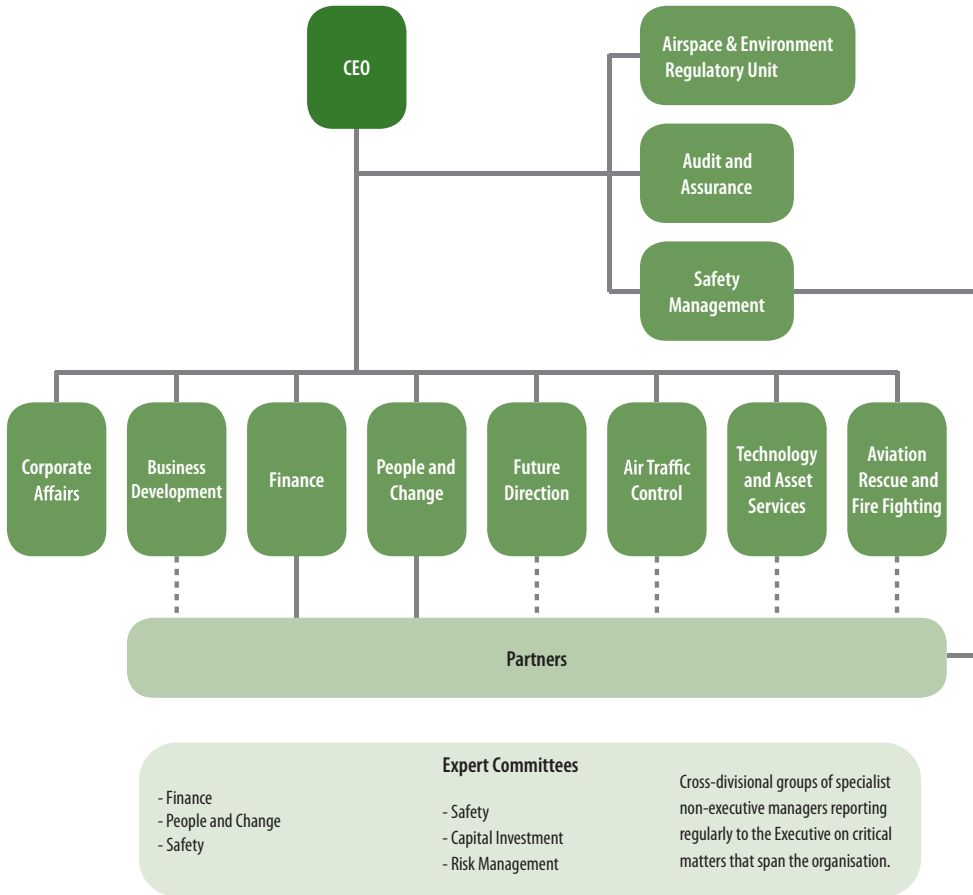
The Executive Committee advises the CEO on the management of Airservices Australia and makes policy and strategy recommendations to the Board. In 2005–06, the members of the Executive Committee were as shown in Figure 3.

FIGURE 3 MEMBERS OF THE EXECUTIVE COMMITTEE BEFORE AND AFTER RESTRUCTURE ON 1 DECEMBER 2005

Before restructure	After restructure
Executive Committee	Executive Committee
Mr Greg Russell Chief Executive Officer (from 19 July 2005)	Mr Greg Russell Chief Executive Officer
Mr Hisham El-Ansary Acting Chief Executive Officer (to 4 July 2005) Chief Financial Officer and General Manager Corporate Services	Mr Brian Prendergast General Manager Future Direction Mr Alastair Hodgson General Manager People and Change
Mr Alastair Hodgson Acting Chief Executive Officer (to 18 July 2005) General Manager Airport Services	Mr Ken McLean General Manager Air Traffic Control
Mr Andrew Fleming General Manager Air Traffic Management	Mr Alan Barber General Manager Finance
Mr Tom Grant General Manager Organisation Development	Mr David Abbott General Manager Business Development (to 22 February 2006)
Mr Brian Prendergast General Manager Infrastructure Support Services	Mr Wayne Emery General Manager Business Development (from 23 February 2006)
Mr Ken McLean General Manager Airspace Implementation Planning Group	Mr Keith Orkney General Manager Technology and Asset Services
Keith Orkney a/g General Manager Airspace and Environment Regulatory Unit	Mr Stephen Angus General Manager Airspace and Environment Regulatory Unit
	Mr Jason Harfield General Manager Safety Management
	Mr Neal O'Callaghan General Manager Audit and Assurance
	Mr Richard Dudley General Manager Corporate Affairs
	Mr Andrew Clark General Manager Aviation Rescue and Fire Fighting

At 30 June 2006, Airservices Australia employed 2988 permanent staff across Australia. Our workforce includes specialists in air traffic control, ARFF, engineering, technical services, information technology, human resource management, communications, legal services, security, safety, environment, financial management and administration. Appendix 4 provides staffing statistics.

FIGURE 4 AIRSERVICES AUSTRALIA BUSINESS STRUCTURE AT 30 JUNE 2006



Airservices Pacific Incorporated

Airservices Pacific Incorporated, a wholly owned subsidiary of Airservices Australia incorporated in Delaware in the United States, is responsible for the provision of air traffic control services under contract to the United States Federal Aviation Administration, from five control towers. Three towers are on the islands of Hawaii, one is on Guam and one is on Saipan. In 2005–06, Airservices Pacific successfully processed over 384,000 aircraft movements. The busiest location was Kona, Hawaii, with 143,000 movements.

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.

In addition, the Board has dedicated Chief Finance Officer and company secretariat positions.

At the end of 2005, after 12 months of experience under this contract, Airservices Australia undertook a contractual audit and post-implementation review of Airservices Pacific's activities. This provided an opportunity to ensure compliance with the contract, as well as to improve internal Airservices processes in relation to 'other commercial revenue', which is revenue received outside Airservices' regulated services.

Directorship and corporate governance

Airservices Australia is wholly owned by the Australian Government and 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 and, where appropriate, updates its corporate governance arrangements.

Board members

The Air Services Act stipulates that the Board consists of a Chairperson, a Deputy Chairperson, the CEO and six other members.

Other than the CEO, who is appointed by the Board, all members are appointed by the minister.

All members other than the CEO have been appointed on a part-time basis.

The Board is responsible for deciding the objectives, strategies and policies to be followed by Airservices Australia, and for ensuring that the corporation performs its functions properly, effectively and safely. The Board appoints and delegates responsibility for the management of the corporation to the CEO, who is also a director of the Board.

The Board conducts a formal self-evaluation of its own performance and the performance of its committees each year.

Board members are encouraged to attend relevant external training and continuing education courses at Airservices Australia's expense.

Through the Corporate Secretary, members of the Board may request independent legal, accounting or technical advice on matters relevant to Airservices Australia at the corporation's expense. Any independent advice obtained at the request of a Board member is normally tabled at the Board meeting following the receipt of the advice.

Further information on Board membership is in Appendix 1.

Board committees

The Board has six standing committees to increase its effectiveness. Each committee functions in accordance with a charter approved and reviewed annually by the Board. The charters are available on the Airservices Australia website. All matters determined by committees are submitted to the full Board as recommendations. Board committees are authorised by their respective charters to obtain independent advice where they consider it appropriate.

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

The **Audit Committee** currently comprises four non-executive directors. The Board Chairman is an ex-officio member of the committee. The CEO was an ex officio member of the committee until 30 August 2005. Any member of the Board is entitled to attend the committee's meetings. The 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. The committee also provides a forum for communication between Board members, management and internal and external auditors.

The Audit Committee prepares an annual program of its activities, and this program is approved by the Board in accordance with the committee charter. All members of the committee are financially literate, at least one member has financial expertise, and at least some members have an understanding of the industry in which Airservices operates.

The **Safety and Environment (Operations) Committee** currently consists of up to five non-executive directors and the Board Chairman and CEO, who are ex-officio members. Any member of the Board is entitled to attend the committee's meetings. The General Manager Safety Management has a standing invitation to meetings of the committee but may be asked to leave at any time. The committee ensures that Airservices is compliant with all legislation and government and Board policies, and is

meeting its safety responsibilities, environmental responsibilities (other than its regulatory functions carried out through the Airspace and Environment Regulatory Unit) and its occupational health and safety responsibilities. The committee oversees and reports to the Board on the management of the corporation's safety, environmental, and occupational health and safety responsibilities.

The **Safety and Environment (Regulatory) Committee** currently consists of up to five non-executive directors and the Board Chairman and CEO, who are ex-officio members. Any member of the Board is entitled to attend the committee's meetings. The General Manager Airspace and Environment Regulatory Unit has a standing invitation to meetings of the committee but may be asked to leave at any time. The committee ensures that changes to Australian-administered airspace and the provision of environmental regulatory services are consistent with law and with Airservices' regulatory responsibilities.

The **Remuneration Committee** comprises the Board Chairman, as committee chairman, at least one other non-executive Board member and the CEO. The Chairman and CEO are ex-officio members of the committee. The 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 the remuneration packages and performance review for the CEO's direct reports. In addition, the committee develops recommendations to the Board on CEO succession. The General Manager, People and Change has a standing invitation to meetings of the committee but may be asked to leave at any time.

The **Security Committee** comprises the Board Chairman as committee chairman, two other non-executive directors and the CEO. The Chairman and CEO are ex-officio members of the committee. Airservices Australia is responsible for protecting its people, facilities and operations from external physical, electronic and other possible threats. The committee monitors the corporation's development, implementation and auditing of strategies, policies and procedures to counter such threats. All members hold security clearances at the Secret level or higher.

The **New Business Committee** comprises the Board Chairman as committee chairman and the CEO, both of whom are ex-officio members. The committee considers new business proposals and reviews the commercial integrity of proposals requiring urgent approval out of session. Where appropriate, the committee approves the execution by the CEO of contracts in excess of the CEO's normal financial delegation.

Ethical standards

Airservices Australia promulgates information to staff on ethical standards through Board-endorsed policy, Chief Executive management instructions and other People and Change policies and procedures.

As a condition of their employment, all staff must comply with a code of conduct while at work and as corporate representatives. Included in the code are guiding principles for handling conflicts of interest. Airservices Australia's Code of Conduct is available on our website.

Risk management

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

The organisation's Risk Management Policy was updated in late 2005 and is supported by a Board-endorsed Enterprise Risk Management Framework that sets out the corporate requirements for risk management throughout the organisation. Enhanced requirements are being implemented during calendar year 2006.

All managers are accountable for the identification and management of risks within their areas of responsibility and must ensure that they are kept informed of, and report on, how those risks are being managed.

The CEO reports regularly to the Board on significant risks to the organisation's objectives and how they are being managed. The General Manager Finance reports to each Board Audit Committee meeting on initiatives to maintain and improve the organisation's risk management system. As prescribed 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 Air Services 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 on our website at <http://www.airservicesaustralia.com/aboutus/corpdocuments/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 these standards are not being met.

The charter is available from our offices and from our website at <http://www.airservicesaustralia.com/aboutus/corpdocuments/charter.pdf>.

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.

The Airservices Australia Board receives regular reports from its Safety and Environment (Operations) Committee, and daily meetings of senior management analyse and monitor the safety performance of Airservices' operations. We also hold regular safety management reviews in the major business centres.

We held the Airline Safety Forum in March 2006. These forums, which involve over 28 domestic and international airlines with which we have agreements to exchange safety data, are scheduled twice per year.

In November 2005, the Board endorsed the Enterprise Risk Management Framework. To effectively integrate safety risk management into the framework, all operational safety risks have now been assessed through an assessment process compliant with the framework. This is being followed by a risk review program and a normal operations safety surveillance program at the major airports.

To ensure that all staff have a clear understanding and strong commitment to the organisation's safety values and beliefs, we have identified preferred safety management behaviours for incorporation into all contract manager performance enhancement plans.

The organisational restructure of December 2005 has changed our thinking about the documentation of safety accountabilities, which will now be included in role statements being developed by the People and Change business group. Measurement of the Organisational Safety Culture Index has been delayed until the new organisational structure is bedded down.

Our large-scale safety management training program continues. We began distributing a new series of safety posters early in 2006, and safety newsletters were delivered to all tower locations.

Internationally, we continue to chair the Separation and Airspace Safety Panel and the Regional Airspace Safety Monitoring Advisory Group of the International Civil Aviation Organization (ICAO).

Safety monitoring of reduced vertical separation minima and required navigational performance operations is in progress through the Regional Airspace Safety Monitoring Advisory Group. During the year, we completed development of Automatic Dependent Surveillance—Broadcast (ADS-B) five-mile separation minima, which has been published as ICAO Circular 311.

With the ICAO Separation and Airspace Safety Panel, we completed an analysis to demonstrate global navigation satellite system (GNSS) use as a substitute for ground-based navigation aids in establishing distance-based lateral separation minima.

Work to promote GNSS operations through the development of standards and recommended practices is in progress.

We also completed the integration of ADS-B into ICAO regional plans. This work was done through the Asia Pacific Air Navigation Planning and Implementation Regional Group, and involved an ADS-B related study, an implementation task force and supporting seminars. ADS-B certification criteria progressed through other ICAO panels.

Other significant events during the year included:

- work with the Civil Air Navigation Services Organisation (CANSO) to benchmark our approach and performance with other high-reliability organisations and air navigation service providers
- the signing of a research contract with the Australian National University for an assessment of our systems against high-reliability standards, and the beginning of scoping work for the project
- planning for an internal Airservices workshop, involving an ex-NASA astronaut and lessons learned from the destruction of both the *Challenger* and *Columbia* space shuttles.
- completion, by the ARFF business unit, of a review of Civil Aviation Safety Regulation (CASR) 139H, to be followed by industry consultation.

Key performance indicators: Safety

In 2005–06, Airservices Australia's key performance indicators for safety measured the performance of the air traffic services (ATS) system against given levels of tower, terminal manoeuvring area and en route activity. An ATS incident is one judged to have posed a threat to safe operations. Slightly different key performance indicators applied from February 2006 (see below); as required, we report here against the indicators in the Corporate Plan in effect at the beginning of 2005–06.

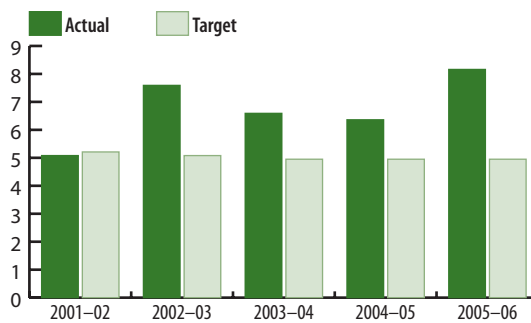
Targets until 2003–04 were based on a 2.5 per cent annual reduction from baseline performance in 1999–2000. Targets for the planning period 2004 to 2008 remain constant for tower and terminal manoeuvring area operations, and continue to reduce for en route operations.

In 2005–06, our performance was:

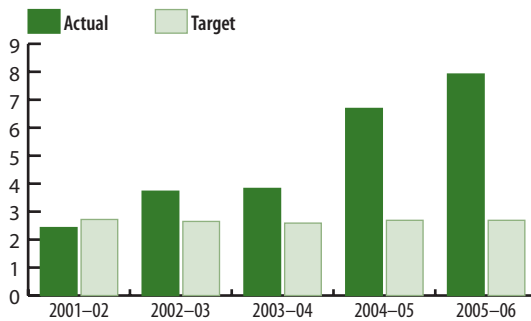
- below target for terminal manoeuvring area incidents
- below target for tower ATS incidents
- better than the target for en route ATS incidents.

Over the past five years, the number of incidents reported from tower operations has increased over 300 per cent and those from terminal manoeuvring areas by over 170 per cent. This surge in reporting is viewed by the organisation not as a decline in operating standards but as a reflection of an organisational culture which recognises that submission of information about the smallest deviations can assist in identifying strategies to prevent high-risk occurrences. We therefore see the positive cultural driver as a major factor in two traffic segments failing to meet the target for the 2005-06 financial year.

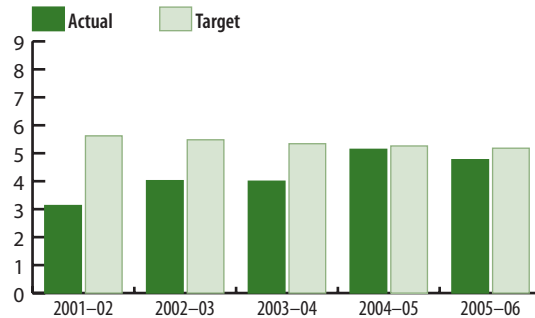
TERMINAL MANOEUVRING AREA INCIDENTS, PER 100,000 MOVEMENTS



TOWER AIR TRAFFIC SERVICES INCIDENTS, PER 100,000 MOVEMENTS



EN ROUTE AIR TRAFFIC SERVICES INCIDENTS, PER 100,000 JURISDICTION TRACKS



In 2006, Airservices Australia decided to modify its key performance indicators for safety to make them more accurately reflect the underlying safety performance of the organisation. A more aggressive ATS key performance indicator target was endorsed by the Board in February 2006. The new measure, against which we will report in the 2006–07 annual report, aims to identify the organisation’s ability to detect and recover from errors made by air traffic control staff within differing tower, terminal manoeuvring area and en route segments. The scheme for incident categorisation is based on a four-level severity index, as shown in Table 1.

TABLE 1 NEW KEY PERFORMANCE INDICATORS FOR SAFETY

Level of control Resolved by (barrier)	Definition	Incident categorisation
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	Air traffic control errors that were detected by pilots or other industry participants.	SSI 2
ATS, but not effectively	Air traffic control errors that were identified and rectified by ATC but not in an effective or efficient manner.	SSI 3
ATS	Errors that were both identified and rectified in an appropriate manner by the ATS system.	SSI 4

The targets for the 2005–06 year and out-years are based on performance in 2004–05 for SSI 1 and a combined category of SSI 2 and SSI 3. In setting targets, the Board recognised that increasing traffic growth and ensuing task complexity would make significant improvements in safety performance increasingly difficult.

The Board also took the opportunity to align the reporting along service lines to include a differentiation within the tower stream and a division within the en route segment. The en route stream is divided into what is termed ‘transitional en route’, which primarily covers airspace in a ‘J’ from Cairns to Adelaide that has radar surveillance; ‘continental/oceanic’ covers the remaining airspace.

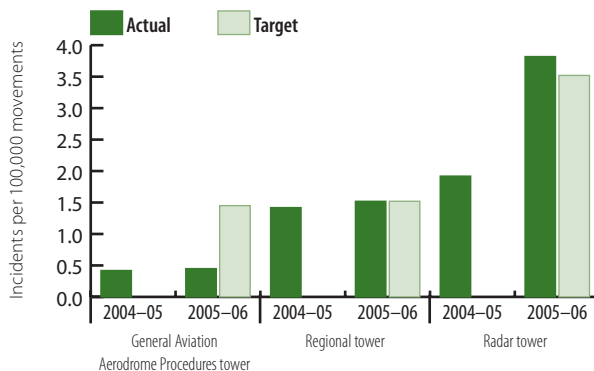
A target of zero across all segments was endorsed for SSI 1 occurrences for 2005–06 and out-years to 2008–09, as such incidents are those that Airservices safety initiatives must aim to eliminate. Targets for SSI 2 and SSI 3 differ across the service segments. An indicator to reflect critical infrastructure failures was also introduced to the corporate key performance indicator suite. The Board set a target of zero for years to 2008–09.

Performance against the new measures is shown in the figures below for 2004–05 and 2005–06.

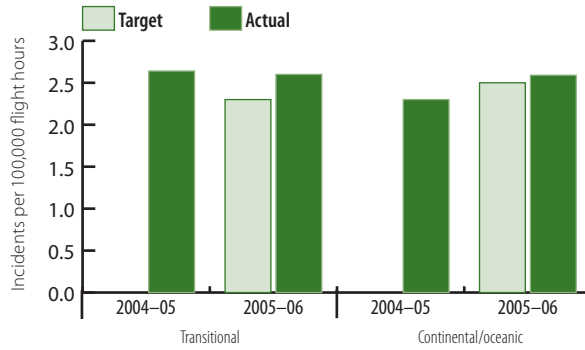
In relation to our performance targets for 2005–06, Airservices Australia:

- did not meet the zero target for SSI 1 occurrences. Four such incidents were reported, the same number as in 2004–05. As noted above, we did not expect the performance standard to be achieved—the zero target was to provide an impetus for improvement. A high-level Safety Strategy has been endorsed to provide a framework within which the organisation can strive to eliminate such high-risk occurrences.
- met or bettered performance against the targets in General Aviation Aerodrome Procedures towers and regional towers
- missed the target to a very marginal degree in the radar tower, transitional en route and continental/oceanic en route segments
- performed worse than the target in the terminal manoeuvring area streams. Performance has been investigated, but no pattern, or systemic problem, is evident from the range of incidents. However, we identified a need for improved recovery once errors are made, and remedial programs are in train.
- met the requirement for no critical infrastructure failures.

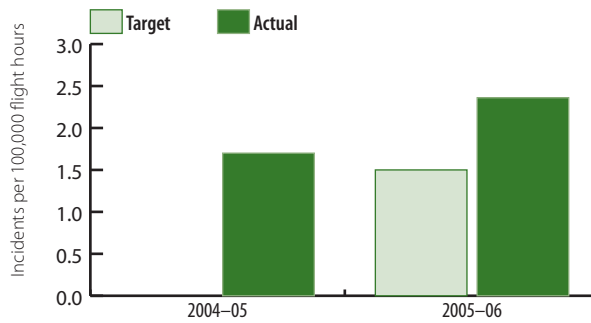
TOWER SEGMENTS: TARGETS AND PERFORMANCE FOR SSI 2 AND SSI 3 INCIDENTS, 2004–05 AND 2005–06



EN ROUTE SEGMENTS: TARGETS AND PERFORMANCE FOR SSI 2 AND SSI 3 INCIDENTS, 2004-05 AND 2005-06



TERMINAL MANOEUVRING AREA SEGMENT: TARGETS AND PERFORMANCE FOR SSI 2 AND SSI 3 INCIDENTS, 2004-05 AND 2005-06



Key result area: Environment

To foster best practice environmental performance through sustainable business practices.

During 2005–06, Airservices Australia continued to work in international organisations and with Australian industries, governments and communities to reduce the environmental impacts of aircraft operation.

Internationally, we joined the newly formed CANSO environmental working group, and actively participated in the steering committee of the ICAO's Committee on Aviation Environment Protection.

In Australia, we continued our active involvement in local airport community consultative groups. Our work in the Australian Strategic Air Traffic Management Group (ASTRA) resulted in the adoption of new aviation environmental indicators—the population-weighted noise index and the local and en route emissions indexes.

In June 2005, we introduced flextracks for specific flights across Australian airspace—saving more than \$5 million in fuel each year and an average of around 48 tonnes of carbon emissions each day.

We continued to work with the RAAF on an ongoing program of jointly developing airspace services that will potentially allow better access for civil aircraft to pass through military airspace. The first stage, in June 2006, saw air traffic control services at Pearce RAAF base and Perth and Jandakot airports integrated into Airservices Australia's terminal control unit at Perth international airport.

The corporation reviewed its environment objective and policy during the year, retaining the objective of best practice performance and adding a focus on the adoption of sustainable business practice. The new policy emphasises heritage management, and makes explicit the responsibility of all staff for environmental performance.

In December 2005, we finalised our strategy for heritage management, which was approved by the Minister for the Environment and Heritage in March.

The Airspace and Environment Regulatory Unit (AERU) established more robust and thorough environmental assessment criteria for airspace changes. During the year, AERU assessed 79 airspace change proposals for safety and environmental impact, including airspace changes for the Melbourne Commonwealth Games and changes associated with military exercises. No proposals were assessed as having significant environmental effects under the *Environment Protection and Biodiversity Conservation Act 1999*, so none were referred to the Minister for the Environment and Heritage.

To retain certification for the environmental management system (EMS) for our operations based at Gellibrand Hill, we upgraded the system to meet the new ISO 14001–2004 requirements. This involved improving our environmental legal and other requirements register and developing and implementing a more systematic approach to compliance monitoring. EMS procedures for ARFF, project management, property management and disposal practices were also improved, as part of our EMS continual improvement program.

During the year, over 260 Airservices staff participated in face-to-face environmental training, and more than 500 completed online training. We improved the online training package and developed a new package on the environmental monitoring of ground-based activities.

EMS training was provided for executive, facilities management services managers and technical staff, property and finance managers and ARFF personnel in Adelaide, Alice Springs, Brisbane, Canberra, Melbourne, Sydney and Townsville.

Air traffic services specific training has also been provided to 63 operational supervisory staff.

EMS training includes:

- environmental site inspections and management of risk
- an understanding of legal obligations and responsibilities
- an introduction to Airservices' environmental risks, and to ARMS (the risk management database that supports environmental management).

The training is an important component of our commitment to environmental best practice. It places considerable emphasis on the emerging legal environment, introduces due diligence and describes the benefits associated with best-practice management.

To manage our environmental impacts and business risk, we undertook environmental risk assessments of 94 proposed air traffic control changes, 17 proposed changes to ground-based operations and 57 current ground-based operations.

Our environmental audits program included audits of operations at Yulara (Uluru), Melbourne and Adelaide airports, a review of ARFF in Brisbane, and a review of contaminated sites.

During the year, 14 environmentally significant incidents were identified and reported, and appropriate preventive or corrective action was taken.

In April 2004, the government announced its decision to transfer Airservices Australia's regulatory functions to the Department of Transport and Regional Services (DOTARS), as a first step in the organisation becoming a Government Business Enterprise. In July 2004, as an interim measure, we established AERU to separate our regulatory functions from service provision. AERU performs functions relating to the designation of airspace as well as to the environment. In its second year in operation, AERU continued to focus on providing an effective airspace management function and on transferring Airservices' regulatory functions.

In addition to processing 79 airspace changes at the request of proponents, AERU has taken a proactive approach to airspace management, initiating an audit of danger areas. Over 30 per cent of existing danger areas were assessed, and about a third of those were amended or removed.

The Australian Airspace Policy Plan is being developed by an interagency working group that includes representatives from AERU, Airservices' Future Direction group, DOTARS, CASA and Defence. The document will set out Australia's airspace governance and regulatory structure, the airspace architecture, the process for changing airspace classifications and the strategic direction for airspace.

AERU continues to work cooperatively with DOTARS, CASA and Defence to plan for the transfer of our regulatory functions to DOTARS. A proposal to change the location for airspace regulatory functions has resulted in delays to the enabling legislation, and the transfer is now planned for late 2006–07.

Our other significant activities in 2005–06 included:

- ➔ continuing to provide noise and flight path monitoring services at major airports and at RAAF Williamtown
- ➔ providing aviation noise enquiry services, which handled 11,000 enquiries and complaints during the year
- ➔ introducing new procedures for ARFF foam testing at airports without fire training grounds to remove the need to release foam
- ➔ installing water conservation and collection systems at various sites
- ➔ systematically recycling office waste in our Canberra head office building
- ➔ continuing our best practice approach to hazardous waste disposal
- ➔ controlling weeds, including an infestation of gorse at a site on Phillip Island.

Key performance indicators: Environment

One of Airservices Australia's key environmental performance indicators measures the numbers of environmental legal non-compliances and significant environmental risks not fully managed.

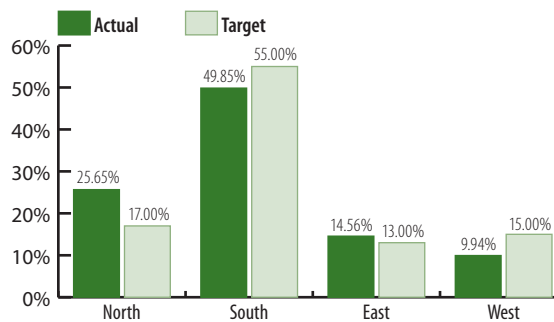
Table 2 shows our performance over the past three financial years.

TABLE 2 MANAGEMENT OF ENVIRONMENTAL LEGAL NON-COMPLIANCES AND SIGNIFICANT ENVIRONMENTAL RISKS, 2003–04 TO 2005–06

Year	Item	Actual	Target
2003–04	Environmental legal non-compliances	0.0	0.0
	Significant environmental risks not fully managed	4.0	0.0
2004–05	Environmental legal non-compliances not fully managed	0.0	0.0
	Significant environmental risks not fully managed	0.0	2.0
2005–06	Environmental legal non-compliances not fully managed	1.0	0.0
	Significant environmental risks not fully managed	0.0	2.0

The other indicator measures performance against the Sydney Airport Long Term Operating Plan, which includes noise-sharing principles. Plan targets are shown in the figure below, and reflect achievements as close to targets as practicable, given traffic management, weather, and forecast and prevailing wind conditions. Performance in 2005–06, measured as percentages of actual runway end movements, was above plan targets for the north and east, and below for the south and west.

SYDNEY AIRPORT LONG TERM OPERATING PLAN: RUNWAY END IMPACTS, 2005–2006



Key result area: Operational excellence

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

The National Airspace System (NAS) Stage 2C was implemented in November 2005. Airservices Australia supported the implementation by producing and distributing aeronautical publications and training air traffic controllers. NAS Stage 3 (special use airspace) is under development by the Department of Transport and Regional Services and the Department of Defence.

During 2005–06, Airservices continued establishing Australia’s network of ADS–B ground stations. The network allows high-quality surveillance of suitably equipped aircraft in upper airspace (above 30,000 feet) over the entire continent. We delivered planned ADS–B projects on schedule during the year, completing ground station installations at Longreach, Bourke, Esperance and Woomera.

During 2005–06, we continued to modernise ground–air and ground–ground communication systems for greater reliability, security, safety and efficiency. The first two stages of the Telecommunications Infrastructure Network Replacement project have been completed on time and on budget. The pilot network phase is due for completion in November 2006. The Stage 2 rollout is scheduled for completion in April 2007, with Stage 3 to be finalised by December 2007. Final completion of the project is expected in March 2008.

We have begun the program to rationalise and extend the life of ground-based navigation aids, in line with the Australian Air Traffic Management Strategic Plan. This program is currently being delivered to budget and on schedule. Progress to date is demonstrated by the replacement of terminal VHF Omni Range beacons at Cairns, Canberra, Adelaide, Mangalore, Coolangatta and Hobart, while the Port Hedland and Mackay installations have begun. The first of the replacement non-directional beacons has been commissioned at Oakey. We have also commissioned replacement instrument landing systems at Hobart, Townsville, Perth, Sydney and Launceston airports.

As part of our work to develop and implement a long-term modernisation of air traffic management systems, consistent with the Australian ATM Strategic Plan, we have developed a Eurocat plan for 2008–13. Work up to 2008 is included in the current capital expenditure program. The remainder is being documented in a capability planning process.

We have been improving decision support tools to increase safety and enable user preferred routes (UPRs) and, ultimately, user preferred trajectories (UPTs). An operational version of the Flight Plan Conflict Functionality decision support tool is undergoing testing for acceptance, which is due later in 2006. Once it is confirmed as suitable for use in today's operating environment, it will be tested under UPR conditions.

Our domestic ARFF modernisation program continues, to budget and on schedule. During the year, we introduced 18 new fire vehicles into service. Three more have been ordered following the commencement of new ARFF services at Avalon and Hamilton Island. We have ordered two domestic response vehicles for major airports, to be delivered in the 2006–07 financial year. We also completed tender evaluations for replacement ARFF radios. New digital radios will be introduced in 2006–07. We have begun to upgrade ARFF Fire Station Control Centre facilities, including alarm monitoring, communication and emergency dispatch systems.

In February 2006, we completed and delivered an enterprise web delivery framework. Detailed technical standards are now being put in place. Our information management decision framework is being actively utilised. In March, our Business Systems Steering Group endorsed a business case for creating a specific information security governance framework. We are hiring external specialists for this project.

Key performance indicators: Operational excellence

In 2005–06, Airservices Australia used three main key performance indicators to measure operational excellence.

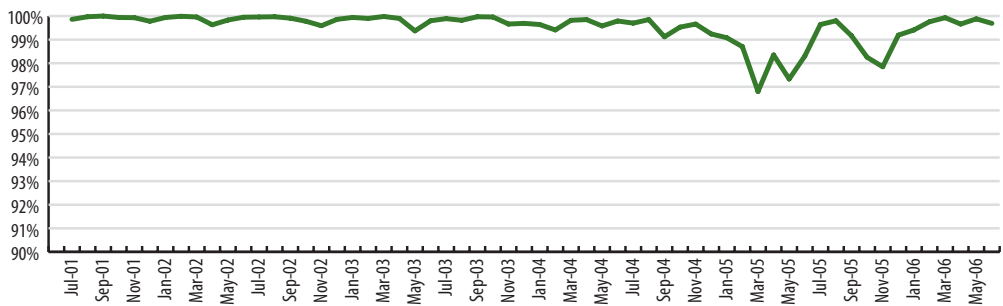
ARFF operational preparedness was measured by the ability to provide required levels of service, as determined by CASA regulations. The target was 100 per cent. Short-term staff shortages contributed to variances in operational preparedness between January and December 2005.

The effectiveness of corrective maintenance of airways system equipment was measured as a percentage of restoration times met. Since 2003–04, the target has been held constant at 95 per cent, because costs outweigh benefits beyond this level.

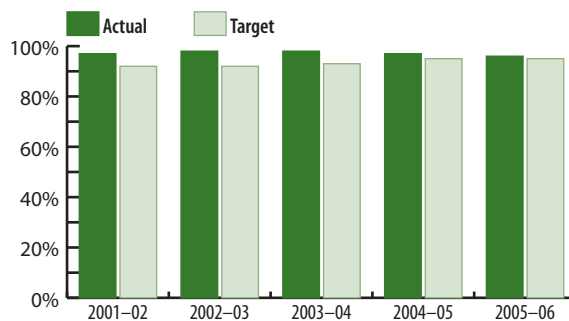
The numbers of senior management event notifications (incidents significant enough to require remedial attention) for air traffic management facilities indicate system performance in three categories: Category 1 events involve a loss of life (we have always achieved our target of zero); Category 2 events 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.

All technical staff participated in a human error management program in early 2003. The years since have shown a significant reduction.

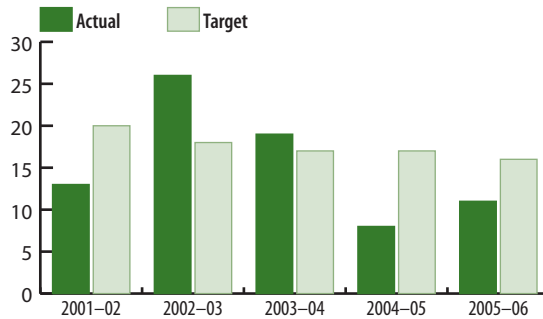
AVIATION RESCUE AND FIRE FIGHTING OPERATIONAL PREPAREDNESS, PER CENT



CORRECTIVE MAINTENANCE: RESTORATION TIMES MET, PER CENT



SENIOR MANAGEMENT EVENT 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.

The Board's endorsement of Airservices Australia's new commercial growth strategy in March 2006 has led to significant revisions in our plans to win contracts for upper airspace management the Asia-Pacific region. The 'neighbourhood' strategy now emphasises Australia's strategic national interest in cooperation and alliances to improve regional safety and security and the quality of air traffic services.

For example, negotiations are continuing with the governments of Indonesia and Papua New Guinea on programs to build capability and safety. To advance this work, we will host a meeting of neighbouring air navigation service providers on the Gold Coast in August 2006.

Under a project funded by the Australian Agency for International Development, Airservices assisted the Indonesian Directorate General of Air Communications to improve operational systems after the final commissioning of the new Makassar Advanced Air Traffic System.

In February 2006, we formed an alliance with SITA Inc, the main IT provider of air-ground data link services to airlines, to provide ADS-B solutions in the Asia-Pacific region. The Indonesian Government expects to begin ADS-B trials in August 2006.

Airservices' strategy for and management of ARFF services business has been redirected after the organisation's restructure. To prepare for possible domestic competition, we are ringfencing ARFF services. The Australian Competition and Consumer Commission endorsed our proposed ARFF charging methodology and associated pricing in December 2005. The changes came into effect on 1 January 2006 and will run to 30 June 2009.

Opportunities for ARFF consultancy and service provision in India will be pursued in 2006–07 to assist Bangalore and Hyderabad airports develop capacity to service growth in India.

Airservices was awarded a contract to operate five towers in Hawaii, Guam and Saipan by the United States Federal Aviation Administration in 2004. We created a wholly owned subsidiary, Airservices Pacific Incorporated, to deliver the services. The contract is essentially for the supply and management of tower air traffic services in the western Pacific and provides a platform to build a more productive relationship with the Federal Aviation Administration in the Pacific region.

The Board-endorsed strategy for commercial business development in infrastructure management services has refocused on opportunities in domestic airports and the national defence market. However, we have also identified opportunities for potential airfield lighting projects in the Persian Gulf region.

We are continuing to seek resolution of ownership of aviation information services intellectual property.

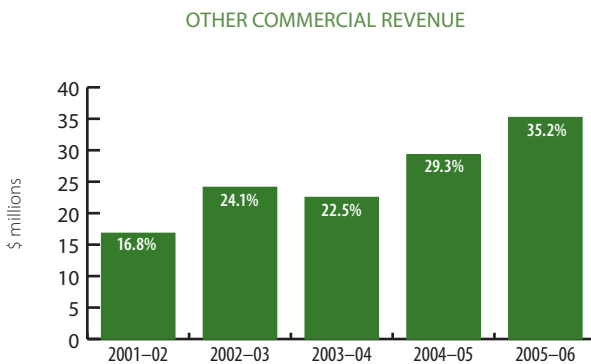
Other achievements during 2005–06 included the following:

- A limited-operations ARFF service began at Hamilton Island in June 2006, and formal application will be made to CASA for the establishment of a permanent service in 2006–07.
- We began a multimillion-dollar contract to install an air navigation system for the new Bacolod airport in the Philippines Republic.
- We won and delivered a commercial consultancy with Taiwan's Civil Aviation Authority to make its air traffic control documentation ICAO compliant.
- We won and delivered two commercial consultancies with the Civil Aviation Authority of Singapore to improve the operational performance of the Singapore Flight Information Region.
- We secured a contract with Saudi Arabia's General Authority of Civil Aviation to provide a safety and risk assessment of its global navigation satellite system implementation.
- We were awarded a five-year contract to provide high-frequency marine safety and distress radio communication services to the South Australian Department for Transport, Energy and Infrastructure.
- With the German government-owned air traffic control organisation, Deutsche Flugsicherung, we signed an agreement in June 2006 to jointly pursue aviation business opportunities in several Gulf states and in India and China.

Key performance indicators: Customers and markets

In 2005–06, the corporation's outcome for other commercial (non-monopoly) revenue was \$35.246 million, a rise of \$5.947 million or 20 per cent from 2004–05. This was mainly attributable to an increase in domestic airport lighting projects and the gaining of international projects described above.

Due to the restructure of the corporation in the middle of the financial year, and creation of a new stakeholder relationship management framework, the annual customer satisfaction survey was not conducted in 2005–06. The survey will be carried out in 2006–07.



Key result area: Employees

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

We established a centralised area called 'People Strategy' as a result of the organisational review. It will develop and rationalise our people policies and systems, develop our workforce plan to meet operational requirements out to 2010, and develop strategies for organisational effectiveness, performance assessment, occupational health and safety, and remuneration and benefits. Work is already underway on revised remuneration and benefits, succession planning and talent development.

The restructure of Airservices Australia is complete, including nine associated improvement projects. Our People and Change business group, assisted by external consultants, has reviewed workforce requirements from now to 2010. The review used information from business group managers and key senior staff, data on staff numbers and skills currently or likely to be available, and trends in employee-initiated separations. We then analysed these supply and demand forecasts to identify potential workforce capacity gaps. Targeted actions to fill the gaps include increased graduate, technical and trade recruitment; job redesign; targeted upskilling and reskilling; a review of retention strategies; and partnering.

During 2005–06, Airservices Australia developed and implemented a long-term workforce strategy as a blueprint for managing the workforce into the future. The plan includes strategies for ongoing 'continual renewal'; employee relations; workforce planning; workplace health and safety management; equity and diversity; leadership and management development; and reward and recognition. The Board endorsed the plan in June 2006.

As part of the remake of the business, a leadership principle and leadership model have been introduced. All managers are undertaking course work, which has already improved leadership capability in the senior management team, task assignment at all levels, and the effectiveness of resource allocation. Over time, this will improve decision making and the culture of the organisation.

The 2005 Certified Agreement bargaining round was finalised after extensive negotiations with employee associations, and acceptance of the outcome by our employees.

While the certified agreement document is comprehensive in terms of entitlements, the key objective of providing change through facilitative arrangements is to deliver a flexible approach to entitlement.

This objective is particularly relevant in the context of the business remake initiatives currently being progressed by Airservices. If working conditions or entitlements are viewed as being restrictive, facilitative arrangements to the mutual benefit of employees can be developed.

During the year, Airservices implemented legislated superannuation choice arrangements by the due date. AvSuper is now a public offer fund; the AvSuper defined benefit fund has been retained as a closed fund.

Airservices' overall employee engagement index, measured by our annual employee opinion survey, decreased by 3 per cent, from 32 to 29 per cent, in 2006. The employee job satisfaction index decreased from 5.08 in 2005 to 4.95 in 2006. These results are in line with the organisation undertaking restructure and change.

Formal harassment and discrimination complaints fell, from six in 2004–05 to two in 2005–06, well below the historical average. We have developed an online complaint reporting system to improve data quality.

In our workforce:

- The proportion of Indigenous Australians increased from 1.1 per cent in 2004–05 to 1.5 per cent in 2005–06.
- The proportion of people from non-English speaking backgrounds increased from 3.9 per cent in 2004–05 to 8.5 per cent in 2005–06.
- The proportion of people with a disability remained steady at 1.6 per cent.
- The proportion of women decreased from 15.2 per cent in 2004–05 to 14.5 per cent in 2005–06.

During 2005–06, we made significant progress on systems for managing problematic substance use, as outlined in last year's annual report. In addition to our pre-employment drug and alcohol screening, we introduced a 'reasonable cause' testing procedure in February 2006. Eighty-six staff in 42 locations have been trained as 'authorised persons' who can conduct alcohol testing on site if the behaviour of a staff member indicates a reasonable cause, or in response to an incident. Staff have attended awareness programs to learn about this problem.

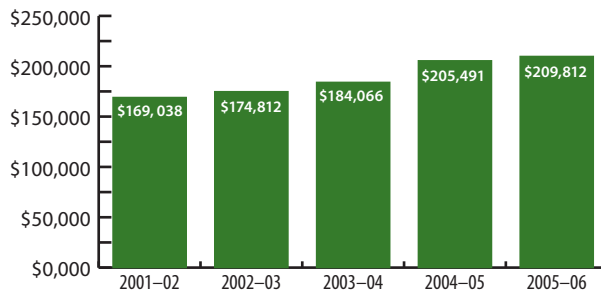
Key performance indicators: Employees

Airservices Australia measures and reports on the level of our employees' engagement with their work. The employee engagement index is determined from our annual employee opinion survey. Results for 2006 showed a decrease to 29 per cent, from 33 per cent in 2005. The benchmark is 31 per cent, which is the average result for organisations in Australia that use this measure. Our 2007 target is 37 per cent.

The results indicate that the change and uncertainty that inevitably accompany a restructure affected employee engagement at the time of the survey.

Airways revenue is revenue from regulated services (that is, it excludes 'other commercial revenue'). In 2005–06, airways revenue per employee increased to \$209,812 from \$205,491 in the previous year.

AIRWAYS REVENUE PER EMPLOYEE



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 2005–06, 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. We met revenue and profitability targets for regulated and unregulated business.

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 in November 2005. Implementation of the framework is scheduled to be completed by 31 December 2006.

During 2005–06, Airservices achieved the targets set by the Australian Government for the transition of the Airspace and Environment Regulatory Unit to the Office of Airspace Management in DOTARS.

We remain committed to the removal of our regulatory functions as soon as possible. The transfer is now expected late in 2006–07. We continue to work with DOTARS, CASA and the Australian Defence Force to plan the transition.

In response to the 2005 organisational review, Airservices has strengthened stakeholder relationship management, including improvements in the coordination and consistency of dealings with all stakeholders (customers, governments, agencies, suppliers and the general public). Dedicated relationship managers for government, airports, airlines and the aviation industry have been established in the newly established Corporate Affairs business group.

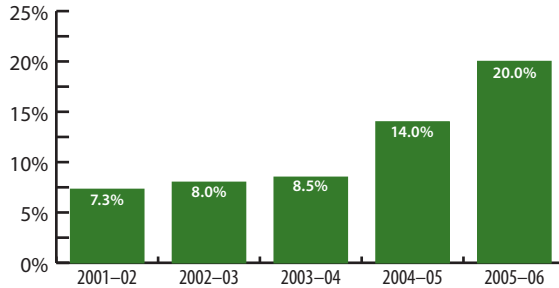
In addition, there is a strengthened emphasis on business intelligence and regulatory reform.

Over time, new stakeholder relationship management initiatives will crystallise into sustainable, improved relations with all key stakeholder groups.

Key performance indicator: Owner

In 2005–06, earnings before interest and tax as a percentage of revenue increased to 20 per cent, from 14 per cent in 2004–05. This was mainly due to growth in airways activity combined with cost savings.

EARNINGS BEFORE INTEREST AND TAX AS A PERCENTAGE OF TOTAL REVENUE



Ministerial directions

During 2005–06, the minister made no new formal directions to Airservices Australia under section 16 of the *Air Services Act 1997*.

Stakeholder involvement and consultation

During 2005–06, Airservices Australia consulted widely with stakeholders in Australia and overseas. Consultations took place with governments, airline operators, aerodrome operators, regulators, general aviation, corporation staff and the community.

Financial results

Our after-tax return on average equity of 35.5 per cent, well above the target provided for in the Corporate Plan 2005–10, was achieved in improving trading conditions. Operating profit after tax increased by 64.8 per cent compared to last year's result, rising to \$93.6 million. During the year, the corporation paid to the government \$43.1 million in dividends.

Income

Total income for the year was \$683.5 million, compared to \$663.9 million in the previous year. Airways revenue grew by 4.7 per cent across the year, with net sales of \$643.4 million. A revaluation of our property, plant and equipment resulted in \$2.4 million being recorded as revenue, as required under applicable accounting standards.

Operating expenses

Overall operating expenses (including interest charges) decreased by \$28.0 million compared to 2004–05. Employee costs decreased by \$19.1 million, mainly due to the booking of significant provisions for eligible termination payments related to restructure initiatives in 2004–05 and the reduced cost of meeting our superannuation obligations in 2005–06. There was also a decrease of \$11.4 million in our depreciation expense, mainly related to the extension of airways technical equipment useful lives as part of the prior year's revaluation.

Significant changes in the state of affairs during the financial year

Changes to legislation

No legislative changes during 2005–06 had an effect on the operations of the corporation.

Regulatory changes

No regulatory changes during the year affected our operations.

Developments since the end of the financial year

There have been no developments since the end of the financial year that are likely to affect the future operations of Airservices Australia.

from the ground up



FINANCIAL STATEMENTS |
JULY 2005 – JUNE 2006 |

AIRSERVICES AUSTRALIA





INDEPENDENT AUDIT REPORT

To the Minister for Transport and Regional Services

Matters relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements published in both the annual report and on the website of the Airservices Australia Group for the year ended 30 June 2006. The Directors are responsible for the integrity of both the annual report and its web site.

The audit report refers only to the financial statements, schedule 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 the Airservices Australia's annual report.

Scope

The financial statements and Directors' responsibility

The financial statements comprise:

- Statement by Directors and Chief Executive;
- Consolidated Income Statement, Consolidated Balance Sheet and Consolidated Cash Flow Statement;
- Consolidated Statement of Changes in Equity;
- Consolidated Schedule of Commitments and Contingencies; and
- Notes to the Financial Statements

for the Airservices Australia Group for the year ended 30 June 2006. The Airservices Australia Group comprises both Airservices Australia and the entity it controlled during that year.

The Directors are responsible for preparing the financial statements that give a true and fair view of the financial position and performance of the Airservices Australia Group, and that comply with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, Accounting Standards and other mandatory financial reporting requirements in Australia. The Directors are also responsible for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit Approach

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether in all material respects the financial statements present fairly, in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Airservices Australia Group's financial position, and of their financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Directors.

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

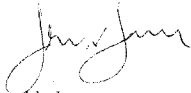
In my opinion, the financial statements of the Airservices Australia Group:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*; and
- (b) give a true and fair view of the Airservices Australia Group's financial position as at 30 June 2006 and of their performance for the year then ended, in accordance with:
 - (i) the matters required by the Finance Minister's Orders; and
 - (ii) applicable Accounting Standards and other mandatory financial reporting requirements in Australia.

Additional Statutory Disclosure

Airservices Pacific Incorporated is a subsidiary of Airservices Australia. The accounts of Airservices Pacific Incorporated are consolidated into the Airservices Australia Group's financial statements but are not material to those financial statements (refer Notes 1(b) and 8). As at the date of the preparation of my report, the financial statements for Airservices Pacific Incorporated had not been submitted for audit.

Australian National Audit Office



John Jones
Executive Director
Delegate of the Auditor-General
Canberra

30 August 2006

Statement by Directors and Chief Executive

FOR THE YEAR ENDED 30 JUNE 2006

In our opinion, the attached financial statements for the year ended 30 June 2006 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 Aircservices 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 Burton Taylor AM
Chairman

Greg Russell
Chief Executive Officer

Alan Barber
General Manager Finance

Canberra, 29 August 2006

	Notes	2006 \$'000	2005 \$'000
CONTINUING OPERATIONS			
INCOME			
<i>Revenue</i>			
Airways revenues	5b	643,388	614,417
Finance income	5a	2,384	2,166
Other commercial revenue	5b	35,246	29,299
Government subsidy	5b	-	7,000
Total Revenue		681,018	652,882
<i>Gains</i>			
Reversal of previous asset write-downs	5b	2,442	10,990
Total Gains		2,442	10,990
TOTAL INCOME		683,460	663,872
EXPENSES			
Employees	5a	383,666	402,812
Suppliers		104,217	101,617
Depreciation	13	42,768	54,121
Amortisation	14	10,300	10,241
Finance costs	5a	6,371	6,300
Net loss on disposal of assets	5a	442	626
TOTAL EXPENSES		547,764	575,717
PROFIT BEFORE INCOME TAX		135,696	88,155
Income tax expense	6b	42,100	31,377
PROFIT AFTER INCOME TAX		93,596	56,778

	Notes	2006 \$'000	2005 \$'000
CURRENT ASSETS			
Cash and cash equivalents	9	25,874	43,532
Trade and other receivables	10	74,180	64,663
Prepayments		2,846	3,309
Inventories		65	152
Assets classified as held for sale	11	816	-
TOTAL CURRENT ASSETS		103,781	111,656
NON-CURRENT ASSETS			
Land and buildings	13	137,887	109,936
Infrastructure, plant and equipment	13	300,700	251,095
Intangible assets	14	54,350	52,582
Defined benefit fund asset	17	77,988	4,034
Deferred tax assets	12	32,104	61,374
TOTAL NON-CURRENT ASSETS		603,029	479,021
TOTAL ASSETS		706,810	590,677
CURRENT LIABILITIES			
Trade and other payables	15	104,181	95,213
Provisions	15	132,918	111,842
Interest bearing loans and borrowings	16	100,020	-
TOTAL CURRENT LIABILITIES		337,119	207,055
NON-CURRENT LIABILITIES			
Interest bearing loans and borrowings	16	-	100,067
Provisions	15	51,703	74,887
TOTAL NON-CURRENT LIABILITIES		51,703	174,954
TOTAL LIABILITIES		388,822	382,009
NET ASSETS		317,988	208,668
EQUITY			
Contributed equity		222,190	222,190
Asset revaluation reserve		39,615	21,774
Other reserves		18	(3)
Accumulated profit/(losses)		56,165	(35,293)
TOTAL EQUITY		317,988	208,668

	Notes	2006 \$'000	2005 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		753,024	702,765
Receipts from government		-	7,000
Payments to suppliers and employees (inclusive of goods and services tax)		(586,201)	(549,288)
Interest paid		(6,415)	(6,343)
Income tax paid		(38,996)	(33,889)
Net cash flows from operating activities	26	121,412	120,245
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of asset held for resale		-	15,709
Proceeds from sale of property, plant and equipment		4,309	6,047
Purchase of property, plant and equipment		(102,000)	(102,903)
Purchase of intangible assets		(38)	(790)
Interest received		1,759	2,210
Net cash flows used in investing activities		(95,970)	(79,727)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(43,100)	(30,300)
Net cash flows used in financing activities		(43,100)	(30,300)
Net increase/(decrease) in cash and cash equivalents		(17,658)	10,218
Cash and cash equivalents at beginning of period		43,532	33,314
CASH AND CASH EQUIVALENTS AT END OF PERIOD	26	25,874	43,532

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

Note	Capital	Other Reserves (1)	Asset Revaluation Reserve	Accumulated Profit / (Losses)	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
BALANCE AT 1 JULY 2005	222,190	(3)	21,774	(35,293)	208,668
Defined benefit fund movements direct to equity	-	-	-	40,882	40,882
Foreign exchange hedge	-	(9)	-	-	(9)
Current year revaluation (net of deferred tax)	-	-	17,921	-	17,921
Revaluation reserve - disposals (net of deferred tax)	-	-	(80)	80	-
Exchange difference on translation of foreign operations	-	30	-	-	30
Net income recognised directly in equity	-	21	17,841	40,962	58,824
Net profit after tax	-	-	-	93,596	93,596
Dividends paid	-	-	-	(43,100)	(43,100)
BALANCE AT 30 JUNE 2006	222,190	18	39,615	56,165	317,988
BALANCE AT 1 JULY 2004	222,190	-	41,278	(82,373)	181,095
Defined benefit fund movements direct to equity	-	-	-	5,243	5,243
Current year revaluation	-	-	5,116	-	5,116
Revaluation reserve - disposals	-	-	(15,289)	15,289	-
Exchange difference on translation of foreign operations	-	(3)	-	3	-
Deferred tax on closing Asset Revaluation Reserve	-	-	(9,331)	-	(9,331)
Interest rate swaps	-	-	-	67	67
Net income recognised directly in equity	-	(3)	(19,504)	20,602	1,095
Net profit after tax	-	-	-	56,778	56,778
Dividends paid	-	-	-	(30,300)	(30,300)
BALANCE AT 30 JUNE 2005	222,190	(3)	21,774	(35,293)	208,668

Note 1: Other reserves comprise of the hedging reserve and the reserve arising from exchange differences on translation of foreign operations.

	2006	2005
	\$'000	\$'000
COMMITMENTS		
CAPITAL COMMITMENTS		
Infrastructure, plant and equipment	113,882	67,364
	113,882	67,364
OTHER COMMITMENTS		
Operating leases	105,522	108,665
Other commitments	29,893	36,678
	135,415	145,343
COMMITMENTS RECEIVABLE	(24,818)	(24,255)
TOTAL NET COMMITMENTS	224,479	188,452
CAPITAL COMMITMENTS BY MATURITY		
Within one year	81,920	58,815
After one year but no more than five years	31,962	8,549
TOTAL CAPITAL COMMITMENTS	113,882	67,364
OPERATING LEASES BY MATURITY		
Within one year	18,248	18,094
After one year but not more than five years	52,347	58,984
More than five years	34,927	31,587
TOTAL OPERATING LEASES	105,522	108,665
OTHER COMMITMENTS BY MATURITY		
Within one year	14,642	10,994
After one year but not more than five years	14,133	22,749
More than five years	1,118	2,935
TOTAL OTHER COMMITMENTS	29,893	36,678
COMMITMENTS RECEIVABLE BY MATURITY		
Within one year	(11,338)	(7,374)
After one year but not more than five years	(11,536)	(14,538)
More than five years	(1,944)	(2,343)
TOTAL COMMITMENTS RECEIVABLE	(24,818)	(24,255)

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 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's general practice that at the completion of the lease term, these items are returned to the lessor.

CONTINGENCIES - There are no material contingent liabilities as at 30 June 2006 (30 June 2005: Nil).

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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 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 2005)), other authoritative pronouncements and Accounting Interpretations issued by the Australian Accounting Standards Board; and Urgent Issues Group Interpretations.

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 thereto comply with IFRS.

Application of AASB 1 First-time Adoption of AIFRS

This is the first financial report to be prepared in accordance with AIFRS. The above standard has been applied in preparing these financial statements.

Financial statements until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing these financial statements, management has amended certain accounting and valuation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. Airservices Australia Group has taken the exemption available under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. Reconciliations between AGAAP and AIFRS are provided in note 28.

Early adoption of the standards

Airservices Australia has elected to apply AASB 119 *Employee Benefits* (issued in December 2004) to the reporting period beginning 1 July 2005. This includes applying AASB 119 to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

a. Basis of preparation (cont.)

Australian Accounting Standards not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006:

AASB Amendment	Affected Standards	Nature of change to accounting policy	Application date of standard*	Application date for Group
2005-1	AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-5	AASB 1: <i>First time adoption of AIFRS</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-6	AASB 3: <i>Business Combinations</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-10	AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 114: <i>Segment Reporting</i> , AASB 117: <i>Leases</i> , AASB 133: <i>Earnings per Share</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 1: <i>First time adoption of AIFRS</i> , AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1038: <i>Life Insurance Contracts</i> .	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
New Standard	AASB 7: <i>Financial Instruments: Disclosures</i>	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

a. Basis of preparation (cont.)

The following amendments are not applicable to the Group and therefore have no impact:

AASB Amendment	Affected Standards
2005-2	AASB 1023: <i>General Insurance Contracts</i>
2005-4	AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 1: <i>First time adoption of AIFRS</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1038: <i>Life Insurance Contracts</i> AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> and AASB 132: <i>Financial Instruments: Disclosure and Presentation</i>
2005-12	AASB 1038: <i>Life Insurance Contracts</i> and AASB 1023: <i>General Insurance Contracts</i>
2005-13	AAS 25: <i>Financial Reporting by Superannuation Plans</i>

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.

Critical 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.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 2006. Airservices Australia and API, together are referred to in this financial report as the Group or the consolidated entity. The effects of all transactions between these two entities are eliminated in full.

For accounting purposes, Airservices Australia also controls (as defined in Urgent Issues Group (UIG) 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 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 years ended 30 June 2005 and 30 June 2006 and therefore the results of the parent entity 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 Group's entities 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.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

c. Foreign currency translation (cont.)

(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.

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, has been offset against airways revenue.

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.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

e. Property, plant and equipment

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.

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.

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.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

e. Property, plant and equipment (cont.)

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 suffered 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.

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.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

e. Property, plant and equipment (cont.)

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 and insurance 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.

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.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

g. Inventories

Inventories consist of retail and publication material for sale to the aviation industry. 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 fair value and subsequently measured at fair value less provision for doubtful debts. The terms of all invoices are 28 days. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is established where some doubt as to collection exists and in any event where the debt is more than 90 days overdue. Historical information on bad debts and the economic environment under which the customers operate in are taken into consideration in determining the provision. The amount of the provision is recognised in the income statement.

i. Trade and other payables

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. Dividends

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 financial year.

k. Cash and cash equivalents

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.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

I. 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.

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

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 are classified as operating cash flows.

Commitments and contingencies are disclosed GST inclusive.

n. Recoverable amount of non-current assets

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.

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 the 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.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

o. Interest-bearing loans and borrowings (cont.)

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

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.

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.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

q. Employee benefits (cont.)

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.

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.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

r. Derivative financial instruments

Airservices Australia 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.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Interest rate hedges do not meet the conditions for special hedge accounting and all changes in fair value are recognised immediately in the income statement.

s. 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.

t. 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.

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.

3 CRITICAL 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. These assumptions and the related carrying amounts are discussed in note 17.

4 SEGMENT REPORTING

Airservices Australia operates predominantly in the Australian Aviation Industry.

5 PROFIT FROM CONTINUING OPERATIONS

	2006 \$'000	2005 \$'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	1,470	1,877
- Deposits	95	92
- Interest rate swap fair value gain	650	-
- Other	169	197
Total finance income	<u>2,384</u>	<u>2,166</u>
Expenses		
Employee expenses		
- Wages and Salaries	252,173	245,339
- Superannuation (defined contribution funds)	21,432	20,264
- Leave and other entitlements	91,744	95,704
- Separation and redundancies	5,252	22,936
Employee expenses (excluding defined benefit superannuation expense)	<u>370,601</u>	<u>384,243</u>
Net defined benefit superannuation expense recognised in employee expenses		
- Current service cost	32,517	30,670
- Interest cost	25,926	25,830
- Expected return on fund assets	(45,378)	(37,931)
Defined benefit superannuation expense	<u>13,065</u>	<u>18,569</u>
Total employee expenses	<u>383,666</u>	<u>402,812</u>
Finance costs		
- Loans	6,243	6,253
- Other	128	47
Total finance costs	<u>6,371</u>	<u>6,300</u>
Increase/(decrease) in doubtful debts provision	<u>(1,301)</u>	<u>(300)</u>
Bad debts written off	372	829
Total bad and doubtful debt expenses	<u>(929)</u>	<u>529</u>
Operating lease charges	17,394	18,432
Depreciation	42,768	54,121
Amortisation	10,300	10,241

5 PROFIT FROM CONTINUING OPERATIONS (cont.)

	2006 \$'000	2005 \$'000
a. Profit from Continuing Operations before income tax is arrived at after including the following items of revenue and expenditure (cont.):		
Gain from sale of assets held for resale		
- Proceeds from disposal of assets	-	15,709
- Written-down value of disposed assets	-	(15,632)
Net gain from sale of assets held for resale	-	77
Gain/(loss) from sale/(write-off) of non-current assets		
- Proceeds from disposal of assets	4,309	6,047
- Written-down value of disposed assets	(4,497)	(6,356)
Net loss from sale of non-current assets	(188)	(309)
Written down value of scrapped assets	(254)	(394)
Net loss from sale/write-off of non-current assets	(442)	(703)
Net loss from disposal of assets	(442)	(626)

b. Supplementary Analysis of the Income Statement for the year ended 30 June 2006

2006	Airways Activities \$'000	Other Commercial Activities \$'000	Total Commercial Activities \$'000	Community Service Activities \$'000	Profit from Ordinary Activities \$'000
Airways revenue	643,388	-	643,388	-	643,388
Other commercial revenue	-	35,246	35,246	-	35,246
Total sales revenue	643,388	35,246	678,634	-	678,634
Finance income	2,384	-	2,384	-	2,384
Reversal of previous asset write-downs	2,442	-	2,442	-	2,442
Total income	648,214	35,246	683,460	-	683,460
Total expenses	513,099	30,935	544,034	3,730	547,764
Net profit/(loss) before tax	135,115	4,311	139,426	(3,730)	135,696
Income tax expense	41,919	1,341	43,260	(1,160)	42,100
Net profit/(loss) after tax	93,196	2,970	96,166	(2,570)	93,596

5 PROFIT FROM CONTINUING OPERATIONS (cont.)

b. Supplementary Analysis of the Income Statement for the year ended 30 June 2006 (cont.)

2005	Airways Activities	Other Commercial Activities	Total Commercial Activities	Community Service Activities	Profit from Ordinary Activities
	\$'000	\$'000	\$'000	\$'000	\$'000
Airways revenue	603,924	-	603,924	10,493	614,417
Other commercial revenue	-	29,299	29,299	-	29,299
Total sales revenue	603,924	29,299	633,223	10,493	643,716
Government subsidy	-	-	-	7,000	7,000
Finance income	2,166	-	2,166	-	2,166
Reversal of previous asset write-downs	10,990	-	10,990	-	10,990
Total income	617,080	29,299	646,379	17,493	663,872
Total expenses	512,169	30,801	542,970	32,747	575,717
Net profit/(loss) before tax	104,911	(1,502)	103,409	(15,254)	88,155
Income tax expense	36,312	(442)	35,870	(4,493)	31,377
Net profit/(loss) after tax	68,599	(1,060)	67,539	(10,761)	56,778

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, include:

	2006 \$'000	2005 \$'000
Costs at general aviation and regional airports where price capping is maintained	-	28,873
Provision for environmental information (reports, statistics and maps) by:		
- Environmental Services Branch	262	299
- Noise and Flight Path Monitoring System	3,013	3,040
Noise inquiry lines	455	535
Total costs	3,730	32,747

5 PROFIT FROM CONTINUING OPERATIONS (cont.)

c. Community Service Activities (cont.)

Included in the profit from ordinary activities before income tax is \$3.730m (2005: \$32.747m) in direct costs for community service activities undertaken by Airservices Australia and charged to operations during the year to meet the specific requirements of the government.

The government contribution towards the costs at general aviation and regional airports where price capping is maintained ceased with effect from 1 July 2005. The new pricing arrangements that were approved by the Australian Competition and Consumer Commission (ACCC) with effect from 1 January 2005 takes into consideration the difference between the cap and the actual cost of the service.

6 INCOME TAX

a. Income Tax Expense

	2006	2005
	\$'000	\$'000
Current tax	42,648	36,517
Deferred tax	(548)	(5,140)
Income tax expense attributable to profit from continuing operations	42,100	31,377

b. Reconciliation of income expense to prima facie tax payable

	2006	2005
	\$'000	\$'000
Profit from continuing operations before income tax expense	135,696	88,155
Prima facie income tax expense at 30%	40,709	26,447
Tax effect of amounts which are not deductible in calculating taxable income:		
- Provision for Tax Law Amendment Act (No. 2)	11	(8)
- Non-deductible legal costs	344	231
- Other non-deductible expenditure	130	62
- Depreciation of revalued assets	1,831	8,257
- Revaluation of non-current assets	(733)	(3,297)
- Research and development tax incentive	(192)	(315)
Income tax expense	42,100	31,377

7 DIVIDENDS

A final dividend for the year ended 30 June 2005 of \$21.5m (2005: \$16.9m) was paid in February 2006.

An interim dividend for the year ending 30 June 2006 of \$21.6m (2005: \$13.4m) was paid in June 2006.

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 has also made available a loan facility of US\$0.700m to API at normal commercial terms and conditions. The full amount of the facility has been drawn down by API which at 30 June 2006 equates to A\$0.946m.

A further undrawn loan facility of US\$0.700m is in place for working capital purposes.

The 2005–06 financial statements of API have not been subject to an external audit prior to the signing of the Group's financial statements, given they are not of a material nature. However, the financial statements were subject to an external review for the 2004–05 financial year and an external audit of the 2005–06 statements will be conducted later in the year. API's financial statements will form part of the Group's external audit program in subsequent years.

Special Purpose Entities

In accordance with the indicators of control for accounting purposes detailed in UIG 112, Airservices Australia 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 27. However the issued capital in these entities, which totals US\$4,000, is not owned by Airservices Australia but is held by two finance companies.

9 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	2006	2005
	\$'000	\$'000
Cash at bank and on hand	6,374	932
Deposits at call	19,500	42,600
	25,874	43,532

a. Cash at bank and on hand

Cash at bank has a floating interest rate of 5.25% (2005: 5.00%). Cash on hand is non-interest bearing.

b. Deposits at call

The deposits have a floating interest rate of 5.75% (2005: 5.50%). These 11am cash at call deposits are rolled over on a daily basis.

10 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	2006	2005
	\$'000	\$'000
Trade receivables	71,808	61,219
Provision for doubtful debts	(675)	(1,976)
	71,133	59,243
Other receivables	1,713	2,319
Accrued revenue and interest	1,334	3,101
Total Current Receivables	74,180	64,663

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

11 ASSETS CLASSIFIED AS HELD FOR SALE

A total of eleven land assets have been identified as surplus to the requirements of Airservices Australia 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 2006–07 financial year. The carrying amount of the assets amounted to \$0.816m (2005: nil).

12 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	2006	2005
	\$'000	\$'000
The balance comprises temporary differences attributed to:		
<i>Amounts recognised in the income statement</i>		
Accelerated depreciation for accounting purposes	7,651	5,306
Doubtful debts	202	593
Employee benefits	59,049	63,421
Provision for revenue to be returned to customers	4,470	-
Provision for legal costs	78	380
Interest rate swap	(224)	-
Cross-border transaction provision	481	1,115
Accruals	775	1,101
	72,482	71,916
<i>Amounts recognised directly in equity</i>		
Foreign exchange hedge reserve	(4)	-
Revaluation of land, buildings, plant and equipment	(16,978)	(9,332)
Defined benefit asset	(23,396)	(1,210)
	(40,378)	(10,542)
Net deferred tax assets	32,104	61,374
Movements:		
Opening balance at 1 July	61,374	66,778
Credited/(charged) to the income statement	566	5,138
Credited/(charged) to equity	(29,836)	(10,542)
Closing balance at 30 June	32,104	61,374

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 being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market.

Airservices Australia engaged accredited valuers CB Richard Ellis to value its land and Aon Valuation Services for the valuation of buildings, plant and equipment. The revaluation surplus net of deferred income taxes was credited to the asset revaluation reserve.

The effective date of the revaluation was 30 June 2006.

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 between cost and depreciation	-	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 between cost and depreciation	-	(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

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

Item	Land	Buildings	Total land and buildings	Plant and equipment	Assets under construction	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross value - 1 July 2004	14,793	88,777	103,570	198,198	46,929	348,697
Additions	-	23	23	10,358	92,522	102,903
Commissioned assets under construction	-	2,173	2,173	18,462	(20,635)	-
Assets under construction commissioned as software (refer note 14)	-	-	-	-	(7,092)	(7,092)
Revaluations	-	7,272	7,272	(45,716)	-	(38,444)
Disposals	(250)	(242)	(492)	(11,367)	-	(11,859)
Reclassifications between asset categories	-	1	1	(186)	-	(185)
Gross value – 30 June 2005	14,543	98,004	112,547	169,749	111,724	394,020
Accumulated depreciation - 1 July 2004	-	(4,387)	(4,387)	(34,145)	-	(38,532)
Depreciation charged	-	(8,374)	(8,374)	(45,747)	-	(54,121)
Revaluations	-	10,080	10,080	44,470	-	54,550
Disposals	-	71	71	5,038	-	5,109
Reclassifications between asset categories	-	(1)	(1)	6	-	5
Accumulated depreciation – 30 June 2005	-	(2,611)	(2,611)	(30,378)	-	(32,989)
Net book value - 30 June 2005	14,543	95,393	109,936	139,371	111,724	361,031

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

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

	2006 \$'000	2005 \$'000
Land		
At cost	3,791	3,558
Buildings		
At cost	206,614	198,732
Accumulated depreciation	(118,951)	(119,587)
Net carrying amount	87,663	79,145
Plant and equipment		
At cost	588,050	531,443
Accumulated depreciation	(367,085)	(371,995)
Net carrying amount	220,965	159,448

14 NON-CURRENT ASSETS – INTANGIBLE ASSETS (SOFTWARE)

	2006 \$'000	2005 \$'000
Gross value – 1 July	93,797	86,446
Reclassified from plant and equipment	-	185
Additions	38	790
Transferred from assets under construction	12,031	7,092
Disposals	(30)	(716)
Gross value – 30 June	105,836	93,797
Accumulated amortisation – 1 July	(41,215)	(31,685)
Reclassified from plant and equipment	-	(5)
Amortisation for year	(10,300)	(10,241)
Disposals	29	716
Accumulated amortisation – 30 June	(51,486)	(41,215)
Net intangibles – 30 June	54,350	52,582

15 PROVISIONS AND PAYABLES

(a) Current payables and provisions

	2006 \$'000	2005 \$'000
Current payables		
Suppliers		
- Trade payables	15,197	12,964
Employees		
- Salaries and wages	4,952	4,519
- Superannuation	693	549
- Recreation leave	31,655	32,023
Revenue received in advance	2,742	2,945
Interest payable	788	806
Group tax payable	3,265	3,039
Accrued payroll tax	2,492	2,228
Net goods and services tax payable	7,295	7,311
Other accrued expenses	35,102	28,829
Total current payables	104,181	95,213
Current provisions		
Employee benefits		
- Long service leave	92,613	88,059
- Workers compensation	389	550
- Separations and redundancies	11,131	7,375
Taxation	13,377	14,342
Revenue to be returned to customers	14,899	-
Cross-border transaction	250	250
Litigation and legal costs	259	1,266
Total current provisions	132,918	111,842
Total current provisions and payables	237,099	207,055
(b) Non-current provisions		
Employee benefits		
- Long service leave	15,211	19,215
- Separations and redundancies	32,035	48,755
- Workers compensation	3,103	3,451
Cross-border transaction	1,354	3,466
Total non-current provisions	51,703	74,887

15 PROVISIONS AND PAYABLES (cont.)

(c) Movement in Provisions (excluding Employee benefits)

	2006 \$'000	2005 \$'000
(i) Revenue to be returned to customers (Current)		
Carrying amount at start of year	-	-
Additional provisions recognised	18,178	-
Payments	(3,279)	-
Carrying amount at end of year	14,899	-
(ii) Cross border transaction (Current/Non-current)		
Carrying amount at start of year	3,716	3,851
Unused amount reversed	(2,000)	-
Payments	(112)	(135)
Carrying amount at end of year	1,604	3,716
(iii) Litigation and legal costs (Current/Non-current)		
Carrying amount at start of year	1,266	1,572
Unused amount reversed	(65)	-
Payments	(942)	(306)
Carrying amount at end of year	259	1,266

(d) Description of Provisions

Revenue to be returned to customers

\$12.2m of this provision relates to the revenue in excess of the risk sharing threshold that was agreed to under the Long Term Pricing Agreement (LTPA). Under the LTPA, revenue in excess of 5% of projected activity is available to be returned to customers subject to consultation. A further \$2.7m will also be returned 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.

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 27.

15 PROVISIONS AND PAYABLES (cont.)

(d) Description of Provisions (cont.)

Litigation and legal costs

This provision includes the estimated legal costs to be incurred by Airservices Australia on ongoing matters which commenced prior to 30 June 2006.

Workers compensation

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

Separations and redundancies

This includes \$34.8m (2005: \$36.0m) in early retirement benefits which have been elected to be taken by employees as a lump sum on retirement. Also, \$8.3m (2005: \$20.1m) relates to redundancy provisions in relation to the restructuring of the organisation.

16 INTEREST-BEARING LOANS AND BORROWINGS

	2006 \$'000	2005 \$'000
Unsecured loans – Bank loans – bonds (1)		
- Current	100,020	-
- Non-Current	-	100,067
Total Interest Bearing Liabilities	100,020	100,067

(1) This represents a medium term bond facility which matures in November 2006

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.

17 DEFINED BENEFIT FUND ASSET (cont.)

(b) Benefit Asset

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

	2006 \$'000	2005 \$'000
Present value of the defined benefit obligation	(625,327)	(614,364)
Fair value of defined benefit fund assets	703,315	618,398
Net benefit asset – non-current	77,988	4,034

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

(c) Categories of plan assets

The major categories of plan assets are as follows.

	2006 \$'000	2005 \$'000
Cash	17,606	29,534
Equity instruments	490,655	385,862
Debt instruments	112,350	110,253
Other assets	82,704	92,749
	703,315	618,398

(d) Reconciliations

	2006 \$'000	2005 \$'000
<i>Reconciliation of the present value of defined benefit obligation:</i>		
Balance at the beginning of the year	614,364	549,054
Current service cost	32,517	30,670
Contribution by members	10,538	9,436
Interest cost	25,926	25,830
Actuarial (gains)/losses on obligation	(27,049)	22,624
Benefits paid	(30,969)	(23,250)
Balance at the end of the year	625,327	614,364

17 DEFINED BENEFIT FUND ASSET (cont.)

(d) Reconciliations (cont.)

	2006 \$'000	2005 \$'000
<i>Reconciliation of the fair value of plan assets:</i>		
Balance at the beginning of the year	618,398	537,003
Expected return	45,378	37,931
Actuarial gains/(losses)	31,282	27,986
Contributions by Airservices Australia	28,688	29,292
Contributions by members	10,538	9,436
Benefits paid	(30,969)	(23,250)
Balance at the end of the year	703,315	618,398

(e) Net amount recognised in Income Statement

	2006 \$'000	2005 \$'000
<i>The amounts recognised in the income statement are as follows:</i>		
Current service cost	32,517	30,670
Interest cost on benefit obligation	25,926	25,830
Expected return on plan assets	(45,378)	(37,931)
Total included in employee benefits expense	13,065	18,569
Actual return on plan assets	76,660	65,917

(f) Principal actuarial assumptions

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

	2006	2005
Discount rate	4.80%	4.30%
Expected return on plan assets	7.00%	7.00%
Future salary increases	6.00%	6.00%

17 DEFINED BENEFIT FUND ASSET (cont.)

(f) Principal actuarial assumptions (cont.)

The discount rate is the current 10-year government bond rate adjusted for tax. Future salary increases are based on general increases across the workforce plus an allowance for promotional effects. 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. The rate is net of tax and investment expenses.

(g) Employer contributions

18% of gross salary for Air Traffic Controllers (ATCs)

15% of gross salary for other employees

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

Actuarial assessments are made each year, and the last such assessment was made as at 30 June 2006.

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.

Using the funding method described above and specific actuarial assumptions as to the plan's future experience, the actuary recommended in the actuarial review as at 30 June 2005, the payment of employer contributions at the above rates.

Total employer contributions expected to be paid by Airservices Australia for the year ended 30 June 2007 amounts to \$31m. This does not include member salary sacrifice contributions.

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 ATCs and 5.5% p.a. for non ATCs. These salary increases are consistent with employee agreements and include an allowance for promotions.

(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 (1 July 2005) of the most recent financial report of AvSuper by the fund's actuary, where a surplus of \$107.5m was reported.

17 DEFINED BENEFIT FUND ASSET (cont.)

(i) Historic Summary

	2006 \$'000	2005 \$'000
Plan assets	703,315	618,398
Defined benefit plan obligation	(625,327)	(614,364)
Surplus	77,988	4,034
Experience (gains)/losses adjustments arising on plan liabilities	1,677	556
Experience gains/(losses) adjustments arising on plan assets	31,282	27,986

18 STANDBY ARRANGEMENTS AND UNUSED CREDIT FACILITIES

	2006 \$'000	2005 \$'000
Bank overdraft (expires 1 October 2006)	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 by Airservices Australia)	300,000	300,000
- Domestic bond (matures 15 November 2006)	100,000	100,000
- Standby (expires 30 April 2007)	60,000	60,000
- 11am Borrowing (due for review 11 May 2007)	10,000	10,000
Total loan facilities	470,000	470,000
Amount utilised	(100,020)	(100,114)
Unused loan facility	369,980	369,886

19 REMUNERATION OF AUDITORS

	2006	2005
	\$	\$
Auditing services provided by the Australian National Audit Office ⁽¹⁾	256,100	299,000

Audit services for Airservices Australia Group are provided by the Australian National Audit Office and are subcontracted to PricewaterhouseCoopers.

Taxation services were provided by Pricewaterhouse Coopers during the year and amounted to \$20,851.

(1) Included in the amount for the 2005 financial year is \$19,500 relating to the 2006 financial statements audit, arising from work done on the opening balance sheet to be prepared under Australian equivalents to International Financial Reporting Standards.

20 REMUNERATION OF DIRECTORS

	2006	2005
	\$	\$
Amounts received, or due and receivable, by Directors	479,675	304,062

The remuneration of the Chief Executive Officer (who was an Executive Director during the year) is disclosed with the remuneration of executives in note 21 and is not included in Directors' remuneration. A number of Directors served for only part of the 2006 year as detailed in note 22.

The \$479,675 for 2006 consists of short-term employee benefits (\$395,544) and post-employment benefits (\$84,131).

21 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 \$100,000, totalled \$4,591,374 (2005: \$3,156,964). 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 \$4,591,374 for 2006 consists of short-term employee benefits (\$3,218,157); long-term employee benefits (\$242,832); and termination benefits (\$1,130,385). A number of Executives served for only part of the 2006 year as detailed in note 22.

22 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
Air Marshal Leslie Fisher AO (Ret'd)		Ongoing	30 April 2006
Christine Goode		1 May 2006	Current
Chief Executive Officer	Status	Commenced	Finished
Hisham El-Ansary	Acting	Ongoing	4 July 2005
Greg Russell		19 July 2005	Current
Alastair Hodgson	Acting	5 July 2005	18 July 2005
		9 February 2006	19 February 2006
		3 May 2006	19 May 2006
Directors	Status	Commenced	Finished
Captain David Shrubbs		Ongoing	30 June 2006
Christine Goode		Ongoing	30 April 2006
Alice Williams		Ongoing	Current
Henk Meertens		Ongoing	Current
David Forsyth		Ongoing	Current
Philippa Stone		Ongoing	Current
Roxley McLennan		1 May 2006	Current

Air Marshal Leslie Fisher AO (Ret'd) ceased being a director of Airservices Pacific Incorporated (API) on 28 February 2006. Nick Burton Taylor AM was a director of API from 1 December 2005 until 28 February 2006. Hisham El-Ansary and Alistair Hodgson both retired as directors of API on 6 December 2005. Greg Russell was appointed director of API on 1 December 2005.

22 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	1 December 2005	Current
Neal O'Callaghan	GM Audit & Assurance	1 December 2005	Current
Richard Dudley	GM Corporate Affairs	1 December 2005	Current
Andrew Clark	GM Aviation Rescue and Fire Fighting	1 December 2005	Current
David Abbott	GM Business Development	1 December 2005	22 February 2006
Wayne Emery	GM Business Development	23 February 2006	Current
Keith Orkney	Acting GM AERU	Ongoing	30 November 2005
	GM Technology and Asset Services	1 December 2005	Current
Stephen Angus	GM AERU	1 December 2005	Current
Alan Barber	Acting CFO and GM Corporate Services	Ongoing	16 July 2005
	GM Finance	1 December 2005	Current
Hisham El-Ansary	Acting CFO and GM Corporate Services Group	17 July 2005	30 November 2005
Alastair Hodgson	GM Airport Services Group	Ongoing	30 November 2005
	GM People & Change	1 December 2005	Current
Kenneth McLean	GM Airspace Implementation Planning Group	Ongoing	30 November 2005
	GM Air Traffic Control	1 December 2005	Current
Brian Prendergast	GM Infrastructure Support Services	Ongoing	30 November 2005
	GM Future Direction	1 December 2005	Current
Thomas Grant	GM Organisation Development	Ongoing	30 November 2005
Andrew Fleming	GM Air Traffic Management	Ongoing	30 November 2005

22 RELATED PARTY TRANSACTIONS (cont.)

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 would have adopted if dealing with the director-related entity at arm's length in similar circumstances. 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 \$133,332 (2005: \$26,334) 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 commenced her directorship on 28 January 2005.
- Employer superannuation contributions were made to AvSuper Pty Ltd, a superannuation fund, of which Mr Hisham El-Ansary is a trustee director. Airservices Australia 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 provides indemnities to its directors and officers to complement the insurance arrangements that it has in place.

23 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.

23 FINANCIAL INSTRUMENTS (cont.)

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.

2006	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	\$'000	\$'000	\$'000
Financial assets								
Cash and deposits	9	5.625%	24,981	-	-	-	893	25,874
Receivables	10	-	-	-	-	-	74,180	74,180
Total			24,981	-	-	-	75,073	100,054
Financial liabilities								
Trade and other creditors ⁽²⁾	15	-	-	-	-	-	72,526	72,526
Bank loans – bonds	16	6.485%	-	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)
2005								
	Notes	Average interest rate	Floating interest rate	Fixed interest maturing in:			Non-interest bearing	Total
			\$'000	1 year or less	1 to 5 years	More than 5 years	\$'000	\$'000
Financial assets								
Cash and deposits	9	5.500%	42,960	-	-	-	572	43,532
Receivables	10	-	-	-	-	-	64,663	64,663
Total			42,960	-	-	-	65,235	108,195
Financial liabilities								
Trade and other creditors ⁽²⁾	15	-	-	-	-	-	63,190	63,190
Bank loans – bonds	16	6.485 %	-	-	100,067	-	-	100,067
Interest rate swaps ⁽¹⁾		-	100,000	-	(100,000)	-	-	-
Interest rate swaps ⁽¹⁾		-	(77,000)	-	77,000	-	-	-
Total			23,000	-	77,067	-	63,190	163,257
Net Financial Assets/(Liabilities)			19,960	-	(77,067)	-	2,045	(55,062)

⁽¹⁾ Notional principal amounts ⁽²⁾ This item excludes amounts for staff recreation leave liabilities

23 FINANCIAL INSTRUMENTS (cont.)

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

	Notes	2006 \$'000	2005 \$'000
Net financial assets/(liabilities) as above		(72,492)	(55,062)
Other current assets		3,727	3,461
Non-current assets	12, 13, 14, 17	603,029	479,021
Current provisions (including recreation leave)	15	(164,573)	(143,865)
Non-current provisions	15	(51,703)	(74,887)
Net assets as per Consolidated Balance Sheet		317,988	208,668

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	
	2006 \$'000	2005 \$'000	2006 \$US/\$1	2005 \$US/\$1

Maturity

3 months or less	-	-	-	-
Greater than 3 months but less than 1 year	949	949	0.7379	0.738
Greater than 1 year	-	-	-	-

Buy EUROS	Sell Australian Dollars		Average Exchange Rate	
	2006 \$'000	2005 \$'000	2006 EURO/\$1	2005 EURO/\$1

Maturity

3 months or less	1,391	1,866	0.6092	0.5577
Greater than 3 months but less than 1 year	622	9,159	0.6055	0.5418
Greater than 1 year	-	-	-	-

23 FINANCIAL INSTRUMENTS (cont.)

Forward Exchange Contracts (cont.)

Buy US Dollars	Sell Australian Dollars		Average Exchange Rate	
	2006	2005	2006	2005
	\$'000	\$'000	\$/US/\$1	\$/US/\$1
Maturity				
3 months or less	6,588	377	0.7352	0.768
Greater than 3 months but less than 1 year	14,004	5,356	0.7347	0.774
Greater than 1 year	13,742	240	0.7334	0.772

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 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.

	2006		2005	
	Carrying amount	Net fair value	Carrying amount	Net fair value
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Forward exchange contracts	-	(12)	-	(1,220)
Cash and cash equivalents	25,874	25,874	43,532	43,532
Trade and other receivables	74,180	74,180	64,663	64,663
Interest rate swaps	-	811	-	96
	100,054	100,853	108,195	107,071
Financial liabilities				
Long-term debt	100,020	100,934	100,067	101,171
Trade and other creditors	72,526	72,526	63,190	63,190
	172,546	173,460	163,257	164,361

23 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.

24 MONIES HELD ON BEHALF OF THIRD PARTIES

Airservices Australia 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 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 \$1.458m (2005: \$0.795m) for the Solomon Islands and \$0.073m (2005: \$0.050m) for Nauru.

25 ECONOMIC DEPENDENCY

Airservices Australia is dependent on activity in the Australian aviation industry, of which the Qantas Group is the dominant operator, representing approximately 42% (2005: 48%) of airways revenue earned during the year.

26 NOTES TO THE STATEMENT OF CASH FLOWS

	2006	2005
	\$'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	25,874	43,532
Total cash and cash equivalents	25,874	43,532
Reconciliation of net profit after income tax to net cash flows from operations		
Net profit after income tax	93,596	56,778
Adjustments for:		
Depreciation	42,768	54,121
Amortisation	10,300	10,241
Interest received	(1,759)	(2,210)
Reversal of previous asset write-downs	(2,442)	(10,990)
Net loss on sale/write-off of non-current assets	442	626
Fair value adjustments to derivatives	(651)	-
Amortisation of premium on borrowings	(47)	(47)
Excess AvSuper defined benefit contributions (after tax)	(10,886)	(7,506)
Changes in assets		
(Increase)/decrease in gross receivables	(8,242)	(2,080)
(Increase)/decrease in inventories	87	(115)
(Increase)/decrease in prepayments	463	(1,495)
(Increase)/decrease in deferred tax assets	(567)	(5,166)
Changes in liabilities		
Increase/(decrease) in employee benefits	(12,714)	22,407
Increase/(decrease) in doubtful debts provision	(1,301)	(300)
Increase/(decrease) in legal provisions	(1,007)	(306)
Increase/(decrease) in income tax payable	(965)	(562)
Increase/(decrease) in cross-border transaction provision	(2,112)	(135)
Increase/(decrease) in creditors and accruals	1,550	6,984
Increase in revenue to be returned to customers provision	14,899	-
Net cash flow from operating activities	121,412	120,245

27 CROSS BORDER FINANCING ARRANGEMENT

During the 2003 and 2004 years, Airservices Australia 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 has provided certain guarantees and indemnities to various participants in the transaction. If certain events occur, Airservices Australia could be liable to make additional substantial payments. The future underlying exposure against which these guarantees and indemnities have been provided are up to a maximum of US\$758m (2005: US\$770m). At the time of the transaction, expert external advisors considered that unless exceptional, extreme and highly unlikely circumstances arise, Airservices Australia 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.

28 TRANSITION TO AIFRS

The impact of adopting AIFRS on the equity of Airservices Australia Group as reported under previous Australian Generally Accepted Accounting Principles ("AGAAP") is illustrated below:

Item	Capital \$'000	Accumulated losses \$'000	Other reserves \$'000	Asset revaluation reserve \$'000	Total equity \$'000
Equity under previous AGAAP - 1 July 2004	222,190	(49,861)	-	18,691	191,020
Property, plant and equipment revaluation - (A)	-	(22,587)	-	22,587	-
Defined benefit liability (net of tax) - (B)	-	(9,925)	-	-	(9,925)
Revised equity under AIFRS – 1 July 2004	222,190	(82,373)	-	41,278	181,095
Equity under previous AGAAP - 1 July 2005	222,190	(21,926)	-	18,691	218,955
Property, plant and equipment revaluation - (A)	-	(12,414)	-	12,414	-
Tax effect of asset revaluation reserve – (E)	-	(3,847)	-	(9,331)	(13,178)
Interest rate swaps - (C)	-	67	-	-	67
Exchange difference on translation of foreign operations- (D)	-	3	(3)	-	-
Defined benefit asset (net of tax) - (B)	-	2,824	-	-	2,824
Revised equity under AIFRS – 1 July 2005	222,190	(35,293)	(3)	21,774	208,668

Notes:

- (A) : Under AASB 116: *Property, Plant and Equipment*, revaluation of non-current assets have been restated on an "asset by asset" basis as compared to a "class by class" basis required under the previous AGAAP. This has resulted in an increase in the asset revaluation reserve with a corresponding increase in accumulated losses.
- (B) : A defined benefit liability/ asset (net of tax) has been recognised under AASB 119: *Employee Benefits*, but was not recognised under the previous AGAAP. This has resulted in an increase/ decrease in accumulated losses.
- (C) : An interest rate swap liability (net of tax) has been recognised under AASB 139: *Financial Instruments Recognition and Measurement*. This has resulted in a reduction in accumulated losses.
- (D) : Under AASB 121: *The Effects of Changes in Foreign Exchange Rates*, exchange differences on the translation of foreign operations are recognised in equity.
- (E) : Under AASB 112: *Income Taxes* there is a new requirement to record the tax effect of those transactions previously referred to as "permanent differences". On recording the deferred tax impact of the asset revaluation reserve (ARR), \$9.331m was adjusted directly against the ARR and \$3.847m was recorded against income tax expense.

28 TRANSITION TO AIFRS (cont.)

(1) Balance Sheet reflecting reconciliation of adjustments to AIFRS

(a) At the date of transition to AIFRS: 1 July 2004

Notes	Previous AGAAP	Effect of Transition to AIFRS	AIFRS
	\$'000	\$'000	\$'000
CURRENT ASSETS			
Cash and cash equivalents	33,314	-	33,314
Trade and other receivables	62,283	-	62,283
Prepayments	1,814	-	1,814
Inventories	37	-	37
Assets held for resale	15,632	-	15,632
Deferred income tax asset	10,404	-	10,404
TOTAL CURRENT ASSETS	123,484	-	123,484
NON-CURRENT ASSETS			
Land and buildings	99,183	-	99,183
Infrastructure, plant and equipment	265,743	-	265,743
Deferred income tax asset	56,374	4,253	60,627
TOTAL NON-CURRENT ASSETS	421,300	4,253	425,553
TOTAL ASSETS	544,784	4,253	549,037
CURRENT LIABILITIES			
Trade and other payables	87,605	-	87,605
Provisions	28,993	-	28,993
TOTAL CURRENT LIABILITIES	116,598	-	116,598
NON-CURRENT LIABILITIES			
Interest bearing loans and borrowings	100,114	-	100,114
Provisions	137,052	-	137,052
Defined benefits fund – AvSuper	-	14,178	14,178
TOTAL NON-CURRENT LIABILITIES	237,166	14,178	251,344
TOTAL LIABILITIES	353,764	14,178	367,942
NET ASSETS	191,020	(9,925)	181,095
EQUITY			
Contributed equity	222,190	-	222,190
Asset revaluation reserve	18,691	22,587	41,278
Accumulated profit/(losses)	(49,861)	(32,512)	(82,373)
TOTAL EQUITY	191,020	(9,925)	181,095

28 TRANSITION TO AIFRS (cont.)

(b) At the end of the last reporting period under previous AGAAP:
30 June 2005

Notes	Previous AGAAP	Effect of Transition to AIFRS	AIFRS
	\$'000	\$'000	\$'000
CURRENT ASSETS			
Cash and cash equivalents	43,532	-	43,532
Trade and other receivables	64,663	-	64,663
Prepayments	3,309	-	3,309
Inventories	152	-	152
Deferred income tax asset	11,808	(11,808)	-
TOTAL CURRENT ASSETS	123,464	(11,808)	111,656
NON-CURRENT ASSETS			
Land and buildings	109,936	-	109,936
Infrastructure, plant and equipment	303,677	-	303,677
Defined benefits fund – AvSuper	-	4,034	4,034
Deferred income tax asset	63,983	(2,609)	61,374
TOTAL NON-CURRENT ASSETS	477,596	1,425	479,021
TOTAL ASSETS	601,060	(10,383)	590,677
CURRENT LIABILITIES			
Trade and other payables	95,309	(96)	95,213
Provisions	31,194	80,648	111,842
TOTAL CURRENT LIABILITIES	126,503	80,552	207,055
NON-CURRENT LIABILITIES			
Interest bearing loans and borrowings	100,067	-	100,067
Provisions	155,535	(80,648)	74,887
TOTAL NON-CURRENT LIABILITIES	255,602	(80,648)	174,954
TOTAL LIABILITIES	382,105	(96)	382,009
NET ASSETS	218,955	(10,287)	208,668
EQUITY			
Contributed equity	222,190	-	222,190
Asset revaluation reserve	18,691	3,083	21,774
Other reserves	-	(3)	(3)
Accumulated profit/(losses)	(21,926)	(13,367)	(35,293)
TOTAL EQUITY	218,955	(10,287)	208,668

28 TRANSITION TO AIFRS (cont.)

(2) Reconciliation of profit for the year ended 30 June 2005

	Notes	Previous AGAAP \$'000	Effect of Transition to AIFRS \$'000	AIFRS \$'000
CONTINUING OPERATIONS				
REVENUE				
Airways revenues		614,417	-	614,417
Interest revenue		2,166	-	2,166
Other commercial revenue		29,299	-	29,299
Government subsidy		7,000	-	7,000
Proceeds from disposals of assets	(D)	21,756	(21,756)	-
Reversal of previous asset write-downs	(A)	16,106	(5,116)	10,990
TOTAL REVENUES		690,744	(26,872)	663,872
EXPENSES				
Employees	(B)	413,535	(10,723)	402,812
Suppliers		101,617	-	101,617
Depreciation		64,362	(10,241)	54,121
Amortisation		-	10,241	10,241
Finance costs		6,300	-	6,300
Written-down value of disposed assets	(D)	22,382	(22,382)	-
Net loss on disposal of assets	(D)	-	626	626
TOTAL EXPENSES		608,196	(32,479)	575,717
PROFIT BEFORE INCOME TAX		82,548	5,607	88,155
Income tax expense	(C)	24,313	7,064	31,377
NET PROFIT AFTER INCOME TAX		58,235	(1,457)	56,778

Note A: Under AASB 116 we are required to account for revaluation gains/losses on an asset by asset basis compared to the previous requirement of accounting for revaluations on an asset class basis. The effect of the change is a transfer of \$5.116m from the income statement to the asset revaluation reserve to recognise previous asset class write downs against net profit.

Note B: Under AASB 119 there is a new requirement to record an asset/liability in relation to the AvSuper defined benefit fund. The net of the current service cost, interest cost and expected return on plan assets is recorded in the income statement rather than the previous practice of recording the contributions paid into the fund during the period.

Note C: Under AASB 112 there is a new requirement to record the tax effect of those transactions previously referred to as "permanent differences". On recording the deferred tax impact of the asset revaluation reserve, \$3.847m was recorded against income tax expense. Also, the tax effect of Note B being \$3.217m has been recorded.

Note D: Under AASB 101, there is a new requirement to disclose the net gain/loss on the disposal of non-current assets, rather than reporting the proceeds as income and the WDV of disposed assets as an expense.

(3) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

from the ground up



APPENDICES |
JULY 2005 – JUNE 2006

AIRSERVICES AUSTRALIA



Appendix 1: Board membership, meetings and committees

Members of the Board and their terms of appointment

Board members for the period 1 July 2005 to 30 June 2006 were as follows.



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

Mr Burton Taylor is a farmer living at Booroowa, New South Wales, with an extensive career as a professional director and a broad background in accounting, agriculture, aviation, commerce and small business.

After several years at PricewaterhouseCoopers, Mr Burton Taylor founded Hays Personnel Services and is a past President of the Institute of Chartered Accountants in Australia. He is currently Chairman of the Australian Agricultural Company Ltd, and a director of Hamilton James and Bruce Ltd, specialists in banking and finance recruitment. Mr Burton Taylor is the founding chairman of The Country Education Foundation of Australia and a past president of the Institute of Chartered Accountants in Australia.

Mr Burton Taylor's extensive aviation experience has included directorships of the Federal Airports Corporation, the Sydney and Bankstown Airports Corporations (responsible for Sydney Kingsford Smith, Bankstown, Camden and Hoxton Park airports), and the regional New South Wales operator Hazelton Airlines.

During the year, Mr Burton Taylor was a member of all six Board committees and chaired the Board Remuneration Committee, the Board Security Committee (from 26 July 2005) and the Board New Business Committee. He served as a director of Airservices Australia's subsidiary, Airservices Pacific Incorporated, from 1 December 2005 to 28 February 2006.



Christine Goode PSM (Deputy Chair, effective 1 May 2006)—from 28 January 2005

Ms Goode has extensive public sector experience in transport, communications and executive management at Australian Government departmental deputy secretary and chief executive officer levels.

She has many years involvement in transport, including heading the then Department of Transport and Communications International Aviation Policy Division from 1986 to 1991. The division was closely involved in the government's scoping study of the sale of Australian Airlines and part of Qantas. Later, she was CEO of Spectrum Management Agency, responsible for radio spectrum planning and licensing, and of ComSuper, the Australian Government superannuation administrator.

Ms Goode is a director of State Super Financial Services Ltd, a member of the ACT Public Trustee Investment Board and the chair of Comcare's audit committee.

During 2005–06, Ms Goode served on the Board Audit Committee, the Board Safety and Environment (Operations) Committee (from 28 November 2005), the Board Safety and Environment (Regulatory) Committee (from 28 November 2005) and the Remuneration Committee (from 1 May 2006).



David Forsyth BAeroEng, GradDiplndEng— from 28 January 2005

Mr Forsyth is an aeronautical engineer with over 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, and was previously General Manager of Qantas Regional Airlines, which covered four wholly owned subsidiaries flying to 47 Australian destinations.

Mr Forsyth is a Board member of Aviation Australia, Structural Monitoring Systems, and the Royal Flying Doctor Service of Australia (South Eastern Section). He is also a councillor of the Royal Aeronautical Society.

Mr Forsyth served on both the Board Safety and Environment (Operations) Committee and the Board Safety and Environment (Regulatory) Committee throughout the year and chaired both committees from 28 November 2005.



Henk Meertens BArch—from 28 January 2005

Mr Meertens, an architect, has been actively involved in recreational and sport aviation for 25 years.

A former president of the Gliding Federation of Australia, he has logged over 3000 hours flying time in gliders. He is Vice-President (Australia), Federation Aeronautique Internationale.

Mr Meertens represents the Australian sport and recreational aviation industry at the international level and on a number of national forums and committees, including Civil Aviation Safety Authority Regulatory Reviews.

Mr Meertens served on both the Board Safety and Environment (Operations) Committee and the Board Safety and Environment (Regulatory) Committee throughout the year.



Air Vice-Marshal Roxley McLennan (Ret. AO)— from 1 May 2006

Air Vice-Marshal Roxley McLennan retired from the Royal Australian Air Force on 13 March 2006 after a distinguished military career that culminated in him serving as Deputy Chief of Air Force from February 2004. He took up his current position of Chief Executive of the South Australian Government's Defence Unit on 15 March 2006.

He has over 6000 flying hours, most on C130 Hercules aircraft in operational, check and training roles. He was appointed a Member of the Order of Australia for exceptional service in East Timor with INTERFET and was made an Officer of the Order of Australia in 2006.

He has worked closely with Airservices in the past to achieve the vision of a single, national air traffic management system and plans to continue this commitment to air safety and operational effectiveness during his time with the Airservices Board.

Air Vice-Marshal McLennan was appointed to the Board on 1 May 2006. Since his appointment, he has served on the Board Safety and Environment (Operations) Committee, the Board Safety and Environment (Regulatory) Committee and the Board Security Committee.

**Captain David Shrubbs—to 30 June 2006**

Captain Shrubbs has extensive aviation experience, including 37 years with Qantas.

He has almost 21,000 accident-free flying hours, more than 2000 hours in supervising training and checking in Qantas simulators, extensive experience in aircraft command (including seven years on Boeing 707s, 14 years on 747s and seven years on 744s), a Commercial Pilot Licence, a Senior Commercial Pilot Licence, a Flight Navigator Licence and a First Class Airline Transport Licence. He spent 10 years as a supervisory pilot in the Qantas Flight Training Department, and six years as Manager, Flight Training. He was also Chairman of the Overseas Branch of the Australian Federation of Air Pilots for two years, followed by two years as President of the Federation.

Captain Shrubbs served on the Board Safety and Environment (Operations) Committee, the Board Safety and Environment (Regulatory) Committee and the Board Security Committee throughout the year.

**Philippa Stone BA, LLB (Hons)—from 28 January 2005**

Ms Stone is a partner in international legal firm Freehills, specialising in equity raisings, mergers and acquisitions, and listed company reconstruction. She has been involved in a number of Australia's largest major equity raisings and landmark privatisations and financial services sector acquisitions over the past 20 years.

Ms Stone advised the Australian Government on the sale of Sydney Airport and acted on recent airport transactions involving the Northern Territory, Adelaide, Townsville, Mt Isa, Bankstown, Camden and Hoxton Park airports. She is a member of the government's Business Regulatory Advisory Group.

Ms Stone served on the Board Audit Committee throughout the year.



Alice Williams BComm, CFA, AICD—*from 28 January 2005*

Ms Williams has some 20 years of senior management and board-level experience in corporate and government sectors and investment banking. She is actively involved in strategy and policy development and corporate advisory and funds management, and is engaged by Australian Government organisations to undertake reviews of competition policy and regulation.

A former Director of Strategy and Planning at Ansett Australia, Ms Williams has also been a consultant to domestic and international airlines and regulatory bodies. She is a director of State Trustees Ltd, State Trustees Financial Services Ltd and VLine Passenger Corporation, and a commissioner of the Victorian Competition and Efficiency Commission.

Ms Williams chaired the Board Audit Committee throughout the year.



Air Marshal Leslie Fisher (Ret.) AO (Deputy Chairman)—*retired from the Board on 30 April 2006*

Air Marshal Fisher had a distinguished military career, culminating in his appointment as Chief of Air Force from 1994 to 1998. He managed some 20,000 personnel and a budget of \$1.5 billion and was a very strong advocate of flying safety awareness.

Over his 38 years of military service, Air Marshal Fisher accumulated more than 5000 flying hours, mainly on multi-engined surveillance aircraft. He was appointed an Officer of the Order of Australia in 1993 for service to the Australian Defence Force.

Air Marshal Fisher served as a member of the Board Safety and Environment (Operations) Committee, the Board Safety and Environment (Regulatory) Committee, the Board Remuneration Committee and the Board Security Committee until the date of his retirement. He was the chair of the Board Security Committee until 26 July 2005 and the chair of the Board Safety and Environment (Operations) Committee and Board Safety and Environment (Regulatory) Committee until 27 November 2005.

Air Marshal Fisher was acting chairman of Airservices Australia from February 2004 to January 2005.



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

Mr Russell was the Chief Operating Officer at Athens International Airport until June 2005, before which he held the position of Director, Aviation at Sydney Airport Corporation Ltd for four years. He has been an executive and General Manager of the New South Wales regional operator Hazelton Airlines and has held a range of management positions in private companies and government organisations.

Mr Russell was an ex-officio member of the Board Audit Committee from the date of his appointment on 19 July 2005 until 30 August 2005. He has served as an ex-officio member of all other Board committees since 19 July 2005.

Mr Russell was appointed as a member of the Board of Airservices Pacific Incorporated on 1 December 2005 and became chairman of the Board on 22 March 2006.

Corporate Secretary

Airservices Australia's Corporate Secretary is Paul Menzies-McVey BA, LLB (Hons), who was appointed to the position on 29 June 2005.

Before joining Airservices Australia, Mr Menzies-McVey had been a partner in a leading national law firm and General Counsel of the Health Insurance Commission (now Medicare Australia) and General Counsel of the Department of Human Services (as a secondee). He had also worked for five years as a senior lawyer with the Civil Aviation Safety Authority.

Meetings of the Board

The Board met 10 times during 2005–06:

26 July 2005	Brisbane
30 August 2005	Canberra
26 October 2005	Canberra
29 November 2005	Canberra
20 December 2005	Canberra
31 January 2006	Canberra
28 February 2006	Canberra
28 March 2006	Melbourne
26 April 2006	Canberra
6 June 2006	Canberra

Meetings of Board committees and members' attendance

Committees and members	Meetings eligible to attend as a member	Meetings attended as a member
Audit Committee (five meetings held during 2005–06)		
Alice Williams (Chair)	5	5
Christine Goode	5	5
Philippa Stone	5	5
Nick Burton Taylor (ex officio)	5	1
Greg Russell (ex officio as CEO from 19 July 2005 to 30 August 2005)	1	1
Alastair Hodgson (ex officio as acting CEO, 5–18 July 2005)	0	0
Hisham El-Ansary (ex officio as acting CEO to 4 July 2005)	0	0
Les Fisher attended one meeting as a non-member		
Safety and Environment (Operations) Committee (10 meetings held)		
Les Fisher (Chair to 27 November 2005, member to 30 April 2006)	9	9
David Forsyth (Chair from 28 November 2005)	10	10
Henk Meertens	10	10
David Shrubbs	10	10
Christine Goode (from 28 November 2005)	7	7
Roxley McLennan (from 1 May 2006)	1	1
Nick Burton Taylor (ex officio)	10	3
Greg Russell (ex officio from 19 July 2005)	10	10
Alastair Hodgson (ex officio as acting CEO, 5–18 July 2005)	0	0
Hisham El-Ansary (ex officio as acting CEO to 4 July 2005)	0	0
Alice Williams attended three meetings as a non-member		
Safety and Environment (Regulatory) Committee (three meetings held)		
Les Fisher (Chair to 27 November 2005, member to 30 April 2006)	3	3
David Forsyth (Chair from 28 November 2005)	3	3
Henk Meertens	3	3
David Shrubbs	3	3
Christine Goode (from 28 November 2005)	2	2
Roxley McLennan (from 1 May 2006)	0	0
Nick Burton Taylor (ex officio)	3	0
Greg Russell (ex officio from 19 July 2005)	3	3
Alastair Hodgson (ex officio as acting CEO, 5–18 July 2005)	0	0
Hisham El-Ansary (ex officio as acting CEO to 4 July 2005)	0	0
Philippa Stone attended one meeting as a non-member		

Committees and members	Meetings eligible to attend as a member	Meetings attended as a member
Remuneration Committee (six meetings held)		
Les Fisher (to 30 April 2006)	5	5
Christine Goode (from 1 May 2006)	1	1
Nick Burton Taylor (Chair, ex officio)	6	6
Greg Russell (ex officio from 19 July 2005)	6	4
Alastair Hodgson (ex officio as acting CEO, 5–18 July 2005)	0	0
Hisham El-Ansary (ex officio as acting CEO to 4 July 2005)	0	0
Security Committee (four meetings held)		
Les Fisher (Chair to 26 July 2005, member to 30 April 2006)	3	3
David Shrubbs	4	4
Roxley McLennan (from 1 May 2006)	1	1
Nick Burton Taylor (Chair from 26 July 2005, ex officio)	4	4
Greg Russell (ex officio from 19 July 2005)	4	4
Alastair Hodgson (ex officio as acting CEO, 5–18 July 2005)	0	0
Hisham El-Ansary (ex officio as acting CEO to 4 July 2005)	0	0
New Business Committee (meets as required; no meetings held)		
Nick Burton Taylor (Chair, ex officio)	0	0
Greg Russell (ex officio from 19 July 2005)	0	0
Alastair Hodgson (ex officio as acting CEO, 5–18 July 2005)	0	0
Hisham El-Ansary (ex officio as acting CEO to 4 July 2005)	0	0

Benefits and interests in contracts with Airservices Australia

Details of directors' benefits and interests in contracts with Airservices Australia are set out in Note 22 of the financial statements.

Directors' and officers' indemnities and insurance

In 2005–06, 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 2005–06, the minister made no formal directions to Airservices Australia under the *Air Services Act 1995*.

Occupational health and safety

In accordance with section 74 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991* (the OHS Act), the following report provides information on OHS matters for Airservices Australia in 2005–06.

National Consultative Council occupational health and safety committee

The OHS subcommittee of the National Consultative Council, composed of Airservices Australia management and union representatives, met twice in 2005–06. The OHS Steering Committee, a management level committee, also met on two occasions.

Occupational health and safety incidents

In accordance with section 68 of the OHS Act, one death, one incapacity, 22 dangerous occurrences and 12 serious personal injuries were reported to Comcare during 2005–06. During the previous financial year, the respective figures were nil, one, 27 and six.

Safety initiative

Airservices Australia ran various OHS initiatives throughout the year. Major centres provided influenza vaccine to employees and contractors. Health activities, including individual health checks and skin cancer screening, were also made available. These activities complement the senior management medical and immunisation programs currently in place within the corporation.

Workers compensation

Airservices Australia's workers compensation premium for 2005–06 was set at 0.46 per cent of salary and wages (0.46 per cent in 2004–05). The Commonwealth average in 2005–06 was 1.77 per cent (1.67 per cent in 2004–05).

No investigations were carried out by Comcare in 2005–06 (none were carried out in 2004–05).

No provisional improvement notices were issued during 2005–06 (none were issued in 2004–05).

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 disabilities.

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 2005–06, Airservices Australia developed new strategies for the employment of Indigenous Australians and for the employment of women. These comprise two elements of a revised equity and diversity program, which will be developed to take account of the restructured organisation and the new workforce plan.

The online equity and diversity and cross-cultural awareness training programs continue to increase staff's understanding of these issues. During the year, 308 staff completed the equity and diversity program, and 15 staff completed the cross-cultural awareness program.

To celebrate International Women's Day in March 2006, more than 60 staff attended a special event in Canberra. Airservices Australia also supported two female fire fighters to attend a conference on women in fire fighting.

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 the risk of major security threats against critical air traffic, aeronautical navigation, telecommunications, 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.

During the year, the corporation undertook a number of minor fraud investigations that led to disciplinary action against a small number of staff.

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 2005–06, 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 does not at present have facilities in place to accept FOI payments electronically.

The address for lodging requests is:

Coordinator—FOI and Inquiries
Office of Legal Counsel
Airservices Australia
GPO Box 367
Canberra City 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 <http://www.airservicesaustralia.com> website, Airport Community Consultative Committees, telephone enquiry services, industry and pilot briefings, and locally advertised public meetings. The Minister, Board, Chief Executive Officer, 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 2005–06

Table 3 shows Airservices Australia's FOI activity for 2005–06.

Table 3 Freedom of information statistics: 2005–06

Activity in 2005–06	Numbers
Requests	
• On hand at 1 July 2005	5
• New requests received	19
• Total requests handled	24
• Total requests completed at 30 June 2006	23
• Outstanding at 30 June 2006	1
Action on requests	
• Access in full	–
• Access in part	10
• Access refused	4
• Access transferred in full	0
• Request withdrawn	9
Response times (excluding withdrawn)	
• 0–30 days	10
• 31–60 days	3
• 61–90 days	–
• 90+ days	1
Internal review	
• Requests received	3
• Decision affirmed	2
• Decision amended	1
• Request withdrawn	–
Review by Administrative Appeals Tribunal	
• Applications received	–

Ombudsman activity in 2005–06

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

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; 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; 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 and working party and committee reports; statistical information; information technology policy, procedures, specifications, instructions, manuals, standards, reports, maintenance and asset records and back-up tapes; quality management records, 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; 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; 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; records of telephone enquiries 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; 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; 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; 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; 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 pilots 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 City 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.

The corporation introduced choice of funds for those employees not covered by Airservices' industrial agreements. As the agreements require employees covered by them to be members of AvSuper, the choice of funds does not apply to all employees.

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 now licensed to operate as a public offer fund. This allows membership for people who are employed outside Airservices and CASA.

Judicial decisions and reviews by outside bodies

There were no judicial decisions or decisions of administrative tribunals during 2005–06 that had, or may have, a significant impact on the operations of Airservices Australia.

During 2005–06, Airservices Australia received no reports on its operations from parliamentary committees or from the Commonwealth Ombudsman.

Environmental protection and ecologically sustainable development

During 2005–06, Airservices Australia continued to work with aviation industries and organisations, government and the community to reduce the environmental impacts of aircraft operations.

Our significant contributions to environmental protection and ecologically sustainable development included:

- the introduction of flextracks for specific flights across Australian airspace, which reduced carbon dioxide emissions by around 48 tonnes per day, and work with the RAAF for civilian use of military airspace, which will save further emissions
- our work in CANSO, ICAO and ASTRA environmental and performance management working groups
- the Airspace and Environment Regulatory Unit's work to establish more robust and thorough environmental assessment criteria for airspace changes
- our review and development of Airservices Australia's environment objective, emphasising sustainable business practices, heritage management and whole-of-organisation responsibility for environmental performance
- upgrades of our environmental management systems to retain ISO certification and more efficiently monitor our compliance
- environmental management training for staff, and development of our online environmental training package
- environmental risk assessments of air traffic control and ground-based operations changes
- development and implementation of site environmental management plans to protect threatened species at a number of locations, and water conservation and recycling initiatives at many sites.

More detail about many of these initiatives is in the Key result area: Environment section of this report.

Appendix 3: Charter letter



The Hon John Anderson MP
Deputy Prime Minister
Minister for Transport and Regional Services
Leader National Party of Australia

Mr John P C Forsyth
Chairman
Airservices Australia
GPO Box 367
CANBERRA ACT 2601

26 OCT 1998


Dear Mr Forsyth

I am pleased to provide you this new Charter Letter, which sets out strategic directions on the matters that are crucial to the achievement of the Government's commitments on aviation safety. The Charter Letter is also intended to give the Board a better understanding of the broader government policy framework in which your authority operates. I would ask the Board to treat the views expressed as strategic guidance to implement the government's policy, set out in my statement on aviation safety reform. This letter replaces the previous charter letter from the Hon John Sharp MP.

Airservices is engaged in a phase of significant change, and from the Government's perspective the structural reform process and objectives provide the primary underlying policy direction. In that context, this letter sets out a clear charter to enable Airservices to operate effectively and grow its business in accordance with Government policy.

You will recall from Mr Sharp's charter letter his reference to the importance the Government places on a future for the small businesses dependent on air traffic services, particularly in regional and rural areas. This remains a matter of fundamental significance to me. The Government amended Airservices' legislation in 1998 to reflect its responsibilities to promote and foster aviation. I view that part of your legislated responsibility as something which the Board needs to see in the context not just of its major customers, but of the areas of social priority identified by the Government. It is the Government's view that Airservices has a responsibility to operate in a way that promotes the general health of the aviation industry, but this does not require Airservices to ensure the viability of any individual operator, nor will it require that the aspirations of any particular aviation sector be met.

Airservices also has a key function in maintaining and improving the safety of Australia's air transport system. Airservices, the Australian Transport Safety Bureau (ATSB) and the Civil Aviation Safety Authority (CASA) form a tripartite structure for providing safe aviation, each with separate and distinct functions but working together as part of an integrated system. I emphasise the need for the three entities to

work together and to be seen to work together, recognising that there may at times be professional differences of opinion between the three bodies.

Structural Reform

While the working groups set up to manage the reform process have made some progress, the Government has recognised that, given the breadth of changes taking place, CASA was unable to develop the necessary entry and exit provisions and minimum safety standards for air traffic control (ATC) and rescue and fire fighting services (RFFS) by June 1999. It has now been agreed that the safety regulatory framework will be finalised by no later than June 2000.

While this is predominantly the responsibility of CASA, Airservices has an important role in the development of these regulations. I expect Airservices to continue to co-operate with the Working Groups that have been established to progress the Government's agenda of reform, in order to ensure the Government's timetable is achieved.

As I have previously advised, it is the Government's intention to phase in competition for control tower and rescue and firefighting services after the safety regulatory framework is established. The introduction of competition will not extend to the provision of terminal navigation services at this time. En route services will also remain a monopoly. Airservices will continue to provide control tower services at Sydney Airport for years to come.

In terms of the future arrangements for rescue and fire fighting services, I note that under the *Airports Act 1996*, airport operators at leased Federal airports already have the opportunity to ask me to approve alternative RFFS providers. I will not be approving alternative RFFS providers until CASA has developed the safety regulatory regime.

Business Transformation

The Government supports the efforts being made by the Airservices Board to implement its Business Transformation program. Airservices' Corporate Plan indicates significant financial and operational benefits to users and the Government as owner of Airservices that should flow from an effective implementation of the Business Transformation planning.

While the Government is supportive of the Business Transformation program, I expect the Board to ensure that Business Transformation does not pre-empt any of the outcomes from the structural reform process.

I was pleased to note that Airservices has committed to developing strong customer relations. With this in mind, I ask the Board to focus on those elements of the Business Transformation process which will move Airservices from being focussed on users through a formal consultation framework, to being focussed on customers

with individual expectations and business objectives. I have in mind the concept of performance agreements, under which both Airservices and its customers commit to particular performance levels. It may not be necessary to actually move to formal agreements, but the concept that Airservices and each of its major customers have obligations to each other is an important change in how the business itself views its working relationships.

Management of change, while continuing to provide essential air traffic services through a professional, highly skilled and motivated workforce, will present particular challenges. I am aware that the Board is very conscious of this task. However, I see it as vital that the expertise of the regulator (CASA) is brought into consideration where safety is at issue. This does not mean that Airservices cannot debate the merits of proposals or views from either CASA or the ATSB. It does mean, however, that where staff or the public raise concerns on reform related to the issue of safety, the regulator, or other relevant parties, are given the opportunity to advise upon and potentially settle issues before they become a matter of public concern. I have confidence in how the Board has handled this sensitive subject to date, but the future stages of reform may require Airservices to manage more actively claims of safety risk.

Pricing

The Government supports Airservices' pricing reforms and hence the move to location specific pricing for tower services. The subsidy for regional and general aviation towers is a clear indication of the degree to which we are prepared to support this policy. Under the agreed arrangements, Airservices must consult with the Department before making any significant changes to the services provided at the subsidised locations.

External Business Opportunities

I am supportive of the Board's efforts to grow the business. Airservices has a quality product, and should take up export and local development opportunities where they are consistent with its core business. However, I would expect you to seek my approval before taking up significant new business opportunities, and I ask you to consider thoroughly two key issues before pursuing any new business venture.

First, in the case of a joint venture, I would expect Airservices to ensure 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.

Second, I would want the Board to be sure that the commercial or strategic improvement to Airservices did not bring with it liabilities or exposures out of proportion to that benefit. Again, I would expect to be provided with advice on how liability issues are to be covered in all cases where Airservices moves offshore, or beyond its current business base. As an example, the exposure of Airservices and hence the Government as its sole shareholder to damages claims may be much more

than a normal insurable risk where relationships with foreign governments or their agencies are involved. Diplomatic relations issues should be considered and where relevant brought to my attention, not merely the Department of Foreign Affairs and Trade. The broad issue of the legal framework for CNS/ATM, which will involve cooperative airspace arrangements and provision of air traffic services by third parties, is being examined by ICAO with similar concerns in mind.

Governance

I have confidence that the Board is aware of its responsibilities in carrying out the strategic directions I set the organisation, and the need to keep me informed of its activities.

Given the responsibilities I have to the Parliament and the people for the services and statutory obligations upon your Board, I would appreciate receiving early and thorough advice from management of matters which may be of public interest, even if only in a particular region or area, or which I need to be aware of to carry out my Ministerial responsibilities. Indeed, I would ask the Board to be very conscious of my role as Minister for Regional Services and err on the side of caution in providing prior advice to me if Airservices is proposing significant changes to its regional business or if proposed changes may impact on regional areas.

Section 16 of the *Commonwealth Authorities and Companies Act 1997* gives statutory reinforcement to the Board's obligation to keep me informed, but in complying with this requirement Airservices needs to recognise the importance of providing me early advice on relevant issues.

As a Government-owned authority, Airservices also has a responsibility to provide advice to the Parliament and the public about its operations. I remind you of the importance of Airservices providing timely and accurate advice in response to requests for input to ministerial representations and responses to Parliamentary questions.

While Airservices is a Government commercial authority, it is not a Government Business Enterprise (GBE) and so I remain the sole responsible Minister. However, as the structural reform process proceeds the Minister for Finance and Administration, as well as other Ministers as appropriate, will be involved in important decisions on the future structure and role of Airservices, particularly in respect of corporatisation issues.

The Government intends to legislate to corporatise Airservices, to be prescribed as a GBE, after the new regulatory arrangements are completed. Corporatisation will allow Airservices to respond to the interests of customers more flexibly and improve returns to the taxpayer, while still emphasising safety and its environmental obligations.

In terms of the actual timing of corporatisation, I will be seeking to package this set of changes with the legislation required to authorise alternative service suppliers to compete for tower and firefighting services. In turn, this means that the appropriate

safety, economic, and environmental regulatory frameworks must be in place. I therefore do not anticipate passage of the necessary legislation before the second half of 2000.

In the lead up to corporatisation, I will determine which regulatory functions will remain with Airservices post-corporatisation. I shall determine the actual date in consultation with the Minister for Finance and Administration, but as you would understand, the need to progress the appropriate legislation through the Parliament may affect when corporatisation can occur.

Otherwise, the current Governance Arrangements for Airservices Australia have proved satisfactory and I do not propose any changes. The arrangements are less prescriptive than those applying to GBEs, but they still make clear that the Board has an important obligation to keep me informed of Airservices' operations. As the effective sole shareholder of Airservices Australia, I have no less a need to know the business directions of Airservices than the owner of any of Australia's major private companies. More than that, I have an obligation and an exposure to the Parliament which a private owner does not.

I am aware of the Board's concern that Airservices' Corporate Plan is a public document, and that this can compromise planning in a future competitive environment. When a contestable environment is established, I will put in place requirements that ensure the exposure of the Corporate Plan does not compromise Airservices' ability to compete effectively in those markets. Legislation will be considered if it is necessary.

Environmental Responsibilities, including Sydney Airport

As you are well aware, aviation environment issues are the subjects of significant public debate and concern, particularly in relation to aircraft noise and emissions around our major cities. The *Air Services Act 1995* explicitly places an obligation on Airservices to ensure that as far as practicable the environment is protected from the environmental effects of the operation and use of aircraft. As noted earlier, the Government considers that it is a fundamental responsibility of Airservices to treat seriously its environmental functions, corporatised or not.

I would expect the Board to understand that while the Government is supportive of the Business Transformation program, I would not expect Business Transformation to distract or affect Airservices' ability to meet its responsibilities under its Act for environmental matters, particularly implementing policies such as the Long Term Operating Plan (LTOP) in Sydney. It is for this reason that I issued the Ministerial Direction in May specifying the particular environmental responsibilities and tasks that Airservices is required to undertake. The Direction explicitly requires Airservices to be pro-active in improving the environment in relation to managing aircraft operations and its other activities.

It is important to recognise that post-corporatisation, Airservices will continue to take responsibility for a range of environmental matters because of the nature of its ongoing activities. Managing the environmental issues that relate to your business is

and will remain a core activity, even after incorporation. Indeed, any model I could envisage for contestability would similarly require a regulated planning and environmental assessment process and an obligation to continue to meet the expectations of Government and the community for managing the adverse effects of aircraft operations on the environment.

The undoubted success of the Government's "noise sharing" policy in Sydney through the development and implementation of the LTOP is a credit to Airservices. The management and people in your organisation have tackled this very difficult task with complete professionalism and dedication. Importantly, they have also embraced a cultural change in the way in which the organisation works with the industry and the community in dealing with environmental issues around an airport. The Government would expect that this effort continue in Sydney and other locations.

Sydney Olympics

Airservices is a major public sector body that must play an essential role in supporting Australia's image before the world at the time of the Olympic Games. I would not wish relatively minor costs or the traditional way of managing Airservices' business to prevent it taking a very active hand in managing the special air traffic demands which will occur at the time of the Olympic Games. Just as major Australian corporations see it as an obligation and a way of giving something back to the community to support this unique occasion, so I expect Airservices to make a special effort to meet the interests of Games organisers, to the fullest extent allowed under your legislated responsibilities.

Y2K

The importance of Airservices being Y2K compliant before 1 January 2000 cannot be overemphasised. I am extremely pleased with the progress you have made to date, and I look forward to receiving regular updates from you on progress in this area.

ICAO

Whilst the Department of Transport and Regional Services, on behalf of the Government, has prime responsibility, Airservices plays an essential role in Australia's participation in the activities of the International Civil Aviation Organization (ICAO). Key amongst the contribution made by Airservices is the technical assistance that it provides, within the overall portfolio effort, in support of a number of ICAO Annexes. This role brings with it a commitment to the provision of subject matter experts for ICAO Panels and other relevant activities.

The advent of competition in some of the tasks undertaken by Airservices may, over time, place some stresses on this role, but it is important that Australia maintains the level and quality of its contribution. The Government expects Airservices to maintain a level of commitment appropriate to its functions, in the national interest and also to

assist Airservices keep fully abreast of international developments. Should Airservices face the prospect of significant competition in an area where it is also making a major contribution to the maintenance of Australia's international interests in ICAO, arrangements will be made to ensure the burden is fairly shared.

Airspace Management

In my letter to you of 28 April 1999, I outlined the Government's decision that, at least until its corporatisation, Airservices is to retain responsibility for the design, declaration and management of airspace. CASA will retain the responsibility of setting the minimum standards for the safe operation of each class of Australian airspace, and the procedures to be used by air traffic controllers and pilots in each class of airspace. It will also be able to require the upgrading of a particular zone of airspace on safety grounds. Where CASA proposes such a change, it will identify a clear safety justification for the change and accompany the proposal with supporting evidence in the form of a safety case. The issue of airspace management post corporatisation of Airservices is an issue the Government will be considering during the corporatisation process.


I would appreciate advice on Airservices' progress in developing, for the Government's consideration by the end of this year, a program for airspace reform which is internationally harmonised and consistent with International Civil Aviation Organization (ICAO) standards. As I have told you, the program is to address timeframes, priorities and mechanisms for implementation and is to be developed in close consultation with industry and other key stakeholders such as the Department, CASA, ATSB and Defence.

You may wish to consider developing a Memorandum of Understanding with CASA to establish the detailed arrangements for carrying out the Government's decision.

Conclusion

I am confident that the strategic directions that I have set out will strengthen Airservices, and allow it to grow as a business while still ensuring that it plays its part in maintaining and improving the safety of Australia's air transport system.

Yours sincerely



JOHN ANDERSON

Appendix 4: Staffing statistics

Table 4 Number of permanent staff, by classification and state, 2005–06

Job type	State/territory								Total
	ACT	NSW	NT	Qld	SA	Tas.	Vic.	WA	
Executive	12	-	-	-	-	-	-	-	12
Senior Manager	122	13	5	81	4	2	58	6	291
Senior Professional	20	1	-	8	-	-	6	-	35
Senior Technical	6	36	3	73	9	2	41	14	184
Professional Officer	12	1	-	4	-	-	2	-	19
Technical Officer	6	17	9	66	13	5	46	13	175
Air Traffic Controller	14	141	8	382	52	15	317	52	981
ATS Support Specialist	9	4	-	12	1	-	21	-	47
Air Traffic Controller Trainee	1	3	-	9	1	-	49	2	65
Flight Information Service Officer	-	-	-	81	-	-	-	-	81
Flight Service Officer	-	-	-	1	-	-	-	-	1
Flight Data Coordinator	-	-	-	11	-	-	11	-	22
TAAATS TGO	-	7	-	35	-	-	47	-	90
Fire Fighter	22	62	60	213	36	41	78	52	564
General Service Officer	4	10	1	11	8	1	10	6	51
Admin Support	213	19	1	60	3	-	70	4	370
Total	440	315	87	1048	127	66	757	149	2988

ATS = air traffic services

Glossary

ACCC	Australian Competition and Consumer Commission
ADS–B	Automatic Dependent Surveillance—Broadcast
AERU	Airspace and Environment Regulatory Unit
Air Services Act	<i>Air Services Act 1995</i>
ARFF	aviation rescue and fire fighting
ASTRA	Australian Strategic Air Traffic Management Group
ATC	air traffic control
ATS	air traffic services
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CANSO	Civil Air Navigation Services Organisation
CASA	Civil Aviation Safety Authority
CASR	Civil Aviation Safety Regulation
CEO	Chief Executive Officer
DOTARS	Department of Transport and Regional Services (Australian Government)
EMS	environmental management system
Eurocat	Eurocat 2000 Air Traffic Management System (an air traffic management automation product used by Airservices Australia)
FOI Act	<i>Freedom of Information Act 1982</i>
government, the	the Australian Government
GBAS	Ground-based Augmentation System
GPS	Global Positioning System
GRAS	Ground-based Regional Augmentation System
ICAO	International Civil Aviation Organization
ISO	International Organization for Standardization

MP	Member of Parliament
NAS	National Airspace System
OHS	occupational health and safety
RAAF	Royal Australian Air Force
TAAATS	The Australian Advanced Air Traffic System
UPR/Ts	user preferred routes/trajectories

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from the ground up

