

# Arresting Capacity / Crunch

Annual Report  
2017



Aerial view of an airport terminal with a large, modern, curved roof structure and several aircraft parked at gates.

Airport and Aviation Services (Sri Lanka) Limited

# Vision

**“To be the most Efficient and Friendliest Aviation Service Provider in the Asian Region”**

# Mission

**“We will strive to provide Competitive Aviation Facilities and Services with Best Practices while ensuring Stakeholder Satisfaction”**

## Capacity Crunch...

Imagine 10 million passengers using an international airport which was originally developed to handle only 6 million passengers!

In the sphere of aviation, capacity crunch is one of such pivotal issues BIA faces today. In the context of BIA, capacity depends on the effectiveness of existing infrastructure, technology, process management, efficient human resources management and the regulatory framework. If these factors are not managed effectively, it will no doubt create bottlenecks in delivering a satisfactory service to all stakeholders.

BIA, “FACING” the Capacity Crunch since already it is operating over and above 1.6 times of its capacity. Today, in Sri Lanka’s premier gateway, BIA is all about “Arresting Capacity Crunch”. Therefore, we must relentlessly “ARREST THE CAPACITY CRUNCH” in order to make its corporate strategy a “Winning Formula”.

This is our story about that triumphant drive initiated and implemented throughout the year 2017 and its continued endeavour...

## CONTENTS

Financial Highlights .....	01
Performance Highlights .....	02
.....	
Historical Milestones .....	03
Chairman’s Review.....	05
Board of Directors .....	09
Senior Management .....	13
.....	
Report of the Board of Directors on the affairs of the Company.....	15
Report of the Audit and Management Committee .....	21
Management Discussion & Analysis .....	25
Financial Review .....	55
Human Resource Management.....	62
Corporate Governance.....	71
Risk Management .....	77
.....	
Report of the Auditor General.....	90
Statement of Comprehensive Income .....	93
Statement of Financial Position .....	94
Statement of Changes in Equity.....	95
Statement of Cash Flows.....	96
Notes to the Financial Statements.....	97
Corporate Information.....	131

# FINANCIAL HIGHLIGHTS

	2017 Rs. Mn.	2016 Rs. Mn.	2017 /2016 +/- %	2015 Rs. Mn.	2016 /2015 +/- %
<b>Profit &amp; Loss</b>					
Turnover	20,758	18,329	13%	15,698	17%
Operating expenses before Depreciation	8,307	7,990	-4%	7,477	-7%
<b>EBITDA</b>	<b>12,373</b>	<b>10,264</b>	21%	<b>8,127</b>	26%
Depreciation of Fixed Assets	2,222	2,652	16%	2,648	-0.2%
Net Finance costs / (Income)	(590)	779	+100%	3,196	76%
<b>Profit Before Taxation</b>	<b>10,820</b>	<b>6,909</b>	57%	<b>2,378</b>	+100%
Income Tax	2,105	(11)	-100%	1,561	+100%
<b>Profit After Taxation</b>	<b>8,715</b>	<b>6,920</b>	26%	<b>817</b>	+100%
Profit attributable to Equity Shareholders	8,715	6,920	26%	817	+100%
<b>Cash Flows</b>					
Dividends	850	1,500	-43%	497	+100%
Cash and Cash Equivalents as at December 31	30,327	22,708	34%	15,550	46%
Total Capital Expenditure for the year	9,473	2,400	+100%	617	+100%
<b>Financial Position</b>					
Shareholders Fund as at December 31	23,264	16,436	42%	11,012	49%
Total Carrying Amount of Non-Current Assets as at December 31	52,405	43,471	21%	44,079	-1%
Total Current Asset as at December 31	34,615	27,627	25%	21,206	30%
Total Current Liabilities as at December 31	12,447	10,452	19%	10,132	3%

Prior year figures have been re-arranged wherever necessary to conform to the current year's presentation.

All figures are subjected to rounding differences

+ Favorable % Variance

- Adverse % Variance

# PERFORMANCE HIGHLIGHTS

		2017	2016	2015	2014	2013
<b>Operating Highlights</b>						
International Flight Movements	Nos.	62,850	61,637	56,156	54,960	51,972
Passenger Movements *	Nos.	9,957,502	9,466,248	8,505,740	7,780,724	7,330,421
Cargo Movements **	MT.	274,044	248,348	218,385	209,608	194,020
Overflying Movements	Nos.	39,413	35,118	32,694	31,600	27,529
Total no.of Employees as at December 31	Nos.	3,908	3,810	3,871	3,932	3,674
<b>Highlights in Ratios</b>						
Return on Equity	%	37	42	7	32	48
Net Profit before tax to Total Net Revenue	%	52	38	15	40	39
Net Profit before tax to Share holders Fund	%	47	42	22	52	64
Total Revenue to Total Assets	Times	0.24	0.26	0.24	0.23	0.22
Total Assets per Employee	Rs'000	22,267	18,661	16,865	15,394	15,316
Total Staff Cost per Employee- Per Annum	Rs'000	1,644	1,578	1,462	1,203	1,182
Total cost per Flight Handled	Rs'000	202	216	256	184	188
Revenue per Passenger	Rs	2,085	1,936	1,846	1,785	1,652
Profit After Tax per Passenger	Rs	875	731	96	438	485
Aircraft Movement per Employee	Nos.	16	16	15	14	14
Passengers per Aircraft	Nos.	158	154	151	142	141
Passengers per Employee	Nos.	2,548	2,485	2,197	1,979	1,995
Gearing Ratio	%	35	48	67	71	82
Return on Total Assets	%	10	10	1	6	6
Profitability Ratio	%	42	38	5	25	29
Capital Productivity Index	Times	0.24	0.26	0.23	0.24	0.20
Earnings Per Share	Rs.	43,574	34,598	4,084	17,058	17,768
Current Ratio	Times	2.78	2.64	2.09	1.68	1.29
Total Income to Total Expenditure	Times	1.85	1.52	1.17	1.54	1.48

\* Passenger movements include international arrival, departure, transfer and transit passengers excluding domestic passengers.

\*\* Cargo movements include export, import and transshipment excluding domestic cargo & air mails.

Prior year figures have been re-arranged wherever necessary to conform to the current year's presentation.

# HISTORICAL MILESTONES

"In 1983, Airport & Aviation Services (Sri Lanka) Limited (AASL) was incorporated and appointed as the Agent of the Government to discharge duties as a member of International Civil Aviation Organization (ICAO). The Civil Aviation Act No 14 of 2010 which repealed the Air Navigation Special Provisions Act of 1982, has empowered AASL to act as the statutory

service provider of all civil airports in Sri Lanka. AASL presently shoulders the challenge of developing and managing four airports namely Bandaranaike International Airport (BIA), Colombo Airport Ratmalana (RMA), Mattala Rajapaksa International Airport (MRIA) and Batticaloa Airport that fall within its purview in executing the statutory responsibilities.

## 1932

Governor of Ceylon negotiates to extend the airmail service between the United Kingdom and India via Ceylon.

## 1934

State Council of Ceylon makes a decision to construct an aerodrome at Ratmalana.

## 1936

Aerodrome at Ratmalana is completed and Aero Club of Ceylon provides the public with flight opportunities.

## 1937

First Air Navigation Regulations are published. The first three aircraft bearing the Ceylon registration mark are entered into the aircraft register.

## 1938

The Ratmalana Airport is inaugurated on the 28<sup>th</sup> of February. The Director of Public Works is appointed Director of Civil Aviation.

## 1939

An emergency landing is conducted in Puttalam.

## 1942

With the outbreak of World War II, the Royal Air Force takes control of functions of the Ratmalana Airport.

## 1945

The United Kingdom-Australia - 'LANCASTRIAN' service commences operations via Ceylon.

## 1946

The Department of Civil Aviation is established under the Ministry of Transport. The Ratmalana aerodrome is taken over from the Royal Air Force for civil flying.

## 1947

Air Ceylon - the National Carrier is set up under the Ministry of Communication and Works and inaugurates international flights from Colombo to Madras via Jaffna.

## 1948

Sri Lanka is appointed as a member of the International Civil Aviation Organization (ICAO).

## 1950

The Navigation Act No. 15 of 1950 is promulgated. An Academy to train pilots is established.

## 1955

Air Ceylon enters into an agreement with KLM Royal Dutch Airlines.

## 1959

International flight operations are shifted to Katunayake.

## 1963

Development programme of Katunayake Airport commences. The RAF Runway is extended from 1,840 to 3,350 meters with assistance from the Government of Canada. Terminal Building is constructed to hold 150,000 passengers per year.

## 1968

Construction of a larger terminal building, apron and taxiway takes place.

**1979**

Inauguration of the National Carrier – Air Lanka. Airports Authority Act of 1979 promulgated and the Airport Authority is established.

**1980**

The Airports Authority takes over civil airport operations from the Department of Civil Aviation.

**1981**

The Government decides to establish a government owned company to handle civil aviation in Sri Lanka.

**1982**

Amendments are made to the Air Navigation Act.

**1983**

Establishment of the Airport and Aviation Services (Sri Lanka) Ltd. (AASL) to oversee the overall development, maintenance, administration and service delivery of the airports.

**1984**

Development programme launched to construct a new runway, passenger terminal building, cargo complex, control tower and navigation Services and maintenance complex.

**1987/88**

Development program is completed and the new runway and passenger terminal building is commissioned with an annual handling capacity of 3.5 million passengers.

**1992**

The Air Cargo Village inaugurated.

**1998**

Air Lanka re-branded as “Sri Lankan Airlines” following its partial acquisition by Dubai based Emirates Group.

**2005**

A completely new outlook is commissioned for the Airport in November with the construction of a finger pier with eight aero bridges, expanded terminal, lounges and other facilities.

**2008**

AASL celebrated 25 years Silver Jubilee.

**2010**

The Civil Aviation Act No.14 of 2010 was passed in the Parliament. The Civil Aviation Authority of Sri Lanka issued the Certificate and license to AASL to operate the Civil aerodromes in Sri Lanka as the statutory service provider.

**2012**

Civil aviation sector completes 100 years of service beginning with the first plane performing its successful flight at the Race Course Grounds in Colombo on 7<sup>th</sup> December 1912.

**2013**

Sri Lanka’s second International Airport MRIA at Hambantota declared open on 18<sup>th</sup> March.

**2015**

With a view to promoting MRIA, the Government declared full “Open Skies Policy” at MRIA with all nine freedoms of air available to airlines.

**2017**

The runway of BIA upgraded to “code F” compliance to accommodate A380 by expanding the width of the runway from 60 meters to 75 meters.



# CHAIRMAN'S REVIEW



## 2017 Performance Overview

On completion of a year of accomplishments, I take pleasure in reviewing the performance of our company during 2017.

Since safety is paramount in the aviation industry, it is appropriate for me to start with our company's contribution towards a safe aviation industry. I am pleased to announce that zero aircraft accidents and passenger casualties were reported in 2017. This painstakingly achieved performance indicator forms the basis of our all other achievements.

As a responsible Government Organization, we have contributed to the nation by paying all statutory dues and dividends in a timely manner. All in all, we have performed extremely well in 2017 with positive operational results despite numerous challenges and we continue to invest for further growth and for significant development of passenger-orientated infrastructure.

This year too, we continued to drive strong aviation and passenger growth as we strive to transform our facilities to create a better gateway to our passengers and strengthen our services for the benefit of our stakeholders and the country as a whole. 2017 was

particularly momentous for AASL as we reached the highest annual passenger throughput milestone of 9.9 million passengers, representing a year-on-year growth of 5.2%. This led to a growth of EBITDA by 21%.

I am delighted to report the earning of the highest ever revenue of Rs. 20.8 billion in 2017 which is a 13% growth compared to Rs.18.3 billion in previous year. This resulted in an increase in the revenue per passenger from Rs. 1,936 to Rs. 2,085. Aircraft movements increased from 61,637 to 62,850 and overflying movements increased from 35,118 to 39,413 representing a growth of 2% and 12.2% respectively in comparison to 2016, bringing in more Aeronautical Income. Annual cargo throughput recorded a growth of 10.3% bringing up the cargo volume from 248,348 Metric Tons to 274,044 Metric Tons. Commercial income growth was mainly driven by tendering of the core category duty free shops for a contract period of 5 years. Earning on short term and long term investments showed a notable increase of 47% from Rs.1.9 billion to Rs.2.8 billion. Despite increased revenue, operational expenses remained at Rs.10.5 billion. Increase in staff cost was offset by the reduction in asset depreciation. This resulted in a significant increase in the Operating Profit by 33% from Rs. 7.7 billion to Rs. 10.2 billion, after absorbing the operating loss of Rs. 2.2 billion of Mattala



Rajapaksa International Airport (MRIA), diluting the overall net profit to Rs. 8.7 billion.

Most of our development projects are funded through foreign loans. Although borrowing in foreign loans denominated in foreign currencies are typically cheaper than local currency loans, we are exposed to exchange rate risk which is unavoidable and beyond our control. The depreciation of the LKR against the USD and JPY, increases our debt burden which leads to negative consequences on AASL performance.

### Investing for Elimination of Capacity Crunch

**Overlay and widening of Runway at BIA** – During the period of review we also faced major challenges due to the necessity to overlay of Runway at BIA. This long overdue project was the first renovation of BIA runway which cost USD 48 million. The airport was closed for operations for 8 hours daily during the daytime for 3 months starting from 6<sup>th</sup> January 2017. Although this closure period is critical in terms of tourist arrivals, this bold decision was taken after carrying out deep dive study by technical experts in the industry considering the weather pattern prevailed during the period in order to complete the project with the minimum damage to the airport operations as well as the country as a whole. Resurfacing of runway and the other associated work such as renovation of taxiways were successfully completed ahead of schedule and BIA resumed normal operations on 6<sup>th</sup> April 2017. BIA runway can now accommodate larger aircrafts such as Airbus 380 as the width of the runway has also been increased to 75 meters from the earlier 60 meters. The ground lighting on the airfield comprising the 30 years old cable system and halogen lamps were also replaced with 2500 LED lamps, providing pilots aerodrome visibility in any weather condition while dramatically saving electricity consumption. The work was carried out by the contractor China National Aero – Technology International Engineering Corporation (CATIC-ENG) and the funding arrangements were made by the HSBC Hong Kong to cover 85% of the contract value and the balance 15% domestic portion was financed by AASL. Further studies are being carried out to explore the possibility of constructing a second runway at the BIA to cope with the ever increasing demand.

**BIA Terminal 2 Project** – It has been planned to arrest the capacity crunch due to ever increasing passenger numbers with the construction of a new

multi-level terminal building (Terminal 2) at BIA with an approximate floor area of 180,000 m<sup>2</sup> by investing USD 700 million, where arrivals and departures are separated vertically with two pier buildings. The new terminal would be designed for the provision of barrier free access with many environmental friendly initiatives. Passenger numbers at BIA show a significant growth annually, with 9.9 million passengers having used the airport in 2017 in comparison to 8.5 million in 2015 and 9.4 million in 2016 against the designed passenger handling capacity of only 6 million. Particularly during peak hours, the airport experiences heavy congestion in both arrival and departure zones, and vehicle traffic in the airport causing inconvenience to all airport users while the airport staff is under immense pressure as they strive to provide passenger facilitation at their level best.

Two loan agreements were signed with JICA for JPY 29 billion and JPY 45 billion in March 2012 and in March 2016 respectively and the construction was initially planned under two packages with Package A for Construction of the New Passenger Terminal Building and Associated Works at BIA, and Package B for the construction of Remote Apron and Taxiways. Package B was successfully awarded and the construction commenced during the year. Package A contract which is the larger portion of the phase II stage 2 project comprising the construction of the second terminal at BIA could not be awarded to the lowest bidder as the cost was 45% higher than the engineer's estimate. Consequently, this contract had to be cancelled and steps are being taken to recall competitive bids with changes in the project scope. Therefore, in order to arrest the capacity crunch at the existing terminal we decided to build an interim pre-fabricated terminal to facilitate two million departing passengers at BIA by end of 2018 while envisaging the increase in tourist traffic. Cost of this interim terminal funded by AASL is estimated at USD 19 million which will be later integrated into the proposed second terminal.

**Other Airports** – The implementation of the Master Development Plan approved by the Cabinet to upgrade the Colombo Airport-Ratmalana is underway to facilitate private jets with the service of a Fixed Based Operator (FBO) and flight schools. After several lengthy discussions, the Sri Lanka Air Force agreed to release 25 acres hitherto occupied by them for the development of the Airport. Major transformation of the airport is expected from 2018-2030 with the reallocation of land areas towards the socio-economic development in the country.

Aerodrome Certification, Upgraded Navigational Facilities, New Taxiway & Overlay of Aprons, New Hangar facilities for Domestic Airlines, Administration Complexes and attraction of FBO investments are among key priorities. Colombo Airport has great potential to cater to the growing demands for Tourism in the country in the foreseeable future.

Investment proposal has been received from the Government of India for the development and commercial operations at MRIA under a Public-Private Partnership (PPP) on 70:30 basis and the proposal is under evaluation. This second international airport was heavily utilized during the runway closure at BIA which proved its potential to handle traffic congestion with high level of customer satisfaction. Recently the world's largest cargo aircraft, Antonov AN-225 Mriya landed at the MRIA for refueling and this was the first instance that this type of aircraft arrived in the country.

Under the Government development initiatives on tourism promotion, AASL reconstructed the Batticaloa Domestic Airport and commenced civil aviation operations on 25<sup>th</sup> March 2018. This is the fourth airport under the purview of AASL which expects to promote tourism in the Eastern province of Sri Lanka connecting it with the Aerodromes situated in the other parts of the island. It has a 1,066 meters long and 46 meters wide runway and the airport was re-developed with the support of Government at a cost of LKR 1.4 billion spent for the construction of a terminal building and installation of a new runway lighting system. Development of the airport was carried out with a view of promoting domestic civil aviation in the country and to increase the influx of tourists into the region by providing safer and expeditious travel instead of spending long hours on roads.

**Automatic Dependent Surveillance – (ADS-B)** system which is one of the latest developments in the surveillance technologies used for Air Traffic Controlling (ATC) was commissioned at the Area Control Centre located at Ratmalana Airport by the ERA a.s Company, Czech Republic at a total cost of LKR 201 million. The system was successfully tested and flight inspected in July 2017 and this aims to provide information to the ATC Centers on ground to determine position information of aircraft derived from the GPS. This satellite based system is cost effective than the RADAR based systems as it does not involve any Transmitters on Ground and only a set of Receivers located in the country to capture the signals emitted by the aircraft.

ADS-B data received from all 05 Receivers located at BIA, MRIA, Pidurutalagala, Kilinochchi and Suriyakanda are now successfully fused and integrated with the existing Air Traffic Management (ATM) System at Ratmalana Airport. ADS-B system will be operated as supplementary means of surveillance together with existing RADAR and ADS-C systems enhancing Air Navigational Safety within the Colombo FIR.

### **Upgrading Training Facilities for Air Traffic Control**

The contract to supply, install and commission a new 3D tower and RADAR Air Traffic Control Simulator system at the Civil Aviation Training Centre, Sri Lanka was awarded in November 2017 to M/s Adacel Technologies Inc. of Australia at a cost of USD 1.6 million and a local component of LKR 32 million. Commissioning is due in mid 2018 and this will replace the old 2D simulator that was used since year 2000 tremendously increasing the ATC training capacity both qualitatively and quantitatively. This will enable us to cater to the increased demand for aerodrome controllers created by the commissioning of new aerodromes. The CATC is the only aviation training institution in the island that enjoys the full accreditation of the ICAO and is an emerging regional institution. In addition to training our own controllers, the new system will enable the attraction of overseas trainees due to the increased demand for training created by the projected growth of air traffic in the APAC region. This will enable earning in foreign currency and strengthen the competitive edge of the CATC in the region.

### **Creating a Guest Culture**

Steps were taken to upgrade the frontline services at BIA and other airports from a quality passenger facilitation to a 'guest experience'. The airport, being the first and last experience for overseas visitors would then blend with the tourism industry to provide a seamless guest experience for the visitor throughout his stay in the island. An extensive staff training programme encompassing all frontline operations was conducted by the Marketing Unit of the Company and steps are underway to provide a mix of technology as well mainly to obtain instant feedback from passengers. Realizing the importance of aligning services of other stakeholder organizations also to create a guest culture, AASL initiated action to conduct Customer Service Awareness Programmes to these organizations as well. As the first step, new batches of Air Force personnel who are

deployed at the Airport are presently undergoing the Guest Experience Programme. This transformation is an absolute necessity for BIA to maintain its level of service in the face of stiff competition from other airports in the region.

As we celebrate the Company's completion of 35 years in March 2018, we continue to contribute to the country's aviation story. Underlining our proven track record of performance and based on revised growth projections in the coming years which clearly point to the need for the additional capacity at BIA, we are fully focused on our growth strategies to meet the anticipated demand while elevating service levels and the passenger experience at all our airports. Considering the importance of aviation in Sri Lanka as one of the key pillars of economy, our ongoing developments will contribute towards economic and social well-being of the nation while achieving our long term objectives.

## Awards

AASL was awarded "Sri Lanka Best Employer Brand Award 2017" by the World HRD Congress and the Employer Branding Institute-India in recognition of the effective initiatives taken in attracting talent, retaining and developing talent through best practices which has elevated the organization as an employer of choice in Sri Lanka.

Yet another milestone in the progress of AASL was achieved when the Presidential Awards 2017 was conferred on AASL recognizing it as the "Best Environmental Friendly State Institute" at the National Competition organized by the Central Environmental Authority.

AASL also won the "Compliance Award of the State Corporations and Statutory Boards" at the 53<sup>rd</sup> Annual Report Awards organized by the Institute of Chartered Accountants of Sri Lanka, endorsing the company's best practices and excellence in financial reporting including disclosure and transparency of the company's business affairs.

I am pleased to announce that the above three awards and the excellent financial performance in 2017 signifying the balancing people-planet-profits have clearly elevated the AASL as the Triple Bottom Line Company which has a sustainable growth.

## Conclusion

On behalf of the Board of Directors, I would like to thank our competent and committed Senior Management team and all our dedicated employees for another strong year of performance and for their continued commitment. I also thank my fellow Board members for providing necessary direction and guidance throughout the year. I take this opportunity to express my sincere appreciation to the Honorable Minister of Transport and Civil Aviation for providing strategic direction and for the confidence placed on us. I also thank the Honorable Deputy Minister for the immense support he provides in all our growth initiatives.

I would like to extend my sincere gratitude to the Government of Sri Lanka, Secretary and officials of our line Ministry, the officials of our regulatory authority and other organizations that facilitated the development of our airports and operations.

My sincere thanks go out to all of our stakeholders for their valuable contribution and for the support extended to us. It is my pleasure to have all of you with us on this journey, and we look forward to the future with a positive disposition.



Eng. S S Ediriweera  
Chairman

June 01, 2018

# BOARD OF DIRECTORS



**Eng. S S Ediriweera**  
**CHAIRMAN**

Mr. S S Ediriweera has graduated from University of Moratuwa with a BSc Engineering degree specialising in the Field of Electronics & Telecommunications. He is also having a Diploma in Telecommunication Management Studies.

He is a Member of the Institute of Engineering Sri Lanka (Chartered Engineer, Class 1 of the Sri Lanka Engineering Service, Since 1983).

Mr. S S Ediriweera appointed as an Engineer in 1972 and served for the period of 19 years in the Sri Lanka Engineering Service and attached to Overseas Telecommunications Service in the Department of Telecommunications. During this period he functioned as a Maintenance Engineer, Station Manager- Padukka Satellite Earth Station, Superintending Engineer, Chief Engineer and Deputy Director (International Services) covering the areas of Transmission. He was appointed as the Director of Ministry of Posts and Telecommunications.

He too served as a Board of Director of Management of National Housing Development Authority (NHDA) as well as National Equipment & Machinery Organization (NEMO). He was also an Executive Director of Central Engineering Services Ltd. (CESL- Subsidiary of CECB). Later he served as the General Manager of Sri Lanka Telecom Services Limited (SLTS). He was the Managing Director of Associated Newspapers of Ceylon Limited and he served at Sri Lanka Rupavahini Corporation as the Director General. Later he was appointed as the Secretary, Ministry of Posts and Telecommunications and subsequently as the Secretary, Ministry of Tertiary Education dealing with higher education technical

education and vocational training. After that Mr. S S Ediriweera served as an Engineering Consultant of Media & Information Ministry. He served as a Board Director in Central Engineering Consultancy Bureau (CECB) from January 2011 to January 2015.



**Mr. K V P Ranjith De Silva**  
**VICE CHAIRMAN**

Mr. K V P Ranjith De Silva holds a Bachelor of Arts Degree from Vidyodaya University and Postgraduate Diploma from the Postgraduate Institute of Management (PIM). He joined the Sri Lanka Administrative Service (SLAS) in 1980 and became a special grade SLAS officer in 2006.

He held many key positions in the public sector at divisional, district and national level and has served in various Government Ministries such as Food and Cooperative, Home Affairs, Health, Ports and Aviation etc.

He held the position of Additional Secretary in the Ministry of Ports in 2005 and became the Secretary to the Ministry of Ports and Aviation in 2009 and Secretary to the Ministry of Civil Aviation in 2010.

During his tenure at the Ministry of Ports and Aviation and Ministry of Civil Aviation some of the major Government projects i.e Colombo Port Expansion Project, Port of Oluvil, Magampura Mahinda Rajapaksa Port, MRIA were commenced and completed under his supervision as the Chief Accounting Officer in those Ministries. While serving as the Secretary to the Ministry of Civil Aviation, he has led Sri Lankan aviation team in many Bilateral Air Talks and entered into Air Service Agreements with countries such as UK, Japan, India, Russia, Philippines, and Indonesia etc.

He was the Chief Executive Officer of the Commonwealth Heads of Government Meeting (CHOGM) held in Sri Lanka in November 2013.

Presently he is also the Chairman of Vallibel Finance PLC and serves in the Boards of few other companies as well.



**Mr. Johanne Jayaratne**  
**EXECUTIVE DIRECTOR**

Mr. Jayaratne has over twenty-five years of experience in the Aviation, Aerospace and Biometric industries at a senior management level and has worked in many parts of the world at leading companies.

He has been serving as the Executive Director of Airport & Aviation Services (Sri Lanka) Limited for the past 10 years.

He was a founding partner of Trijay Technologies, a biometric company in CA, and ran it successfully as its CEO for many years. The technologies developed by the company are used at Airports worldwide. He also held a Board Director position at DCS- Europe that provided identification solutions to public sector organizations internationally. He holds International patents in Fingerprint Biometric technologies.

In addition, Mr. Jayaratne was the Managing Director of an Aerospace company in the USA, a manufacturer of Aviation and Aerospace related equipment for the Department of Defence, Boeing, Airbus, Embraer, and other major Aviation organizations.

He was also the Managing Partner/Investor of JSDJ LLC, USA, a company involved in real estate.

Mr. Jayaratne has an academic background in Aerospace Engineering and Business and is a Professional pilot. As a Distinguished Fellow of the Royal Aeronautical Society, UK (FRAeS), a Credentialed Aviation and Project Management Professional (AvMP) granted by Stanford University (USA)/IATA, and a member of the American Association of Aviation Executives (MAAAE), he brings a wealth of knowledge to the Aviation industry.

He is also an avid sailor and served in the US Coast Guard Reserve / Auxiliary as an Officer for many years.



**Mr. J M Goonewardena**  
**DIRECTOR**

Mr. J M Goonewardena was graduated in Hospitality Management & Global Leadership Development at J W Marriott Hotels & Resorts. He is a graduate in Sabre System at American Airlines Flight Academy and also a graduate in International Hospitality Management at Emirates Academy of Hospitality Management in UAE.

Mr. J M Goonewardena was the former Consul General of Sri Lanka to the eleven Western States of USA which includes Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming. He is a Senior Coordinator to H.E the President between Sri Lanka and USA. He serves as Honorary Sri Lanka Consul General to Colombia and Venezuela and Honorary Mayor to City of Oceanside, California, USA. He was also appointed as a Former Sri Lanka Consul General to Los Angeles (Western States of US).



**Mr. L W A De Soysa**  
**DIRECTOR**

Mr. L W A De Soysa was educated at St. Thomas College, Mt. Lavinia and subsequently obtained a Degree in Economics from the University of Leicester, UK.

He was appointed as the Chairman of the Audit Management Committee during the period from April 2015 to December 2017 and continues to be a member of this committee. He also served on the Board of Directors as Non Executive Director from March 2002 to April 2004.



**Mr. N R Hewathantri (LLB)**  
**DIRECTOR**

Mr. N R Hewathantri, Attorney-at-Law obtained his LLB Degree from the University of Colombo has a distinguished career as a leading lawyer focused on civil and human rights and fundamental rights issues.

Beyond his practicing legal career, Mr. Hewathantri has also held several important positions including Legal Consultant of Colombo Gas Company in 1995, Board of Management in National Water Supply & Drainage Board in 1996, Member of Legal Drafting Committee of Telecommunications Regulatory Commissions of Sri Lanka in 2001, Director State Pharmaceuticals Corporation of Sri Lanka in 2004 and he was the founder member of Health Regulatory Commission in 2010.



**Mr. W M Anuradha Wijekoon**  
**DIRECTOR**

Mr. W M Anuradha Wijekoon obtained his first degree (B.com) from University of Colombo in 1990 and his Masters of Business Studies (MBS) from University of Colombo in 2009.

He was a Council member of Ocean University and National Institute of Education. In addition to that he obtained several local and foreign training on productivity improvement, leadership development and rural development and poverty alleviation etc. He is a special grade officer of Sri Lanka Administrative Service

and he has 25 years of experience as a Trainer and Management Consultant.

He serves as a Member of Advisory Council of the Colombo School of Business & Management and Member of the Judge Panel of National Productivity Awards (Over 15 years). He was also appointed as former Member of the Board of Directors of Sri Lanka Port Authority and Export Development Board. And also he is the former Additional Secretary (Non-State Higher Education), Ministry of Higher Education & Highways, Ministry of Highways Ports and Shipping, Ministry of Buddhasasana and Religious Affairs and former Secretary to the Leader of the Opposition of Parliament Sri Lanka etc.

At present he serves as the Additional Secretary (Procurement and Construction) to Ministry of Education from 22<sup>nd</sup> September 2016 to date. In addition to that he serves as a Board member of Ranmihithenna Tele Cinema Village and the advisor to the Friends of China Organization (FOC) as well.



**Mr. R Ketawalage**  
**DIRECTOR**

Mr. R Ketawalage has completed the academy program of Workers Education Degree at University of Peradeniya. He has educated at Bandaranaike College, Gampaha.

He has held various executive positions at government and semi government organisations. Mr. R Ketawalage has served as Coordinating Secretary to the Hon. Speaker from 2000 to 2001. He was appointed as Coordinating Secretary to the Minister of Industries and Investment Promotion, Tourism, Foreign Affairs and National Heritage from 2004 to 2007. He was also appointed as Coordinating Secretary to H E Chandrika Bandaranaike Kumarathunga and Director to the President office. He served as Executive Director in Kahatagaha Graphite Lanka Ltd from 2004 to 2006.



**Mr. N P L P Fernando**  
**DIRECTOR**

Mr. N P L P Fernando holds Bachelor of Commerce (Special) degree from University of Kelaniya. He is a Fellow member of The Institute of Chartered Accountants of Sri Lanka and a Fellow member of the Certified Management Accountants of Sri Lanka. He is also a Senior member of the Association of Accounting Technicians of Sri Lanka.

He served as Non Executive Director of National Savings Bank (NSB) and Non Executive Director of the NSB Fund Management Ltd. He was the Chairman of the Audit Committee of NSB. He was also a Member of Risk Management Committee of NSB.

Mr. N P L P Fernando is a practicing Chartered Accountant for 28 years as a Partner of Messrs. Fernando & Co. Chartered Accountants. He serves as the Managing Director of L M Management Services (Pvt) Ltd since 1993, a Company which is engaged in business consultancy. He is the Vice President of Sri Lanka Thailand Business Council. He is also an Executive Committee Member of the Association of Small & Medium Enterprises in Tourism in Sri Lanka.



**Mr. P B S C Nonis**  
**DIRECTOR**

Mr. P B S C Nonis holds BSc (Business Admin) Spl. Hons Degree from the University of Sri Jayawardenapura and Master of Public Administration from Flinders University, South Australia. He has also completed his Licentiate Certificate(LICA) from the Institute of Chartered Accountants of Sri Lanka in the year of 1995.

He is presently holding the position as Comptroller General of Ministry of Finance. He is also a Special Grade Officer to Sri Lanka Administrative Service with 30 years of Government service. At the moment Mr. P B S C Nonis is serving as a Board Director in five different Public Enterprises, representing the General Treasury.

**Dr. S E W Gunasekara**  
**DIRECTOR**

Dr. S E W Gunasekara holds a Diploma in International Languages from Tokyo International Language Institution and a PHD in Business Administration.

He was appointed to the Parliament of Sri Lanka in 1994 as a National List Member of Parliament. He was a Minister of Home Affairs Provincial Council & Local Government and Deputy Minister of Plantation Industries.

# SENIOR MANAGEMENT



- 1 A D N R De Alwis Gunasekara - Head of Fire & Rescue Services
- 2 W Wimalshanthi - Head of Electronics & Air Navigation Engineering
- 3 L Dahanayake - Head of Finance
- 4 S M D Wijesooriya - Head of Security Services
- 5 H S Hettiarachchi - Head of Airport Management
- 6 W G Cyril - Head of Internal Audit & Quality Assurance
- 7 M C G Mahipala - Head of Human Resources & Company Secretary
- 8 R W Wijesinghe - Head of Mechanical Engineering
- 9 U J Lokuarachchi - Head of Information Technology
- 10 G Withanage - Head of Civil Engineering (Planning & Design)
- 11 J M A U Jayamanne - Head of Electrical Engineering





- 12 K H C Kumarasinghe - Chief Coordinator - Domestic Airports Project
- 13 S D A S Nishantha - Company Medical Officer
- 14 A I B Karunaratne - Head of Projects
- 15 H P L Sirimanne - Head of Supply Chain Management
- 16 M Ratnasinghe - Head of Legal
- 17 H A A K M Seneviratne - Head of Civil Aviation Training
- 18 U S Jagoda - Head of Civil Engineering (Maintenance)
- 19 R M Piyadasa - Deputy Head of Commercial & Properties (Overseeing the duties of Head of C&P)
- 20 A M M A B Mahamithawa - Acting Head of Air Navigation Services
- 21 J M De Croos Rubin - Head of Architecture, Landscaping and Interior Design

# REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

## About the Company

AASL is a fully Government owned Company with statutory powers to manage and develop civil airports in Sri Lanka. The details set out herein, provide the pertinent information required by the Companies Act No. 7 of 2007, and are guided by best Annual Reporting Practices.

## Principal Activities

The principal operational activities of the AASL remained unchanged during the year. Under the mandate granted by the Civil Aviation Act No. 14 of 2010, Gazette on November 4, 2010, AASL continued to fulfill its role as the sole statutory service provider of the following aeronautical services;

1. The development, operation and maintenance of the Bandaranaike International Airport (BIA), Mattala Rajapaksa International Airport (MRIA) and the Colombo Airport Ratmalana (RMA). Development of Batticaloa Airport was successfully completed and open for operational activities during the first quarter of year 2018, in line with the government strategy of developing domestic aviation.
2. The provision and maintenance of Search, Rescue and fire fighting services and Aviation Security services at the above aerodromes.
3. The provision of air traffic services, aeronautical information services, aeronautical communication services and the provision of aeronautical aids for communication, navigation or surveillance, ensuring the safety and security of all aircrafts and passengers within the Colombo FIR.

## Review of Operations

A review of business performance and future outlook of the company is described in detail in the Chairman's Review (Page 05 to 08) and Management Discussion and Analysis (Page 25 to 52) (MDA). These reports together with the Audited Financial Statements (Page 93 to 127) of the Company reflect the respective state of affairs of the Company.

## Directors' Responsibility for the Financial Statements

The responsibilities of the Directors in relation to the Financial Statements of the Company are set out in this statement. The responsibility of the Auditors, in relation to the Financial Statements is set out in the Report of the Auditors on page 90.

The Companies Act No. 07 of 2007 requires the Directors to prepare and present Financial Statements for each financial year, giving a true and fair view of the state of affairs of the Company as at the end of the financial year and the profit or loss of the Company for the financial year and present them to the Annual General Meeting. The Financial Statements comprise of the Statement of Financial Position as at 31<sup>st</sup> December 2017, the Statements of Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows for the year then ended and Accounting Policies and Notes thereto.

Accordingly, the Board of Directors confirms that the Financial Statements of the Company give a true and fair view of the;

- Financial position of the Company as at 31<sup>st</sup> December 2017; and
- Financial performance of the Company for the financial year 2017.

Directors also ensure that;

- Appropriate Accounting Policies have been selected and used in a consistent manner, and material departures, if any, have been disclosed and explained; and
- The Financial Statements of the Company is prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs); and that reasonable and prudent judgments and estimates have been made so that the form and substance of transactions are properly reflected.

The Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy, the financial position of the Company. The Directors also are responsible for taking reasonable measures to safeguard the assets of the Company and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and irregularities. The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented. The Directors are required to provide the Auditors with every opportunity to take whatever steps necessary to enable them to form their audit opinion. The Directors, having reviewed the financial budget and cash flows of the year 2017 and the bank facilities, consider that the Company has adequate resources to continue in operation, and have continued to adopt the going concern basis in preparing these Financial Statements.

The Directors are satisfied that the Financial Statements presented on page 93 to 127 provide a true and fair view of the state of affairs of the Company.

### **Auditors, Auditor's Report and Remuneration**

As per 19<sup>th</sup> amendment enacted on 15<sup>th</sup> May 2015 to the article 154 of the constitution, Auditor General is empowered to carry out audits of all government enterprises registered under any written law and under the Companies Act No.07 of 2007. Accordingly audit of AASL for the year 2017 was also carried out by the Auditor General. They have expressed their opinion which appears on page 90 to 92 of this annual report.

The audit fee for the period is Rs.765,030 (2016: Rs.750,000) and there was no any other fees paid to the auditors for audit related services and non audit services.

### **Significant Accounting Policies**

The significant Accounting Policies adopted by the Company are given on pages 97 to 110.

The Financial Statements and Notes thereto give a true and fair view of the Company's financial position as at 31<sup>st</sup> December 2017 and of their performance for the year ended on that date. There were no changes to the Accounting Policies used by the Company during the year.

### **Donation**

The Company made donations during the year amounting Rs.1.2 million.

### **System of Internal Controls**

Maintaining a sound system of internal controls to safeguard shareholders' investment and the Company's assets is the responsibility of the Board of Directors.

However, an internal control system is designed to manage the Company's key areas of risk within an acceptable risk profile, rather than to eliminate the risk of failure, to achieve the business objectives and policies of the Company. Accordingly, the system of internal controls can only provide a reasonable but not absolute assurance against successful management of risks, financial losses or fraud.

The Board identifies significant risks on an ongoing basis and takes necessary steps for implementation of appropriate procedures to evaluate and manage the identified risks.

### **Key Internal Control Processes**

- The Standing Remuneration Committees and Audit and Management Committee are established to assist the Board in ensuring the effectiveness of the Company's operations and that the Company's operations are directed towards corporate objectives, strategy, annual budget, policies, taking in to consideration the business environment and internal operating conditions.
- The Company Internal Audit function provides comfort on the efficiency and effectiveness of the Internal Control System.

- The Audit Committee reviews internal control issues identified by the Company Internal Auditors, the Government Auditors and regulatory authorities. The Management evaluates the adequacy of the internal control system. Confirmation Statement of the Board of Directors of Airport & Aviation Services (Sri Lanka) Limited confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs) and regulatory requirements.

### Future Developments

The ground breaking of resurfacing of the runway commenced on 06<sup>th</sup> January 2017 and this nationally important Runway Overlay project was successfully completed on 06<sup>th</sup> April 2017 as planned. The runway was overlaid to improve surface conditions and friction levels of the runway. This was the first time such an overlay project was carried out since the commissioning of the runway in 1986. This project upgraded the value of the BIA.

AASL is set to establish an interim departure terminal at the Bandaranaike International Airport (BIA) at a cost of approximately USD 19 million in line with proposed targeted tourist arrival figures early next year. It is expected to be completed during the year 2018.

This is just one part of the massive JPY 74 billion expansion project planned for the BIA in partnership with the Japan International Cooperation Agency (JICA) which has helped the BIA on many earlier occasions. BIA, which was designed for just 6 million passengers annually, is already bursting at the seams with more than 9.9 million passengers. The expansion project that includes new international and domestic terminals, with facilities for the Airbus A380, will double the capacity to 15 million passengers. Furthermore, the terminal, to be opened in 2021, would use solar energy and recycled water from a sewage plant for the flushing of toilets. The project would be developed based on the concept of (an) eco-airport with Japanese advanced technology and know-how.

In addition, enhancement of infrastructure and associated property developments at BIA, RMA, MRIA and Batticaloa Airport are the projects planned for the next 5 years which will certainly be a boost to the country's aviation industry.

## Statement of Comprehensive Income and the Financial Position of the Company

### Revenue

The Company recorded the highest ever total revenue in the history of AASL amounting to Rs. 20.8 billion. A detailed analysis of revenue and profit are presented in the Financial Review.

### Operating Results

The Company reported a Profit Before Tax (PBT) amounting to Rs. 10.8 billion for the year ended 2017, which is a significant increase of 57% compared to the previous year (Rs.6.9 billion). This resulted due to an increase of total revenue by Rs.2.43 billion and other operational expenses were maintained at lower level compared to the revenue growth. There is a recorded increase in Profit After Tax (PAT) by 26% compared to previous year. In addition to the facts stated, PAT has been decreased comparatively to the PBT due to tax provision of Rs.2.1 billion compared to tax reversal of Rs. 11.1 million recorded in 2016.

Given below is a table of comparison of above figures across the two years.

Description	2017 Rs. Million	2016 Rs. Million
PBT for the year ended 31 <sup>st</sup> December after payment of all operating expenditure and provision for depreciation	10,820	6,909
Less : Provision for Taxation	(2,105)	11
PAT for the year	8,715	6,920
Gain/(Loss) arising from changes in actuarial assumption	(978)	4
Total Comprehensive Income	7,737	6,924

### Reserves

The reserves of the Company have been increased to Rs. 23,264 million as at 31<sup>st</sup> December 2017 from Rs.16,436 million in 2016, with the increase in retained earnings. The movement in reserves of the Company is shown in the Statement of Changes in Equity on page 95.

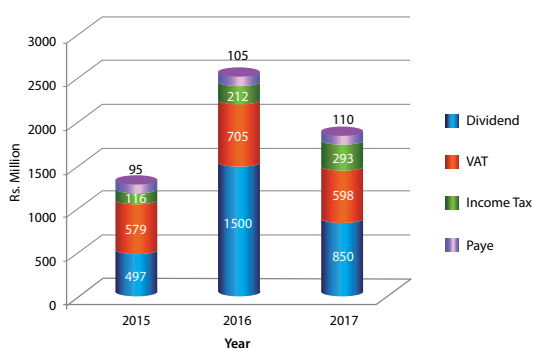
## Dividends

During the year, the Directors declared and paid a final dividend of Rs.350 million for the year 2016. The interim dividend of Rs.500 million was paid in respect of the year 2017. Final dividend for 2017 is to be proposed at the Annual General Meeting.

## Capital Expenditure

The capital expenditure of the Company was Rs. 9,473 million in the year under review, compared to Rs. 2,400 million in 2016. The movements in Property, Plant and Equipment during the year are set out in note No. 11 of the Financial Statements.

## Contribution to Government Revenue by AASL



Further AASL continued to provide infrastructure and other necessary facilities required for other Government's authorities such as Sri Lanka Air Force, Sri Lanka Customs, Department of Immigration and Emigration and Ministry of Foreign affairs etc. for them to provide related services within the airport.

## Events Occurring After the Reporting Period

There were no material events that occurred after the reporting date that require adjustment to or disclosure in the Financial Statements, other than those disclosed in Note 32 to the Financial Statements on page 127.

## Going Concern

After making due inquiries, embracing the normal forecasting process and considering future prospects and risk, the directors consider that the Company has adequate resources and committed borrowing facilities to continue in operational existence for the foreseeable future. Consequently, all Financial Statements have been prepared on Going Concern basis.

## Contingencies and Commitments

Information with regards to Contingent Liabilities and Capital Commitments as at 31<sup>st</sup> December 2017, is given in notes 28 and 29 on page 124 and 125 of the Financial Statements.

## Investments

Detailed descriptions of the long term and short term investments held as at the reporting date are stated in note 14 and 18 (pages 118 and 120) to the Financial Statements. Additional Investment of Rs. 9.2 billion was made during the year mainly on debentures and treasury bills with higher return.

## Share Capital

The share capital of the Company appears in the Company Financial Statements and comprises Ordinary Shares of Rs. 100/- each. The shareholding as at December 31, 2017 is as follows:

No of shares	Value (Rs.)	Held by
200,000	20,000,000	Secretary to the Treasury
1	100	Secretary, Ministry of Transport & Civil Aviation
1	100	Director General of Civil Aviation
200,002	20,000,200	

## Information of the Board of Directors and Board Sub-committees

### Directorate

The present Board was appointed in the year 2015 and two Directors were newly appointed in the year 2016 on 17<sup>th</sup> March 2016 and 2017 on 12<sup>th</sup> December 2017. List of Directors who held office at the end of the financial year are given below along with the capacity hold/ held and dates of appointment, resignation and re-appointment. The appointment of the Chairman (Article 79) and Non-Executive Directors (Article 82) have been done as per the terms shown in above mentioned clauses of the Articles of Association of AASL.

Details of the Directors who held office at the end of financial year 2017.

Name	Position	Date of Appointment
Eng. S S Ediriweera	Chairman	12/10/2015
K V P R De Silva	Vice Chairman	12/10/2015
Johanne Jayaratne	Executive Director	12/10/2015
N R Hewathantri	Director	12/10/2015
N P L P Fernando	Director	12/10/2015
W M A Wijekoon	Director	12/10/2015
S E W Gunasekara	Director	12/10/2015
L W A De Soysa	Director	16/11/2015
S R Attygalle*	Director	16/11/2015
R Ketawalage	Director	16/11/2015
J M Goonewardena	Director	17/03/2016
P B S C Nonis	Director	12/12/2017

\* Retired with effect from 12/12/2017

Information relating to the Directors of the Company is available in the Board of Directors on pages from 09 to 12.

### Board Sub-Committees

The Board of Directors has appointed two committees to assist the Board. They are Audit and Management Committee and Standing Remuneration Committee.

The compositions of the above committees are as follows.

Sub Committee	Composition
Audit and Management Committee	Anomal de Soysa - Chairman
	S R Attygalle - Member
	N P L P Fernando - Member
	A D Dilrukshi - Observer
Standing Remuneration Committee	K V P Ranjith De Silva - Chairman
	W M A Wijekoon - Member
	A S Ranasinghe - Member
	M C G Mahipala - Member
	L Dahanayake - Member

Above committees had made several recommendations to the Board of Directors with a view to improve internal

control systems and to mitigate risk that are associated with AASL transactions. In addition, The Quality Management System (QMS) of AASL was established in line with provision of ISO 9001:2008 Standard covers key process of AASL. During the year all planned internal audits of QMS were carried out in relation to the all Divisions concerned.

### Disclosure of Directors dealing in Shares or Debentures

No shares or debentures are held by any of the Directors.

### Directors' Interest in Contracts and Proposed Contracts

No Director was directly or indirectly interested in contracts or proposed contracts connected to the Company's business during the year under review.

### Directors' Remuneration and Other Benefits

There were three Executive Directors (Appointed as per clause 77 of the Article of Association) who were paid Rs. 8 million during the year as remuneration. This included all financial benefits namely Directors' allowances, EPF, ETF, Bonus, reimbursement of entertainment expenses, telephone, leave encashment and other allowances. Non Executive Directors were paid an amount of Rs. 1.6 million during the year, being cost of travelling and directors' fees for attending Board meetings.

### Corporate Governance

The Directors uphold the responsibility of ensuring the effectiveness of the Company's overall governance process, to develop and nurture long term relationships with all key stakeholders.

### Statutory Payments

The Board of Directors confirm, that to the best of their knowledge and belief, all statutory payments due to the Government, other regulatory institutions and in relation to employees have been made on time, or have been provided for.

## Annual General Meeting

The Annual General Meeting is scheduled to be held on June 29, 2018, at the Board Room of AASL at 3.30 P.M.

## Acknowledgement

First of all, we would like to congratulate Management team for completing another successful remarkable year of AASL. It was a challenging year as AASL had to carry out much awaited and needed overlay project of Runway while continuing its regular operations. Completion of the project before the target date and the growth achieved in such environment proved the hard work, commitment, encouragement and professionalism of the AASL team. Our special gratitude goes to the Ministry of Transport and Civil Aviation and other institutions that continued to assist the Company in its endeavors being stakeholder and the regulator of the Company. Further, we would like to express our sincere appreciation and gratitude to all who contributed towards the success of Company including our customers for the continuous trust placed on us. Last but not least, our gratitude goes to all AASL staff for their continued commitment, integrity, and hard work which always contributed for the success of the Company in years.

BY ORDER OF THE BOARD



Eng. S S Ediriweera  
Chairman  
June 01, 2018

# REPORT OF THE AUDIT AND MANAGEMENT COMMITTEE (AMC)

According to the provisions of Public Enterprises Circular No PED 55, the AMC comprised of three (03) Independent Non-Executive Directors, inclusive of Treasury Representative.

AMC members appointed by the Board of Directors of AASL for year 2017 are as follows:

Name of the Member	Position held in	
	AASL	AMC
Mr. Anomal de Soysa	Director	Chairman
Mr. S R Attygalle – Deputy Secretary to the Treasury	Director	Member
Mr. N P L P Fernando	Director	Member
Ms. A D Dilrukshi -Superintendent of Audit	Rep. from Govt. Audit	Observer

## Meetings

Head of Internal Audit and Quality Assurance functioned as the Convener to the Committee for the year-ended 31<sup>st</sup> December 2017. The Audit and Management Committee met on four occasions during the financial year 2017 and proceedings of the Audit and Management Committee (AMC) meetings were reported regularly to the Board of Directors. A representative from the Auditor General's Department Ms A D Dilrukshi – Superintendent of Audit participated as an Observer.

## Mandate and Role

The Terms of Reference of the Committee, is defined as per the Public Enterprises Circular No. PED 55 dated 14.12.2010. The Committee assists the Board of Directors in fulfilling its general oversight of financial reporting, internal controls, internal and external audits.

## Terms of Reference

The Committee is governed by the specific Terms of Reference (TOR) noted by the Board of Directors in terms of the Public Enterprises Circular No. PED 55. The Committee focuses on the following objectives in discharging its responsibilities as per TOR and the requirements of the Government.

- a. Determination of the responsibilities of the Internal Audit Division and review of the annual audit plans.
- b. Review and evaluate internal control systems for all activities of the entity.
- c. Review performance at regular intervals for cost effectiveness and to eliminate wasteful expenditure etc.
- d. Liaise with external auditors and follow up on Auditor General's/ External auditor's Management Letters.
- e. Ascertain whether statutes, regulations, rules and circulars are complied with.
- f. Review financial statements to ensure compliance with Accounting Standards.
- g. Review internal audit/ external audit reports, Management Letters to remedial action.
- h. Review implementation of recommendations/ directives of the Committee on Public Enterprises.
- i. Reporting to the Board of Directors any matters which have been identified that the Committee needs to be considered, actioned or improved upon.
- j. Prepare report on the findings of the Committee for inclusion in the Annual Report.



## Financial Reporting

The Committee reviews effectiveness of the Financial Reporting System in place, to ensure reliability of information provided to the stakeholders. The Committee assists the Board of Directors to discharge their responsibility for the preparation of true and fair financial statements in accordance with the books of accounts and Sri Lanka Accounting Standards. The Committee reviews the adequacy and effectiveness of the internal control system and procedures to provide reasonable assurance that all transactions are accurately and completely recorded in the books of accounts. The Committee reviewed interim financial statements prepared on monthly basis together with supporting information that included significant assumptions and judgments made in the preparation and presentation of financial statements.

## Internal Controls

The AMC assessed the effectiveness of internal control over financial reporting as at 31<sup>st</sup> December 2017. This process assesses the adequacy and effectiveness of the internal controls and the processes for controlling risks to ensure compliance with laws and regulations. The Committee ensures that appropriate action is taken by the Management on the recommendations of the Head of IA & QA to improve the effectiveness of the internal control system of the AASL. The basis of the internal control framework, which enables the Board of Directors to pursue its' functions and take necessary measures.

## Internal Audit

The AMC ensures that Internal Audit function is independent of the activities it audits and that it is performed with impartiality proficiency and due professional care. The AMC monitored and reviewed the scope, resources, extent and effectiveness of the activities of AASL Internal Audit division.

## External Audit

The Auditor General acts as the External Auditor of the Company for the year ended 31<sup>st</sup> December 2017.

Sgd.

**Anomal de Soysa**

**Chairman - Audit and Management Committee**





# MANAGEMENT DISCUSSION & ANALYSIS

In pursuit of greatness navigating the pulse of 10 million passengers and beyond while arresting the capacity crunch.

## **Pursue the Vision while Arresting the Capacity Crunch...**

Pursuing Greatness is a continuous endeavour of any individual or any organization. AASL envisions to be the most efficient and friendliest aviation service provider in the Asian Region. Today, the process of capturing and creating value for its customers and other stakeholders is challenged than ever in a Volatile, Uncertain, Complex and Ambiguous (VUCA) business world. Along with the ever increasing demand from its customers and stakeholders, AASL is challenged to increase both human and physical capacities whilst creating a culture enriched with love and care being customer oriented.

## **Optimizing Physical and Human Capacities**

The infrastructural capacity is one of the most important parameter in determining the operational and planning success of an organization. With ever increasing number of passengers and airlines, AASL is at a juncture of arresting the capacity crunch. By arresting the capacity crunch, AASL strives to increase the utilization of existing capacity by adopting different operational procedures, using new technologies and building new infrastructure.

People are the most dynamic resource in any business and they are the agents of change. They are the most influential resource for the accomplishment of the vision of a company. It is the passion and the capacity of people which always drive a company towards its vision. AASL believes that profit is generated through the passion and purpose of its people which will transform a company towards a firm of endearment. AASL takes measures continuously to enhance the capacities of the human capital to optimize the workforce through comprehensive human capital development programmes while investing resources to ensure that employees have the knowledge, skills and competencies they need to work effectively in a rapidly changing

and complex environment. Companies need to have disciplined people, disciplined thought and disciplined action to create GREAT companies.

## **Culture Enriched with Love and Care**

Love and Care are two fundamental words that everyone desires in life. AASL is a home for millions of people who desire, love and care every day, every moment. Every moment they spent in the company, they are looked after by our compassionate people with a smile giving utmost warmth of love. AASL proudly celebrates another successful year of its journey towards its vision staying above and beyond. It is people who will change an organization together. It is the passion and purpose of people that will uplift a company. It is team work of passionate individuals of AASL who will be determined to navigate the company arresting the capacity crunch to meet the pulse of 10 million and beyond.

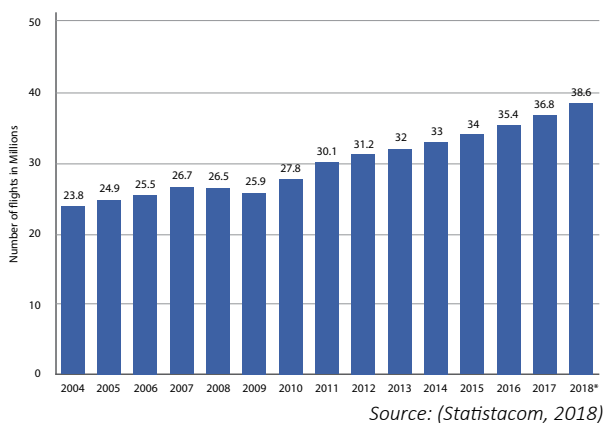
## **We are living in a World which is Changing Rapidly**

We have moved from the industrial era to digital era making the customer in the center of all endeavours of business success touching their mind, heart and spirit. Airports are quickly changing from their conventional role along with the changing business dynamics. The global aviation industry is moving people every time making airports attractive destinations for air travel. Worldwide air travel has jumped up at a historically rapid pace. Year-over-year passenger travel growth for the past five years has averaged 6.2 % and in 2017, global air traffic passenger demand increased by 7.5 % in the year before.

Air travel demand growth has gained solid momentum, supported by the ongoing improvements in global economic conditions throughout the year 2017.

According to the report released by the International Civil Aviation Organization (ICAO), world real Gross Domestic Production (GDP) growth was projected to be at 2.7% in 2017, an acceleration from the 2.4% in 2016 and is expected to further strengthen to 2.9% in 2018. The upward trend was driven by the strengthening investment in advanced economies as well as the recovery in emerging markets and developing economies owing to the increased export demand. Low air fares, higher living standards with a growing middle class in large emerging markets and the growth of tourism and travel relative to total consumer spending in major economies have been all driving strength in the demand for air travel (Boeingcom, 2018). The aviation industry is identified as a key contributor to global economic growth and prosperity. Aviation has globalized people and fueled to bring people together. Air travel is doubled in size every fifteen years and is set to continue to expand potentially at a faster rate (kpmgcom, 2018). Increasing demand from the world population has driven the demand for more flights and more destinations connecting the world. At present, the worldwide commercial fleet is estimated at approximately 25,000 in-service aircraft and the forecast is to expand to 35,000 over the next decade (kpmgcom, 2018).

**Number of flights performed by the Global Airline Industry from 2004 to 2018 (in millions)**



### International Passenger and Freight Market

In 2017 international passenger traffic soared 7.9% compared to 2016. Capacity rose 6.4% and load factor climbed 1.1% to 80.6% globally. All regions recorded year-over-year increases in demand, led by the Asia-Pacific and Latin America regions (IATA, 2018). World scheduled freight traffic, measured in freight tonne-kilometers (FTK) grew robustly by 9.5% in 2017, a significant improvement from the 3.8% growth registered in 2016.

The international segment of freight traffic which represents nearly 87% of total air freight grew by around 10.3%, up from the 3.7% growth in 2016. The scheduled international freight load factor improved as well from around 53% in 2016 to 55% in 2017. Asia-Pacific had the second largest share with 29% and grew by 9.6%, the second strongest growth among all regions.

Asia-Pacific carriers posted annual demand growth of 9.4%, compared to 2016, driven by robust regional economic expansion and an increase in route options for travellers. This was the first-time since 1994 that Asia-Pacific led all the regions in annual growth rate. Capacity rose 7.9%, and load factor climbed 1.1% to 79.6% (IATA, 2018).

South East Asia is viewed as the “Growth Engine of the World”. Sri Lanka as a country located in Asia moves ahead along with China, Indonesia, Malaysia and the Philippines etc. These countries record the highest GDP growth rates in the world and the GDP in the Asian economy is growing at a rate of 4.5% compared with the whole world, which is 1.3%. However, the relative strength of the USD has caused some issues in developing countries, such as Sri Lanka, in 2017. However, the global oil prices recorded a slow increase. The regional optimism continued with the economic recovery of the key countries such as China, Australia, Korea, South East Asia, Malaysia, Indonesia and Japan etc.

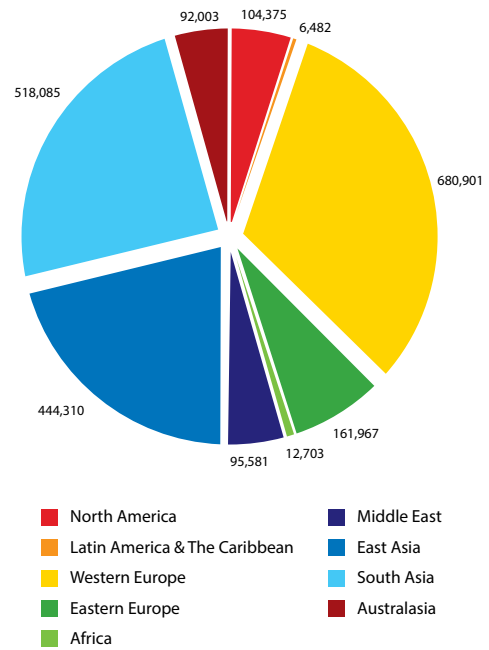
### Sri Lanka- The Destination for Travellers

Sri Lanka has experienced a sharp rise in the number of tourists traveling to the island during the past decade, predominantly after the end of the country’s 30-year long civil war. As indicated by the Sri Lanka Tourism Development Authority, the year 2017 recorded the highest number of tourist arrivals with 2,116,407 which was an increase of 3.2 % from 2016. Throughout the year, the country’s tourism industry went through several ups and downs due to 3 major setbacks, the partial closure of the BIA from January 2017 to April 2017 for 8hrs, the disastrous floods which affected the Southern half of the country and the dengue disease surrounding Colombo which lasted several months. The tourism arrivals went down over the first and second quarters of 2017, but rose in the third quarter. Tourism revenues increased to USD 287.4 million in November from USD 261.5 million in October. The number of tourist arrivals in December was 244,536 which was an 8.8 % increase when compared to December 2016.

According to The Travel & Tourism Economic Impact 2017 Sri Lanka report, constructed by the World Travel & Tourism Council, the direct contribution of the tourism sector towards the country's GDP in 2016 was USD 4.4 billion, 5.1% of total GDP. This primarily reflects the economic activity generated by industries such as hotels, travel agents, airlines and other passenger transportation. The direct contribution of Travel & Tourism to GDP is expected to grow by 6.6% per annum to LKR 1,255 billion (6.3% of GDP) by 2027. The sector contributes to the economic growth of the country in ways such as drawing foreign investments, infrastructural developments, and job creation.

AASL as a premier organization in the country, which contributes significantly towards the socio-economic growth of Sri Lanka, continued its business performances successfully during the year 2017 amidst a number of challenges. AASL is in pursuit of greatness, but challenged for capacity optimization and management. However, with its visionary leadership, capable management and committed employees, the impossible was made possible in 2017 turning a new page of its journey towards greatness. This is the story of greatness which arrests the capacity crunch.

Tourist Arrivals by Regions 2017



(Source : SLTDA)

**G**lobal Connectivity Continued Amidst the Capacity Crunch.

**R**edefining the Passenger as a Guest is a Beginning of a Culture change towards Greatness Challenging the Capacity Crunch.

**E**nergy Conservation Leading towards a Sustainable Future.

**A**chievements Navigated the Company to Inspire People Amidst the Capacity Crunch.

**T**echnological Advancement Always Lifts the Company One Step Up towards Greatness.

**N**avigate the Company to Meet the Pulse of 10 Million and Beyond with a Proven Business Model Arresting the Capacity Crunch.

**E**nvisage the Future by Seeing the BIG PICTURE.

**S**ynergy is at Its Best When All Institutions Under One Roof Put Together Their Maximum.

**S**ociety and its Well-Being - a Year of Gratitude Towards Triple Bottom Line on Its Journey towards Greatness

## **G**LOBAL CONNECTIVITY Continued Amidst the Capacity Crunch

Air connectivity is key to unlocking a country's economic growth potential, in part because it enables the country to attract business investment and human capital. An increase in air connectivity also spurs tourism, which is vital to countries such as Sri Lanka for its economic prosperity.

### **BIA - Continued Global Connectivity as the Main Gateway**

BIA connects Sri Lanka to the world with 41 airlines (scheduled and seasonal/charter operations) operating to 63 destinations.

### **New Airlines Commenced Operations**

In 2017, AASL enjoyed the commencement of three new airlines, under its market development strategies with four main destinations Coimbatore, Hyderabad, Visakhapatnam and Melbourne from Colombo.

### **Gulf Air Touched Down in Colombo**

The Kingdom of Bahrain's national carrier Gulf Air had celebrated the launching of its highly anticipated inaugural direct service to Colombo five times a week. Gulf Air is one of the largest networks in the Middle East with double daily flights or more to 10 regional cities. Gulf Air is well-positioned to connect passengers travelling to Colombo and travelling from Colombo to several key destinations in the Middle East and Europe via its efficient Bahrain International Airport hub. The airline network currently serves 41 cities in 24 countries spanning three continents.

### **China Southern Airlines Launched Direct Services to Colombo**

AASL celebrated another milestone with the China Southern Airlines with their commencement of operations scheduled as non-stop services between Guangzhou (CAN-Baiyun International Airport, China) and Colombo (BIA, Sri Lanka) on the 26<sup>th</sup> September 2017. China Southern Airlines is the world's 6<sup>th</sup> largest airline measured by passengers carried and Asia's largest airline in fleet size. The airline initially operates three flights a week to Colombo enroute the Maldives and return from the Maldives via Colombo to Guangzhou, China.

1 *Gulf Air Commenced Its Operations to BIA*

2 *China Southern Airlines Flight Crew at BIA*



1



2

## Silk Air Commenced Operations to BIA

Silk Air the regional wing of Singapore Airlines (SIA) commenced flights to Colombo on 8<sup>th</sup> April 2017. Silk Air operates three flights per week. The services are operated with Boeing 737-800 aircraft, featuring both Business and Economy Class cabins. Silk Air flies to 52 destinations across 14 countries in the world.

## The Resurfaced Runway at BIA – Strengthened the Capacity

### Emirates A 380 Lands at BIA

An Emirates A380 aircraft, which is one of the largest passenger aircraft in the world, received a warm welcome at the BIA, Katunayake on 14<sup>th</sup> August 2017. This one-off flight showed the confidence of the newly resurfaced runway enabling the landing of such largest passenger aircraft in the world to BIA. This was a significant milestone for the aviation industry in Sri Lanka and to the BIA. This was the first commercial A380 flight operated to BIA.

This was a clear demonstration of the key strengths that BIA has developed to facilitate operations of larger aircraft of this category.

## Initial discussions with Indigo Airlines

AASL had initial negotiations with Indigo Airlines to commence operations. Indigo Airline is one of the South Asia's leading airline operator which accounts approximately 40% market share in India.

## MRIA - Played its Role as the Alternative

MRIA which was built as an alternative to country's main airport, (BIA) is fulfilling its purpose.

Connecting island to the globe, MRIA entertained a number of non scheduled flight movements from/ to as follows. 56-Indonesia, 16-UAE, 9- Singapore, 7- Malaysia & Maldives, 5- Australia, 6- Oman, 4- China and attracted flights from various other destinations such as Bahrain, India, Seychelles, Hong Kong, Pakistan, Jordan, Qatar, Saudi Arabia, Spain, Switzerland, Thailand Vietnam, Ruwanda, Kenya, Mozambique and Egypt.

The island's 2<sup>nd</sup> gateway joins hands with the BIA to accommodate the growing air travel need efficiently. Fly Dubai and Sriwijaya Air connected MRIA with the world by operating weekly operations.

## Colombo Airport Ratmalana Planned to be Re-Positioned as an Exclusive Gateway to Sri Lanka

With the rising trend of high end tourists to the country, Colombo Airport Ratmalana has a main role to play as it is located closer to the heart of the capital city. It is an ideal gateway for business travellers. By considering the attraction of corporate jets and the location benefit of Colombo Airport Ratmalana, it is to be re-positioned as Exclusive Gateway to Colombo, Sri Lanka.

- 1 *Emirates A380 is greeted by water cannon salute*
- 2 *Hon.Minister and Deputy Minister of Transport and Civil Aviation welcomed A380 with top officials of Emirates*



1



2





- 1 *Fly Dubai at MRIA*
- 2 *Colombo Airport Ratmalana*

Connecting the Sri Lanka to the globe, 126 International Corporate Jet movements were entertained at Colombo Airport Ratmalana in 2017, which is a significant improvement compared to the last few years and it has proven its potential as the international gateway for corporate jets carrying high profile tourists, businessmen and other High Net Worth Individuals (HNWI). During the period of 1<sup>st</sup> January to 31<sup>st</sup> December 2017, Colombo Airport Ratmalana entertained Corporate jets from/ to as follows. 78 - India, 9- Indonesia, 8-Maldives, 7-Thailand, 5-Oman & UAE, 4-Singapore & Malaysia and further, attracted corporate jets from Nepal, Switzerland, Tanzania, Hong Kong and Bahrain.

<b>Aircraft Movements Summary (2016 &amp; 2017)</b>					
Year	International Corporate Jets	Commercial	Training	Air Force	Total
2016	25	729	8,100	10,328	19,182
2017	126	1,319	9,841	11,744	23,030

AASL successfully connected with the globe and it continues global connectivity challenging the capacity in a rapidly growing aviation industry in the region.

## **R**EDEFINING the Passenger as a Guest is a Beginning of a Culture Change towards Greatness Challenging the Capacity Crunch

### Guest Experience

Due to the exceeding passenger volume at BIA, it experiences congestion during the peak hours, thus causing hardships to passengers and airlines. With the BIA forecasted passenger figures, it is expected to receive 15 million passengers by 2021 and according to the existing capacity, it can cause negative impact on the passenger experience creating a number of challenges. Arresting this situation, AASL was able to strategize a number of programmes, and activities to distract the passenger from dissatisfaction owing to the capacity crunch.

Today, managing passenger expectation has been identified as a critical factor in the airport business where the correlation between passenger satisfaction and profitability has been widely accepted. The understanding of passenger expectations has become very important for airport business in order to explore the airport service quality that will differentiate the success of the airport business. The traditional definition of an airport has been changing over the years. Airports are not only considered as a place where aircraft land and take off and where there are buildings for passengers to wait in and for aircraft and equipment to be kept. Airport is being viewed as destinations where travellers go beyond fulfilling the basic travel need and considered as entertainment destinations where they



1



2

- 1 *Happy Guests at BIA*
- 2 *Other Stakeholder Engagement Towards Service Culture Enhancement*

enjoy the travel with shopping, dining and getting engaged in leisure activities. For a country, an airport can be considered as the place where the first and the last impression is created for a visitor. It is the front door of a whole nation.

Therefore, today, in the competitive world of business and travel, the customer for an airport who is identified as a traveller is defined as a 'Guest' in order to create a hospitality inspired organization culture with high service orientation.

It was in 2017, AASL introduced a new concept with the branding and the guest experience to pursue the following objectives.

- Strengthen an aligned service culture at BIA and other airports being customer oriented.
- To redefine the passenger as a GUEST towards a new culture change.
- To share in a common customer centric vision among all stakeholders.
- Develop a mechanism for a continuous service uplift of the service delivery at BIA and other airports.

### Focus Group Discussion on Corporate Branding

In order to identify the future direction towards a customer oriented culture, a group 32 individuals representing a selected sample of Heads of Divisions, Deputy Heads of Divisions, Unit Managers, Senior Airport Managers, Airport Duty Managers, and other employees gathered to brainstorm the Concepts of Branding for AASL in 2017. The current positioning of the brand was assessed. The brand attitude and brand health were assessed in order to identify the gaps and a new initiative was launched to uplift the AASL and its major service brands.

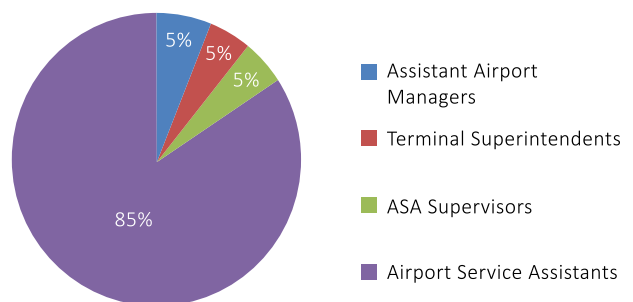
### Frontline Guest Experience Training/Awareness Programmes

Service education is a must for a satisfactory service. Exceptional customer service can only be achieved through educating the Frontline Staff on the service vision of the brand. In 2017, a series of awareness creation and training sessions were organized targeting the frontline service personnel such as Airport Service Assistants, Supervisors, Terminal Superintendents and Security Frontline Staff.

13 Training and awareness building programmes were conducted reaching a total number of 223 employees. All the participants were made aware of the new concept and the Top Management gave their blessings for the success of this programmes showing the signs of a new beginning of a culture change. Further, the security frontline personnel, including the Sri Lanka Air force staff were also educated and trained on the concept of GUEST CULTURE. These strategies helped the company to arrest the issues created by the capacity crunch under the Airport Service Quality Improvement Programme (Guest Experience Programme).

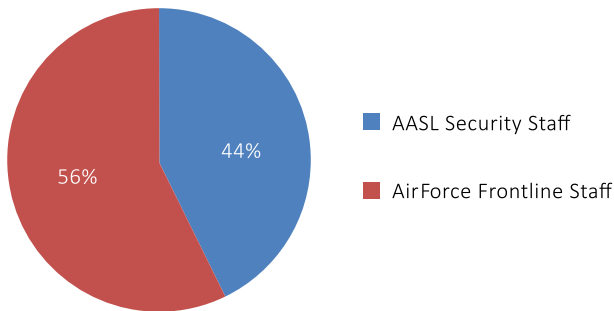
Number of Employees Engaged with the Guest Culture Awareness Programmes are as follows

Category of Frontline Staff	No
Assistant Airport Managers	12
Terminal Superintendents	10
ASA Supervisors	11
Airport Service Assistants	190
<b>Total</b>	<b>223</b>



Number of Security Frontline Staff Engaged with the Guest Culture Awareness Programmes are as follows.

Category Security Frontline Staff	No
AASL Security Staff	219
Air Force Frontline Staff	281
<b>Total</b>	<b>500</b>



### BIA Five Senses

BIA launched a programme under the theme of BIA Five Senses in order to enhance Guest Experience.

- Hear-** Showcase the courtesy and the harmony filled with love and respect
- Taste-** Make the guest enjoy the taste of a beautiful paradise where cuisine is served with affection
- Feel-** Feel the smile of our people
- See-** Please the eyes with vibrant colours of Sri Lanka
- Smell-** Experience the classic fragrance

### Guest Entertainment Events

Guest entertainment programmes were identified to give live atmosphere to passengers relieving their stress at the airport. In collaboration with other stakeholders in 2017, live musical performances were organized to entertain arriving, departing and transit passengers. For example, a major passenger entertainment event was organized together with the Colombo City Centre during the Christmas season from 16<sup>th</sup> December to 31<sup>st</sup> December 2017. A music band performed at the Pier area every day during that period for 8 hours for a period of 16 days. The programme reached more than 100,000 arriving guests and 36,400 giveaways were distributed.

### Capacity Enhancement of Passenger Facilitation Directed Activities continued

Among the major activities carried out towards a customer orientation, AASL prioritized the development activities for passenger facilitation. The counters at the Departure Immigration were increased up to 19 by 03. The new sign boards in the Terminal Building and at airport premises were established to give easy navigation to passengers at the airport.

The refurbishment of the Departure Walkway was completed on 02<sup>nd</sup> October 2017 at a cost of LKR 137 million. Pre-existed gloomy walkway was completely refurbished enhancing the passenger experience in a greenery setting. The narrow corridor was converted into a large volume and colorful roofing structure creating a pleasant and mind relaxing environment for the passengers while improving shopping environment. The construction of new Immigration Hall and Electronic Mall at Arrival passenger Terminal Building was initiated at an estimated cost of LKR 380 million. Further, expansion to Departure Public Concourse was initiated in 2017 and its estimated cost of construction is LKR 233 million and actual cost incurred during the year 2017 is LKR 67 million.

It went further with the refurbishment of the Telephone Exchange at BIA and Security X-ray machines were also installed in the Departure Lobby (check-in area). In addition to those developments, a new office was handed over to Meteorological office, refurbishment of the restaurant, the renovation of the smoking room and the installation of drinking water facility in Terminal Building were carried out. In order to provide a pleasant travel experience for the departing passengers, the check-in area was expanded and refurbishment work began with 11 washrooms at the Terminal building. All these activities were directed towards arresting the capacity crunch of AASL.

While customers are treated at the center, AASL has a challenge to deal with energy conservation.

### **E**NERGY Conservation Leading Towards a Sustainable Future

With the global population swelling and industrialization on the rise in developing nations, humanity's hunger for energy has reached unprecedented levels. More than half of our energy comes from fossil fuels extracted from deep within the Earth's crust. It is estimated that



1 LED Equipped BIA Runway

since commercial oil drilling began in the 1850s, we have sucked up more than 135 billion tones of crude oil to drive our cars, fuel our power stations and heat our homes. That figure increases every day.

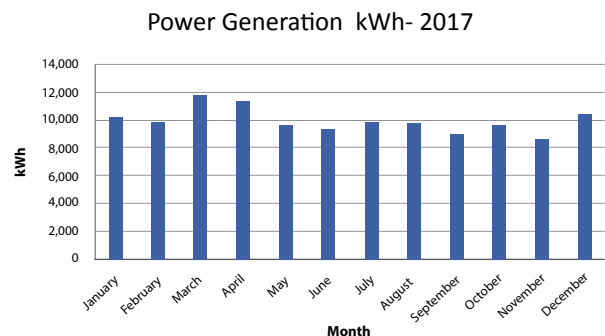
Electricity is a major expense for all businesses, especially in the face of rising electricity tariff. The total energy consumption at BIA was 3.9 GWh in 2017 and 70% of electrical energy was used by air conditioning Passenger Terminal Building. AASL continuously carry out energy management programme including the following energy saving projects carried out in 2017.

**South Asia’s first LED Runway at BIA – Enlightening Story**

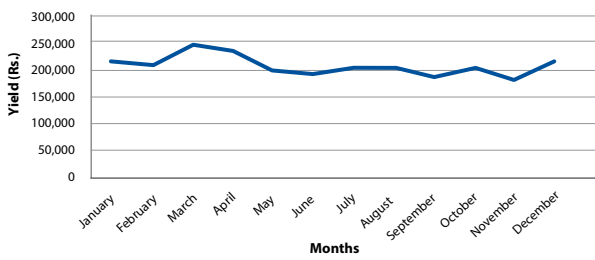
In line with the Runway Overlay Project, including LED Airfield Ground Lighting (AGL), Airfield Lighting Control and Monitoring System (ALCMS), Airfield Signs and Power Management Systems were initiated in 2017 at BIA successfully. The runway modernization project being undertaken by CATIC-ENG China was a part of a major infrastructure expansion. Considering the economic growth and a surge in tourist arrivals in the last decade drove Sri Lanka to invest in infrastructure development and upgrades and BIA especially its single runway, needed an upgrade to keep up with demand and the Airport Management was highly concerned of the importance of minimizing environmental impact. CATIC teamed up with the airport’s AGL sub contractor ADB SAFEGATE to supply, test, commission and deliver full LED Airfield Lighting for the Runway and Taxiway, LED PAPI and signs. The transformation from halogen to LED lighting enabled energy efficiency and increased energy savings. This was a significant project AASL undertook after the Runway was constructed in 1986.

Among the major energy conservation projects carried out in 2017, the following could be highlighted.

1. Runway Halogen light fittings replaced with LED light fittings at the Runway Overlay Project. Expected energy saving for the Airfield operation is around 55%.
2. Runway lighting systems of both 04 and 22 ends had been upgraded to CAT II condition.
3. Introduced centerline lighting system for parallel taxiway.
4. Introduced UPS systems for 04 and 22 Airfield Substations to achieve zero power change-over time.
5. Introduced Generators to 04 and 22 Airfield Substations to back-up the UPS system for long duration power interruptions/failures.
6. Because of the above (2), (4) & (5) the upgraded Runway can be used for CAT II operation.
7. Solar Power generation plant 75kWp which was added to the system in 2016 generated 120,150 kwh and a yield of LKR 2,487,105 in year 2017.



Solar Power Generation Yield (Rs.) (kwh x 20.70)-2017



8. Solar Power generation plant- Solar Photovoltaic System 35kWp, adds to the system. (Now the total capacity of solar power plant is 110kWp). New Solar Power Plant is connected to the AASL power network in December 2017. At present total average monthly generation is 15,000 kWh.
9. Introduction of Energy Efficient Magnetic Bearing chillers to the air condition network is in progress in both airport expansion and air condition systems replacement projects.
10. Lighting is an essential element of a Terminal Buildings’ energy consumption, due to their large size and structural limitations in utilizing daylight. The project of Departure Walkway upgraded the architectural appearance and facilities of the Departure Walkway including new curve shaped roof with a sky light to promote eco-friendly daylight harvesting.
11. Green Procurement- This is another concept which the environmental concerned organizations practice. Procurement of energy efficient office and other equipment, air-conditioning systems, vehicles (Hybrid), sensor operated office lighting etc.

**Future Infrastructural Designing & Development**

This is very important area where AASL is planning for expansion at BIA. AASL strived hard with its capable engineers to develop the airport and generate energy in an environmental friendly manner. AASL is concerned with environmental friendly offices with maximum natural lighting, efficiently designed movement area with zero delays for aircraft ground movements and startups, supply of electrical ground power units to each parking position (e.g. AASL saves 106 kg of fuel per hour), maximum use of LED and solar lighting,

designing of an efficient Waste Water Management system including Rainwater Harvesting System etc. With the introduction of the proposed methodologies AASL will be able to apply for ISO 14001 Environment Management Standard (EMS). It will be a requirement in the future too with projected growth in aviation and considering the development projects for the industry to move forward in a sustainable manner.

**ACHIEVEMENTS Navigating the Company to Inspire People Amidst the Capacity Crunch Towards Greatness**

**AASL Won Annual Report Awards 2017**

*AASL has achieved so much over the years and our Annual Report gives us a way to share that with you.*

Further endorsing the company’s best practices and excellence in financial reporting including disclosure and transparency of the company’s business affairs, AASL was awarded with the “Compliance Award of the State Corporations and Statutory Boards” category at the Grand Finale of the 53<sup>rd</sup> Annual Report Awards ceremony organized by the Institute of Chartered Accountants of Sri Lanka. This prestigious event was held on 5<sup>th</sup> December 2017 at the BMICH with Hon. Prime Minister Ranil Wickramasinghe graced the occasion as the chief guest.

All write-ups, reviews, photographs, design, layout and compiling of the Annual Report was carried out in-house in less than two months by a dedicated team. The Annual Report Awards honor the organizations which fully comply with the accountability, transparency, social responsibility, good governance and accounting standards in financial reporting, providing most cohesive and clear information reflecting the company’s operations and financial information in a true and fair manner beyond the statutory boundaries of reporting.



1 *Annual Report Awards 2017*



2 *Best Employer Brand Awards 2017*



3 *Presidential Environmental Awards 2017*

### **Sri Lanka Best Employer Brand Awards 2017**

*Thanks to the members for a successful 2017. Together, we accomplished so much.*

For the third consecutive year, AASL was awarded Sri Lanka’s Best Employer Brand Award 2017 by the World HRD Congress and the Employer Branding Institute-India at a ceremony held in Taj Samudra Hotel, Colombo on 13<sup>th</sup> July 2017. The event was chaired by Dr. Indira Parikh, Ex-Dean of Indian Institute of Management, Ahmadabad.

This Award was conferred on AASL in recognition of the effective initiatives taken in attracting talent, retaining, and developing the talent through the best HR practices which have elevated the organization as an employer of choice in Sri Lanka.

Over the years AASL has crafted its journey through many difficult times and achieved its iconic status today as a successful business entity fulfilling the aspirations of employees as well as all the stakeholders. AASL fosters a culture of caring, respect, and dynamism with its

talented, skilled and diversified human capital being a role model to other Government Organizations. AASL has earned high reputation among employees for long career stay at the company while fulfilling their personal and career aspirations. AASL continues to strengthen the human resource believing that people are the most dynamic agents of change and development.

### **The Presidential Environmental Awards – 2017**

*‘Go Green-Be the Change’- The Green Airport*

AASL was awarded with the Presidential Environmental Award at the Presidential Environmental Awards Ceremony 2017 held on 16<sup>th</sup> October 2017 at BMICH under the patronage of His Excellency the President Maithripala Sirisena.

The Presidential Environmental Award 2017, including a cash reward, was presented to the company’s Chairman Eng. Saman Ediriweera by His Excellency the President Maithripala Sirisena. AASL is proud to be the sole environmentally friendly Government Organization to receive this prestigious award at the Presidential

Environmental Awards 2017 organized by the Central Environmental Authority of Sri Lanka realizing “Sri Lanka NEXT –A Blue Green Era”

Understanding and anticipating the future challenges, the AASL initiated green practices throughout the organization promoting green education and adopting circular economic concepts. The Management identified the strategic importance of this movement and the entire program was planned by the Environmental Team of AASL. Key areas identified were, solid waste management, energy conservation, water conservation, reduction in carbon emission and environmental health and safety.

The AASL team looks forward to improve the environmental friendly green approaches embracing “Sri Lanka NEXT –A Blue Green Era”.

## **T**ECHNOLOGICAL Advancement Always Lifts The Company One Step Up Towards Greatness

### **Implemented Performance Based Navigation (PBN)**

Whilst the runway is certainly the most prominent improvement made by AASL in 2017, many technological improvements have also taken place recently. AASL implemented PBN successfully last year for both arrivals and departures at both international airports – BIA and MRIA. The implementation has been very successful and the feedback has been very satisfactory. The landing separation time between aircraft is now down to three minutes from eight minutes, due to PBN procedures.

### **Automatic Dependent Surveillance – Broadcast (ADS-B)**

The second implementation, from a technology standpoint, has been ADS-B (Automatic Dependent Surveillance – Broadcast) is considered as one of the latest developments in the surveillance technologies used for Air Traffic Control purposes. ADS-B system in-fact provides Radar-like information to the Air Traffic Control Centers to determine identification position, altitude, and speed etc., of aircraft in-flight based on specific type of messages broadcast by the aircraft which contained its position information derived from the GPS. It's less costly as it does not involve any Transmitters on Ground but only a set of receivers located at selected locations in the country to capture the signals emitted by

the aircraft, which are being sent to a Central Processing Unit, which present the positional information of Aircraft within the applicable range, to the Air Traffic Control Centers.

The ADS-B implementation project was awarded to ERA a.s of Czech Republic through an international competitive bidding process and the total cost of the project was LKR 201 million. AASL, is proud to see that the System Design and Site selection for ADS-B receivers, meeting the optimized coverage requirements, have been carried out by its own team of Electronics Engineers without any external consultancy services. The ADS-B system has been successfully tested and flight inspected in July 2017.

ADS-B data received from all 05 receivers located at BIA, MRIA, Pidurutalagala, Kilinochchi and Suriyakanda are now successfully fused and integrated with the existing Air Traffic Management (ATM) System at the Area Control Centre located at Colombo Airport Ratmalana.

The inauguration of ADS-B operations of Sri Lanka by the Hon. Minister of Transport & Civil Aviation at Colombo Area Control Centre, Colombo Airport Ratmalana coincided with the 13<sup>th</sup> Meeting of South East Asia and Bay of Bengal, Sub-Regional Working Group of ICAO and the presence of this group of international experts of ADS-B added glamour and much valued regional exposure to this event. Implementation of ADS-B technology was quite an achievement and a pride to Sri Lanka, to be in par with more developed countries in this region and across the world.

- 1 *ADS-B declared opened under the patronage of Hon. Minister of Transport and Civil Aviation*





This was yet another evidence of the commitment of Sri Lanka, towards managing and operating its vast airspace, conforming and harmonizing with the global and regional development trends and norms that are required to ensure safe, efficient and seamless international air travel, especially through Sri Lanka's strategic geographical location in the Indian Ocean & just beneath the Bay of Bengal.

### **Improvements made to the Communications, Navigation and Surveillance (CNS) facilities during 2017 by Electronics & Air Navigation Engineering Division**

#### **Aeronautical High Frequency (HF) Transmitting Station – Attidiya**

The main function of the High Frequency (HF) Transmitting Station is to broadcast aero-mobile ground to air voice messages originating from the Air Ground communication center (AG) at Ratmalana. Larger area of the Colombo Flight Information Region (FIR) is covered by High Frequency signals (From the boundary of the VHF coverage 950 Nautical miles to the East direction and 700 Nautical miles to the South direction). The voice signals from Air Ground Communication Center reach Transmitting Station via a Microwave radio link. These signals are fed to the high power HF transmitters. Transmitting Station also maintains the Non-Directional Beacon (NDB) utilized mostly by local aviation traffic controlled by the Colombo Airport- Ratmalana. Transmitting Station equipped with high power HF Transmitters and HF Antennas namely Dipole, Monopole, Bi-Conical & Conical monopole which are erected in a large antenna field.

The service of the Distance Measuring Equipment (DME) also commenced on trial basis from January 2017 to enhance the Navigational aids facility at Colombo Airport Ratmalana. This DME was installed recently closer to the NDB tower in accordance with the recommendations given by a team of experts comprising ATC & Electronics Engineering staff. ANS Division will be developing Approach Procedures for Colombo Airport Ratmalana using the NDB and DME, which will enhance the Navigational facilities at Colombo Airport Ratmalana.

This DME was previously used at BIA for more than two decades and removed during the replacement of DVOR/ DME at BIA.

AASL signed an agreement with Hanjin Electronics Ind., Co. Ltd, Republic of Korea in December 2016, for the supply Installation and commissioning of three

HF Transmitters with antennas, at a total cost of LKR 220 million, which is the second phase of the major project previously completed in May 2012. With the implementation of this project, the old transmitters which were used for more than 26 years have been replaced with new HF Transmitters. This project included in the supply and installation of three; 5kW HF transmitters, three conical monopole antennas, transmitter status monitoring device for Air Traffic Safety Electronics Personnel (ATSEP) staff to monitor the performance of the transmitters during 24 hours.

#### **Introduction of Information Technology Policies for Airport & Aviation Services (Sri Lanka) Limited**

Information Technology Policies for the organization were drafted by Information Technology Division and reviewed by Legal Division were approved by the Board of Directors, fulfilling a timely need of the organization. In 2017, the following Policies on Information Technology were introduced under the objectives of;

- Ensure the integrity, reliability, and good performance of all applicable assets
- Establish rules, regulations and guidelines for the usage of IT related assets and related services
- Establish rules, regulations and guidelines for backup and disaster recovery procedure for systems and services of AASL
- Encourage the responsible use of all IT resources and discourage practices which degrade the usability of those resources
- Ensure fair usage of IT related assets and related services of AASL
- Avoid situations that may cause AASL and its employees to incur civil liability due to unacceptable usage of IT assets and related services
- Avoid situations that may tarnish AASL's public image and place AASL at the risk of legal liability
- Minimize the risks that will incur to AASL, its assets, information and employees due to unacceptable usage of IT assets and services

- Minimize the downtime of systems and services that may arise due to failure of any hardware/ software component
- Minimize the risks that may arise due to vandalism, theft, sabotage, violence, catastrophes caused by human failure, accidental damage, terrorism, natural disaster and other non-traditional threats
- Define responsibilities for different user groups
- Ensure regular monitoring, reviewing and updating of the deployed resources and technology
- Ensure regular monitoring to establish user compliance with the policy

#### The Policies Adopted ...

1. Acceptable Usage Policy- Rules, regulations and guidelines for employees on most commonly and frequently used aspects of IT systems and services.
2. Anti-Malware Policy- Rules, regulations and guidelines on the use of anti-malware (anti-virus, anti-spam etc.) software at AASL.
3. E-mail Policy- Rules, regulations and guidelines on usage of AASL e-mail services.
4. Workstation Usage Policy- Rules, regulations and guidelines on usage of personal computers, laptop computers and other end user devices.
5. Network Policy- Rules, regulations and guidelines for usage of network services provided by AASL IT.
6. Network Policy for Tenants- Rules, regulations and guidelines for tenants who are authorized to use AASL IT network services.
7. Network Policy for Passengers- Rules, regulations and guidelines for passengers at airports who use AASL IT network services (Wi-Fi).
8. Physical Security Policy- Rules, regulations and guidelines to ensure the security of AASL IT assets.

9. Backup and Disaster Recovery Policy- Rules, regulations and guidelines for data/information backups and disaster recovery process for AASL.

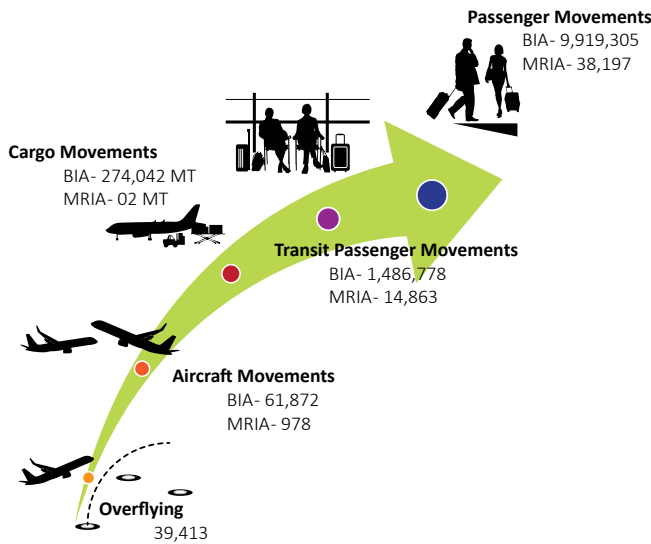
Among all of these attempts, the Management of AASL strived hard to navigate the company to arrest the capacity crunch by adopting a number of strategies and tactics.

### **N**AVIGATE the Company to Meet the Pulse of 10 Million and Beyond with a Proven Business Model Arresting the Capacity Crunch.

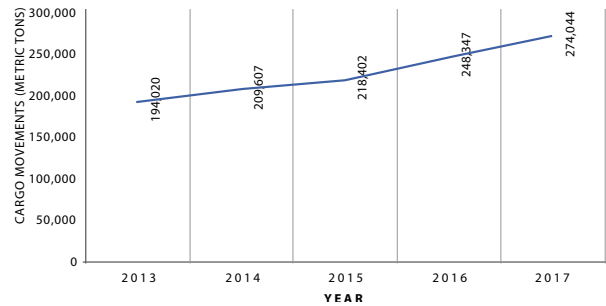
Success is a continuous journey. Navigating a large company of such nature requires, visionary thinking, disciplined thought, disciplined action and careful monitoring. The year 2017, has been another successful year for AASL in terms of its growth of revenue and profit. Continuous growth of profitability and financial strength and global connectivity are some of the key indicators to measure the success of the company. BIA as the main gateway to the country and its premier airport service brand, has the capacity to handle 6 million passengers per annum. However, amidst this challenge, BIA was able to handle 9,919,305 passengers during the year. It was a year for BIA which to break this capacity crunch by almost 4 million passengers and now AASL is fully geared to arrest that through a number of capital development projects meeting the growing demands from the industry requirements while contributing the economy of Sri Lanka.

BIA was able to secure a growth of passenger numbers by 5% in 2017 compared to 2016. Handling nearly 10 million passengers in 2017 has been an evident success of BIA as the main gateway, despite the runway closure for 8 hours for a period of three months. It successfully handled and facilitated 2,282,275 passengers in the first quarter of the year during the curtailed operational hours (1630 – 0830 hrs). On account of runway resurfacing with minimal impact on the aircraft movements and winter schedule. Airline cargo handling grew by 10% to 274,044 MT compared to 2016. However, the number of aircraft movements increased by 2% (61,872 movements) in 2017 despite the closure of the runway for eight hours per day for the overlaying work from the first week of January 2017 to the first week of April 2017.

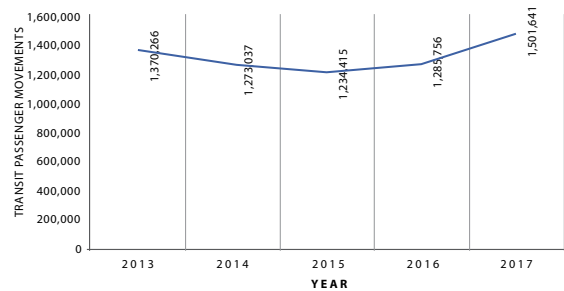
BIA runway closure resulted in an increase of aircraft movements at the Mattala Rajapaksa International Airport (MRIA) by 6.9% (978 movements) compared to 2016 (915 movements). Number of passengers handled, including transit passengers, at MRJA also increased to 38,197 passengers in 2017 from 5,111 in 2016.



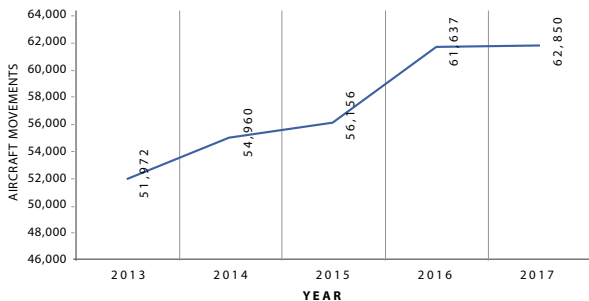
### Cargo Movements - (BIA & MRJA)



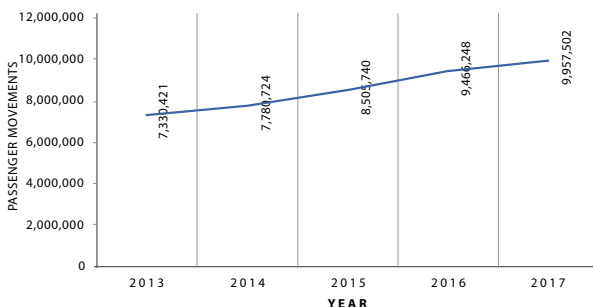
### Transit Passenger Movements - (BIA & MRJA)



### Commercial Aircraft Movements - (BIA & MRJA)



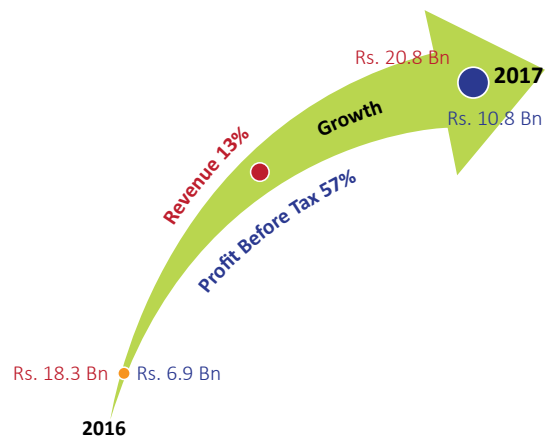
### Passenger Movements - (BIA & MRJA)



### Revenue and Profit Growth

AASL was able to record LKR 10.82 billion, as profit before tax (PBT) with a growth of 57% in 2017 compared with the year 2016. The total revenue recorded for the year 2017 was LKR 20.76 billion.

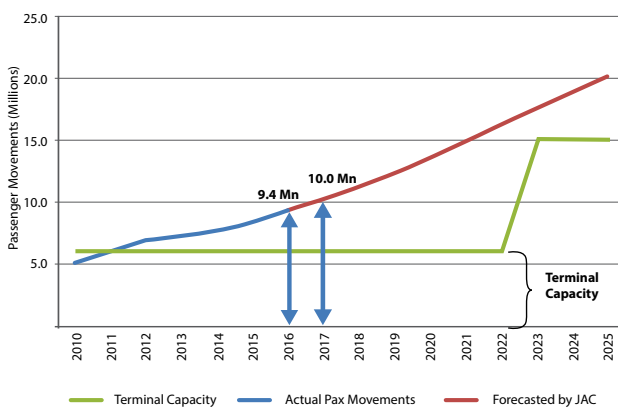
This has been a remarkable success story in the history of AASL navigated by its Top Management along with the unparalleled commitment of the Senior Management, and all employees.



## Arresting the Capacity Crunch

The capacity of BIA, its premier gateway to Sri Lanka is concerned, the total number of passengers it could handle successfully is 6 million. However, AASL at present handles nearly 10 million passengers per annum. Therefore, the Management has identified the strategic importance of navigating the company to arrest the capacity crunch. Number of passengers handled at BIA will continually increase to reach 15 million by the end of 2021.

**Terminal Capacity and Forecasted Passenger Movements**



During the year, several key infrastructural development projects were initiated with the far sighted leadership. Among the key projects, the re-laying of the single runway at a cost of LKR 8.6 billion was a major event which fulfilled a long felt need which now enables the runway to accommodate the landing of large aircraft such as A380. The Automatic Dependence Surveillance-B project was completed at a cost of LKR 201 million while most of the refurbishment work are in progress. Further, AASL is planning to build two airport hotels in proximity to BIA and invest in an Aeronautical Information Management system to keep pace with advanced technology on aircraft safety.

## Interim Passenger Terminal

The breakthrough strategy is to arrest the capacity crunch at BIA within the interim period by constructing the Pre Fabricated Terminal, until Terminal O2 (T2) is commissioned.

The construction will take 09 months from the date of awarding.

BIA recorded over 9.46 million passenger movements in 2016 and it was showing upward growth of passenger

volume in 2017 whereas its design passenger terminal capacity is around 6 million. As such existing passenger terminal building of BIA is heavily congested.

Proposed Interim Passenger Terminal shall have a capacity to handle 400 departing passengers at a peak hour. It will consist of airside and land side vehicle porches with separate land connectivity, passenger and visitor waiting areas, security screening areas and the equipment, holding baggage screening areas with the required equipment, airline check-in counters, scales, displays, baggage conveyers and race tracks or similar arrangement for holding baggage, 3 Nos. of bus gates, restaurant, toilets, emigration counters, FIDS and other airport systems, power supply and illuminations, air conditioning and ventilation systems, fire protection and detection systems and telephone and other IT facilities. Further to that the connection shall be available to the transit flow of the main Terminal.

Total estimated cost for the project was USD 19 million and AASL decided to self finance the project. Further, it was decided to use design and build contract with international competitive bidding targeting to complete work in early 2019. Accordingly, bidding document was prepared and procurement process was initiated in 2017.

## Bandaranaike International Airport Development Project (BIADP) Phase II Stage 2

The BIA Phase II Stage 2 project was successfully commenced with the intention of arresting the capacity crunch. However, the competitive bid proposals received with an increase of 46% of the initially estimated cost by the Engineers. Therefore, AASL has recalled competitive bids and there will be a scope change as follows.

### SCOPE CHANGES

- A1 - Terminal and Pier
- A2 - Car Park
- A3 - Utility
- A4 - Power Supply

These projects will be completed in 2021 giving much convenience for the passengers.

This project is funded by JICA ODI STEP Loans amounting to Japanese Yen 74 billion that accrued interest at 0.1 % per annum. Repayment period is 40 years with a grace period of 10 years under the sovereign guarantee of Government of Sri Lanka (GOSL). The above loans have been granted under the category of middle income countries.



1



2

1 *Conducting Safety Awareness Programmes*

2 *Fire Drill at BIA*

**Navigating the Company with Long Term Direction**

Long term direction is highly required for any organization. Strategic view always enables the company to visualize the big picture. With the understanding and identification of the need to strengthen the monitoring and evaluation function, which is a vital component of the Strategic Management Cycle, the Board of Directors of AASL approved the formation of a Unit for Strategic Management which is directly under the purview of Chairman. Consequently, with effect from 01<sup>st</sup> February, 2017, the Strategic Management Unit (SMU) was formed.

**Navigating the Company with a Safety Culture**

The Safety Management Unit oversees the effective implementation of AASL’s safety Management System and ensures continued compliance with Regulatory safety requirements at BIA, MRIA and also at Colombo Airport Ratmalana. The Safety Management Unit performs paramount importance of monitoring safety performance of operational divisions within the three airports aerodromes and conducts regular audit and analysis of probable risk which could be arisen and propose mitigation actions to minimize the associated risk.

**Navigating the Fire and Rescue Mission**

ICAO standards and recommended practices were maintained by the Fire & Rescue Services at BIA, MRIA & Colombo Airport Ratmalana throughout the year, and to maintain the operational standards a Full

Scale Emergency Exercise was conducted satisfactorily at Colombo Airport Ratmalana, with all Internal & External agencies on 28<sup>th</sup> June 2017. There were few fire incidents of fuel spillages and fire cover provided for 02 aircrafts for refueling of aircraft with passengers. Further, Airport Fire & Rescue team responded to aircraft emergencies, local standby on 110 occasions and full emergency on 03 occasions.

To strengthen the Fire & Rescue Services, the following professional development courses were carried out as follows. 51 fire fighters in four groups in July / August 2017 at CATC, group refresher courses for all ranks (AFOs, FSLs and 1FM) in all three fire stations in November/December 2017 and conducted 44 Hot Fire Exercises for operational fire staff of BIA, MRIA and Colombo Airport Ratmalana.

Fire prevention exercises always contributed to the early preparedness of the company for a delivery of a trusted service to all stakeholders.

Fire & Rescue Services contributed in all fire prevention activities connected to the Airport Terminal Buildings and other ancillary buildings at BIA , Colombo Airport Ratmalana, MRIA, Pidurutalagala and Kandapola in the year 2017.

**Fire Prevention Inspections**

- Joint Fire Prevention Inspections Terminal Building - 02 Nos.
- Joint Fire Prevention Inspections Bonded Warehouse - 02 Nos.
- Monthly Fire Prevention Inspection - 12 Nos.
- Ratmalana Fire Inspection - 01 No.
- Annual Fire Hose Reel Inspection - 02 No.
- MRIA Fire Prevention Inspection Main Terminal and other Ancillary Buildings - 01 No.
- Joint Airfield Shelters Inspection - 01 No.



1



2

Fire prevention awareness programmes were conducted for the internal employees and outside organizations as shown below.

- Pump Attendants- AASL Fuel Filling Station - 15 Staff
- AASL Security Staff - 600 Staff
- Students of General- Sir John Kotalawala - 11 Students
- Air Force Firefighter- advanced trainees - 41 Staff
- Sri Lanka Army- Commando Regiment - 114 Staff
- Recruit Firefighters in- Sri Lanka Ports Authority - 20 Staff
- Custom Staff - 80 Staff
- SLFFA Cargo Staff - 30 Staff

### Navigating the Aviation Security at Airports

Identifying the current and future requirements, the Management navigated the aviation security strengthening with 1,025 aviation security personnel who have obtained their basic qualifications from Civil Aviation Training Centre which is mandatory to meet the ICAO training requirements. Further at AASL, there are 690 CAA Certified Screeners, 10 CAA Certified Managers and 20 CAA Certified Instructors strengthening the security at all airports under AASL. 62 trainees were recruited in January 2017 to AASL Security Division after completion of training at CATC and they have been currently deployed on the Job Training. 2017 was the year that AASL turned its training into a new dimension to develop knowledge, skills & competency of AASL security staff by conducting subsidiary training programme with the patronage of other divisions.

### 1 Security Checking Process

### 2 Customer Experience at its Best

### Navigating the Commercial Drive of AASL

In our relentless pursuit of benchmarking the best industry practices, AASL embarked on for the 3<sup>rd</sup> consecutive year our policy of out-sourcing airport concessions and awarding new contracts to the most competent private sectors business partners through competitive public tenders and the company was highly successful in that commercial drive. AASL was able to attract leading local business conglomerates and also the world number one airport retail operator. In commercial revenue terms, AASL achieved a 27% increase from LKR 7.8 billion in 2016 to reach a LKR 9.8 billion in 2017 in just two years after the large-scale tender process which was set in motion in 2015. AASL has proved its success in commercial strategies in that all stakeholders of BIA, it being a vibrant Centre of Business in Sri Lanka, can look forward to an upward business trajectory.

With the belief of giving more choices and flexibility to purchase goods during their stay at the airport, in the year 2017 AASL attracted a diverse group of retailers to provide fashion wellness and beauty shopping experience to passengers. The consumer brands and the shop categories were selected based on consumer research studies conducted.

The Marketing Strategy of AASL geared for boosting “Guest Experience” at BIA in a truly attractive shopping atmosphere created with the involvement of Airport Concessionaires dealing with much sought after international brands set in a new shopping layout is well aligned with the commercial strategies employed. These new strategies will pave the way for a sustainable growth trajectory.

## Navigating the Human Resource of AASL

The success of any organization depends to a greater extent on the performance of its employees. The skills level of an organization's workforce or its intellectual capital is the true competitive advantage that the organization has, which cannot easily be imitated by its competitors. Human Resource Division of AASL along with the CATC plays a vital role in developing competent human capital as a part of its growth and productivity strategy by developing leadership, workplace community and occupational health initiatives, competence and cooperation. Human Resource practices will descriptively discuss under Human Resource Management on pages 62 to 68.

## Navigating the Marketing and Corporate Communications

Marketing and Corporate Communications Unit of AASL is responsible for creating value for the organization, aviation industry, future of air mobility and the national economy by articulating marketing as the core business philosophy exceeding the expectations of all stakeholders through internal and external marketing endeavors.

A number of initiatives and projects were undertaken and supported by the unit during the period under review creating value for the company and its stakeholders. Among the main programmes initiated was the Guest Culture and Branding which could be highlighted.

## Navigating the Training Wing of AASL

**Special Training Programmes were conducted by Civil Aviation Training Centre during year 2017**

The Civil Aviation Training Centre (CATC), Sri Lanka is the training arm of AASL. CATC successfully hosted the ICAO Training Instructor Course (TIC) Part 2 from 4<sup>th</sup> to 8<sup>th</sup> September 2017. This Standardized Training Package was developed by Global Aviation Training office of International Civil Aviation Organization (ICAO) which administrates each delivery through the TRAINAIR PLUS eManagement System (TPeMS). The course was delivered by Mr. Ismael Faraji, ICAO TRAINAIR PLUS Programme expert and trainer who also is a permanent faculty member of the Civil Aviation Technology College of Iran. Ten (10) Senior Instructors of the CATC underwent this course and it helps to enhance their instructional capabilities and accreditation.

The ripple effect of this course would be the enhancement of the CATC's image as a regional institution and its competitive edge.

Aviation Security Training wing of CATC conducted "STP 123 /BASIC/ AVSEC-Basic Training for Airport Security Personnel" course for 112 company selected young trainees who are aspiring to become professionals in Aviation Security to provide competencies required to enforce, monitor and apply airport security preventive measures at the airport in accordance with locally approved Aviation Security Procedures. Airport Management Training Wing of CATC provided them the initial training through its Standardized Training Package (STP) "Ab-initio Course for Airport Service Assistants" from 1<sup>st</sup> June to 21<sup>st</sup> July 2017.

Electronics engineering training wing of CATC conducted the "Recruit Course for Air Traffic Safety Electronic Personnel (ATSEP)" for the first group comprising 15 of them from 8<sup>th</sup> August to 30<sup>th</sup> November 2017.

Air Traffic Services Training wing of the CATC commenced the ICAO 052- Aerodrome Control Course on 26<sup>th</sup> September 2017 to train these recruits enabling them to control aerodromes initially with confidence. They will be the last batch undergoing training on the CATC's Old "Raytheon F.I.R.S.T." simulator that will be replaced soon.

**E** NVISAGE the Future - Seeing the BIG PICTURE

AASL as the corporate entity, it has envisaged the future to be the most efficient and friendliest aviation service provider in the Asian region. The business definition of airports has changed over the years and they are viewed as destinations for travelers and communities. Further, airport plays a significant role in the country's GDP adding value to the economy. Airports are the front doors to the whole nation and every individual who works for the company plays the role as a Brand Ambassador of the whole nation. Therefore, AASL has conceptualized the customer centricity of its business model seeing the big picture of its own. AASL navigates its envisaged future with its two major airports and two domestic airports for its future in an integrated approach.

AASL envisions working with the key stakeholders such as Sri Lanka Tourism, Srilankan Airlines, hotel industry, and the other key beneficiaries through Industry Level Collaborative Approach.

With nearly 10 million travelers passing through each year, BIA is the main gateway to the country and passenger numbers are still growing steadily. To meet and exceed passenger expectations, AASL requires additional capacities to offer faster passenger flow and improved customer experience.

The company has identified the need for doubling the handling capacity at BIA within the next five years and capacity enhancement programmes are scheduled to commence. AASL is transforming into a marketing oriented blue-chip public company capable of withstanding regional and global competition on its developed competitive advantages. The company is planning to promote domestic aviation using the existing infrastructure at civil aerodromes scattered around the country and spread its wings across the island. The strategic long run goals and objectives identified in the company strategic plan, envisage its future.

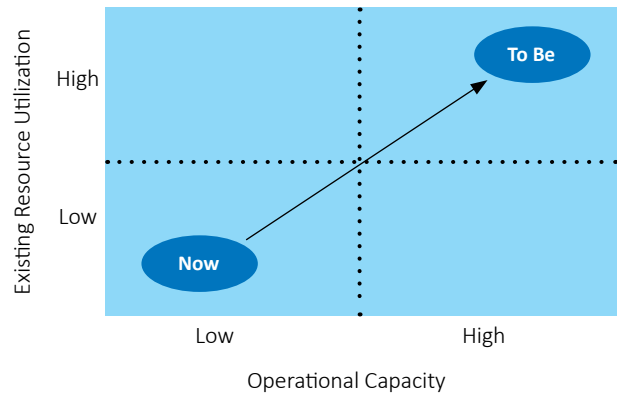
### Arresting the Capacities of Domestic Airports

AASL's strategy for the domestic airport development endeavours in 2017 were evident with its far sighted decision making of the Top Management to develop Colombo Airport Ratmalana and Batticaloa Airport. Along with the national development initiatives, AASL identified the strategic importance of these two airports and preliminary planning was successfully completed to arrest the capacity crunch.

### Arresting the Capacity and Optimizing the Resource Utilization at Colombo Airport Ratmalana, a Beginning of a New Era

The Top Management of AASL navigates the Colombo Airport Ratmalana arresting the capacity with its new strategic direction to optimize the resources utilization. With the long term goal of transforming the airport to a level where the both operational capacity and the resources utilization are increased, the new strategic direction was navigated.

This conceptualization is shown below.



It is planned to bring the airport to the optimum operational capacity by maximum utilization of existing resources.

In the year 2017, a Master Plan of the Colombo Airport Ratmalana was developed for its envisioned future, for the period from 2018 to 2030, positioning it as an “Exclusive Gateway to Colombo, Sri Lanka”. Colombo Airport Ratmalana has great potential to contribute to the growth of the Tourism industry in Sri Lanka. Considering the socio-economic changes taking place within the country, the region, and the world, AASL looks into the emerging opportunities in order to meet the growing demands in the foreseeable future. It is optimistically believed that future growth and development of Colombo Airport Ratmalana is linked closely to the economic growth and prosperity of our community.

The long term strategic goal of Colombo Airport is to bring the airport to the optimum operational capacity by maximum utilization of existing resources. Potential business opportunities such as High End Tourism, foreign investments for Fixed Base Operator (FBO), demand of domestic operators for expansions, growing trends in aviation training in the region, growth of private jet operations and domestic connectivity to internationally arriving passengers stress the development needs of Colombo Airport Ratmalana.

### The New Strategic Direction of Colombo Airport Ratmalana

Considering the strategic significance, capacities and capabilities, the Colombo Airport Ratmalana will be developed under five main areas during this period as mentioned below.





With the renewed hopes and ambitious plans of the Colombo Airport Ratmalana, this will be a beginning of a new era arresting capacity crunch of AASL for its envisioned future.

### Batticaloa Airport

In line with the Government Policy of developing domestic aviation in Sri Lanka AASL together with CAASL initiated development of Batticaloa Airport as a new gateway to Eastern Sri Lanka. Batticaloa Airport is geo-strategically located 2.4 km South-East to the city of Batticaloa awakening the Eastern coast of Sri Lanka surrounded by spectacular lagoons, golden beaches and many other historical attractions. Batticaloa airport will be the fourth airport added under the AASL operations. The year 2017 was very important for the AASL to develop initial plans for the acquisition of the airport.

### MRIA – Growth through Strategic Alliances

A proposal has been received from the Government of India to the Government of Sri Lanka on G2G offer basis for operation and maintenance of the MRIA for a period of 99 years on equity sharing basis of 70:30 as a Joint Venture. The proposal of Government of India shows the interest to operate, manage, maintain and develop MRIA for commercial aviation. The proposal indicates the willingness of Government of India to invest USD 205 million as their equity share (70%) of Government of Sri Lanka to share the balance of USD 88 million (30%) totaling USD 293 million.

In the progress of restructuring, a Cabinet Appointed Negotiation Committee (CANC) and a Project Committee (PC) were appointed on 27<sup>th</sup> July 2017 to evaluate the G2G proposal. On 15<sup>th</sup> September 2017, Department of Public Finance appointed the PC as per the Cabinet decision. Following that a comprehensive proposal was submitted by AAI on 17<sup>th</sup> October 2017 based on the request made by the Secretary to the Ministry of Transport and Civil Aviation dated 30<sup>th</sup> August 2017. Further, a Project Committee submitted its interim report dated 28<sup>th</sup> November 2017 to the CANC with an addendum dated 06<sup>th</sup> December 2017. On the direction of CANC, Attorney General’s opinion was sought by letter dated 12<sup>th</sup> January 2018. On 28<sup>th</sup> March 2017, CANC along with the project committee had one to one meeting with the representatives of Government of India and informed the opinion of the Hon. Attorney General which specified that an amendment to the Civil Aviation Act. 14 of 2010 and to amend the regulations Act in order to facilitate the proposal submitted by the Government of India. Subsequent to the meeting held on 28<sup>th</sup> March 2018, Government of India requested additional details such as MRIA Master plan, Human Resource plan etc. and they were submitted on 27<sup>th</sup> April 2018 and CANC is awaiting the confirmation from the Government of India in proceeding with the proposal.

**S**YNERGY is at Its Best When All Institutions Under One Roof Put Together Their Maximum.

AASL is a corporate organization that gathers numerous Government and private institutions under one roof. Working with number of institutions in creating value for its main customers; airlines, passengers and other stakeholders is not an easy task with the increasing air travel demand and with the capacity limitation. However, AASL has proved its extraordinary capacities in working in team spirited organizational culture synergizing with other stakeholders. With the Runway Resurfacing Project at BIA, year 2017 was a year proved that the Synergy is at best when all institutions under one roof put together their maximum.

## Runway Resurfacing Project at BIA

BIA is a single runway airport which was constructed in the year 1986. Over 900,000 aircraft movements were handled and no major repair works were carried out since then. Due to a number of aircraft operations taken place and aging, serious distress and cracks appeared on the runway pavement. Further, ICAO Audit and the Annual Audit of Director General of Civil Aviation Authority made observations on the requirement of overlay/resurfacing of the runway.

AASL, with the guidance of Civil Aviation Authority of Sri Lanka (CAASL), and Government of Sri Lanka was able to carry out this task to the level of excellence during three months period from 6<sup>th</sup> January 2017 to 5<sup>th</sup> April 2017 the runway was closed for operations from 8:30 a.m. to 4.30 p.m. considering comparatively low traffic volumes during the said period, as well as to minimize passenger inconvenience. Well proactive planning by the Planning & Designing Division in close coordination with Air Navigation Services Division, Airport Management Division, Electrical Engineering Division and other relevant divisions of AASL, Civil Aviation Authority, SriLankan Airlines, Airline Operators Committee (AOC) and Government Agencies etc. led to create a detailed spontaneous commercially feasible operation during the period of construction.

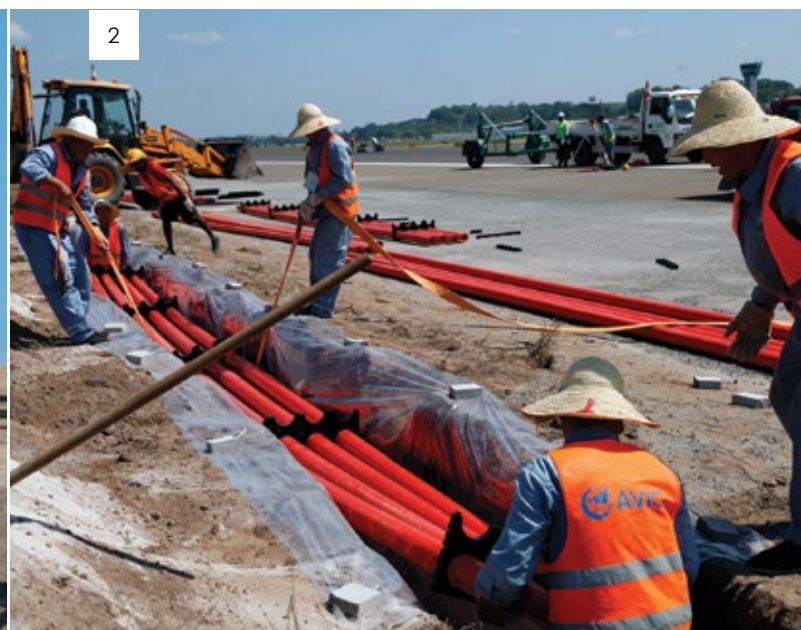
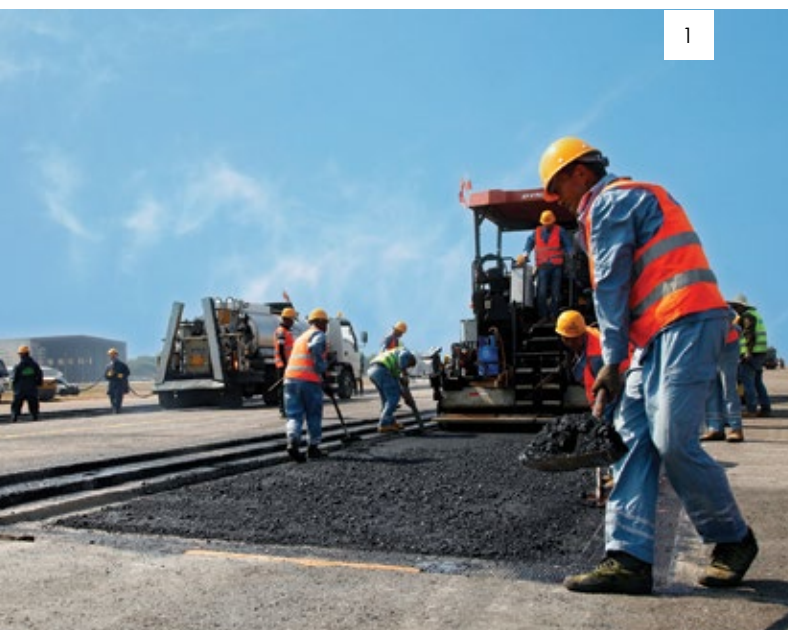
The scope of the work included runway shoulder widening, taxiway overlay, fillet widening, upgrading of aeronautical ground lighting systems and etc. The contract was formulated as Design and Build Contract. The Netherland Airport Consultant (NACO) was the project consultant for the design review and construction supervision. China National Aero Technology International Engineering Corporation (CATIC) was the design and build contractor for runway overlay project.

The daunting task of operations during this period was managed while ensuring correct level of security and safety within the airport premises with the least hassle to the passengers, airlines and cargo operations. Seeing the national requirement, a remarkable service was comprehended by all stakeholders such as Customs, Immigration, SriLankan Airlines, Airline Operators Committee, Sri Lanka Air Force, Sri Lanka Police Katunayake/BIA, State Intelligence Service (SIS), Criminal Investigation Department (CID), and Foreign Employment Bureau. The exemplified combine collaboration of the above agencies made it clear, that the aviation industry of Sri Lanka had no barriers in accomplishing great feats. The collective work synergy is the result of the main runway being ready for a 24-hour operation even before the estimated date of 5<sup>th</sup> April 2017.

## Minimized Passenger Inconvenience

It is important to note an updated rescheduled staff roster duties facilitated all 16 Immigration Departure counters to be operational during the construction period whilst two fast track Immigration Counters created passengers check-in within one hour from the departure.

During the period of runway closure, both inbound and outbound aircraft traffic movements were supported accommodated by Sri Lanka's other airports. Thereby MRIA and Colombo Airport, Ratmalana were fully geared in facilitating connectivity of airlines during this period. Colombo Airport, Ratmalana was attracted by many smaller aircraft during this period and arrangements were made for smooth passenger operations. In addition to that, facilities provided at the airport also attracted more commercial flights.



## Ground Handling

As the sole ground handler, SriLankan Airlines played a dedicated role on all ground handling operations by deploying their skilled ground handlers. Specialized equipment was utilized in all three airports for this purpose.

## Role Played by MRIA

Availability of MRIA round the clock for operations ensured airlines to easily divert their flights to MRIA as a destination and terminating point. MRIA was fully equipped to accommodate any airline that wished to operate there for connectivity and for technical stop-overs during this period.

It has been noticed that the passengers sacrificed their precious time and had offered their fullest cooperation for the AASL to carry out all the processing activities most efficiently bearing all the temporary discomfort for the national priority. The Management of AASL was pleased to observe the enthusiasm of their staff and staff of other entities mentioned above during the special operational period without any hesitation. The project of runway overlay of BIA was well planned, properly coordinated and managed with all of the stakeholders. It was observed that all airport operations were carried out properly without any hindrance to the passenger comfort.

Success of the project was totally a team work which was led by the Ministry of Transport and Civil Aviation, CAASL, AASL, Srilankan Airline, other Airlines and all stakeholders of BIA.

## Stakeholder Engagement – Key for Value Core Creation

Airport is a place where people meet together at one place and it connects number of businesses to accomplish their objectives within the air transport industry. It also involves with multiple stakeholders including passengers, employees, airlines, government agencies, customs, security and immigration and other service providers.

In the AASL's journey towards great heights, it views passenger experience as a main focus and align their strategies to give positive experience to passengers. 212 number of frontline staff are operational to serve passengers to make their journey a memorable one at the airport.

With the growing passenger volumes to give them improved shopping facilities and to enhance their spending, 36 shops are available at the airport representing different brands. Further, in order to provide a comfortable passenger journey, various entertainment events were organized during the year 2017.

Approximately, 200 aircraft land and take-off every day at BIA Airport. Each one of them must be re-fueled, cleaned, unloaded and re-loaded whilst passengers disembark and others later board the plane again. A large number of different partners got involved in this overall handling operation, such as the airlines, ground handling company and etc. The aim of this procedure was to improve departure times, optimize the use of resources, reduce delays and therefore also improve punctuality. Therefore, AASL entered into new business partnerships in 2017.



- 1 *Runway resurfacing work at BIA in progress*
- 2 *Laying of underground cables at BIA Runway*
- 3 *Passenger Check-in at MRIA*

The company success depends on the employees' performance. 3,908 Employees work at the airport and the organization's human capital plays a key role in helping the achievement of the goals and airports objectives. Therefore, AASL had given great concern to develop its human capital, during the year 2017. 4153 training opportunities were offered to its employees. To foster motivational culture AASL has provided 453 line promotions and 66 lateral promotions during the year 2017.

AASL contributed to the Sri Lankan Government in 2017 by paying LKR 850 million as dividends and 293 million as taxes.

Understanding and anticipating the future challenges, AASL initiated green practices throughout the organization promoting green education and adopting circular economic concepts; Reduce, Reuse & Recycle (3R Concept).

With an effective strategy for building strong community relationship and engagement, there will be a great potential for AASL to accomplish its vision. AASL approaches community engagement through a number of CSR projects. Support for local organizations and activities are delivered through knowledge sharing, employee volunteering, financial sponsorships and other donations.

- 1 *AASL Staff Supporting the Flood Victims*
- 2 *Donating Mats to Flood Affected Household*

## **SOCIETY** and its Well-Being - A year of Gratitude towards Triple Bottom Line on Its Journey Towards Greatness

### **Stretching Capacities of AASL towards the Triple Bottom Line**

The Triple Bottom Line captures the essence of sustainability by measuring the impact of an organization's activities on the world including both its profitability and shareholder values and its social, human and environmental capital. AASL along with its reach, is very much concerned about the environmental perspective, economic perspective and the social perspectives. AASL initiated programmes contributing to the environmental economic variables of accountability dealing with the bottom line. AASL could be looked at income or expenditures, taxes, employment, and business diversity factors.

Environmental variables should represent measurements of natural resources and reflect potential influences to its viability. AASL has considered the air pollution, water conservation, energy consumption, tree plantation and solid waste management etc.

Social variables refer to social dimensions of a community or region and could include measurements of health and well-being, quality of life, and social capital etc. The variables that AASL concerned are employment opportunities created because of the airport related business, contribution towards relative poverty reduction in the country and extending frequently the helpful hand towards the people who get affected by natural disasters.



1



2

AASL conceptualized its accountability towards the Triple Bottom Line. The year 2017, was yet another year that AASL extended its love and compassion towards the society and for its well-being.

### Social Contribution of AASL– Passion for Compassion

Almost every individual from top to bottom at AASL, are passionate towards compassion exhibiting greater enthusiasm towards its people and community when they are in real need.

### Extending the Hand of Humanity to the Flood Victims

AASL Management took immediate steps to help employees as well as public who were affected from flood and landslides in May & June 2017. Special Relief Committee was appointed to organize the helping programme for employees and public. Representatives from main Trade Unions and employees from all Divisions voluntarily participated to assist the flood affected fellow employed.

AASL team visited all employees’ houses which were affected by floods and landslides. Dry rations and water, were distributed for 60 employee’s houses affected by floods. Further, 2,000 sleeping mats have been distributed to affected public in flooded areas. A special team was involved in cleaning employee’s houses. Chairman and Vice Chairman also participated at these programmes. Sports, Welfare & Recreation Club donated LKR 500,000 to assist this project. AASL also donated LKR 680,000 for this programme to aid 60 flood affected employees.

### Colombo Airport Ratmalana Facilitated Relief Campaigns at Natural Disasters

Colombo Airport Ratmalana proudly facilitated the emergency flood relief campaign by accepting, loading and unloading donations brought in to be airlifted for those who were affected by the floods.

It was yet again, great humanitarian work by all AASL employees at Ratmalana airport who got together collecting a significant amount of baby items, sanitary items, and food brought in by various organizations to be delivered to the affected people.

### Sustainability of the Environment

Sustainability has been a key area discussed at many international forums. Along with the growth of population, a number of challenges have been identified by the United Nations and 17 Sustainable Development Goals have been declared by them from 2018-2030. AASL as an institution which believes the concept of sustainability, has given due consideration to the sustainable development goals. AASL has considered its responsibility towards the clean energy and energy conservation programmes, offering good jobs for economic growth of the country, gender equality and believes in responsible consumption practices.

AASL, as a government owned company with statutory powers to manage and develop civil airports in Sri Lanka, is at the forefront in their initiatives actively embracing the responsibility to protect the environment through reduced carbon emission, reductions in power consumption of air-conditioning, ventilation and lighting, eco-friendly waste management, green procurement



policies etc. This has shown how the impossibilities are made possible with the involvement of people with the right employee attitude change towards the environmental conservation backed by the envisioned organizational leadership and management. AASL will continue to strive hard to increase its commitments towards the environmental conservation being an example to other state owned institutions.

The Sustainable Development Goals and targets are the heart of the 2030 Agenda for Sustainable Development and they acknowledge the critical role that a healthy environment can play in addressing current challenges including poverty, climate change, food, water and security.

Environment conservation movements in business organizations could contribute significantly to a green economy. Green economy results in “improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities”. Green economy could be an overarching goal for both developed and developing countries in making future development more sustainable. The globe is appealing to preserve the planet for our future generations to come. Measuring the ecological success of an organization today under the philosophy of Triple Bottom Line is one of the key performance indicators of a business organization. We live in a world which is moving into new era of more concern on environment and taking actions on environment conservation. Sri Lanka has been a nation with strong ecological connections deeply rooted to our ancient history. However, moving with the modern globalization meeting the greed of people than the needs of people, all communities appeal the globe to save the environment. Realizing this dynamism and urgency, AASL’s accountability was identified reaching the community.

The Management identified the strategic importance of this movement and the entire programme was planned by the Environmental Team of AASL. The key areas identified were, solid waste management, energy conservation, water conservation, reduction in carbon emission and environmental health and safety.

### **Solid Waste Management**

At BIA Waste Management, initiated with the segregation of waste to bio degradable waste and non-bio degradable waste including recyclable waste such as plastic, polythene, waste paper, glass and metal etc. which are handed over to waste collectors registered with the Central Environmental Authority (CEA), for recycling.

Different initiatives were taken to ensure that waste generated at BIA and other airports are collected with the use of color coded bins placed at various locations. Staff were educated continuously through Company Newsletter and through poster campaigns. Established four centers to collect and sort aircraft and general waste generated at BIA and separate shelters were provided for the storage of segregated waste. In the year 2017, 15% of total waste generated was recycled and AASL has set targets to increase recycling quantity to 50%.

### **Water Conservation**

Strategic decisions were taken to reduce water consumption by introducing water saving taps, sensor operated urinals, dual flushing water closets and sensor operated taps in the Terminal Building and the office areas.

### **Accountability towards Environmental Health and Safety**

Environmental health and safety initiatives of AASL ensured continuous training and educational sessions to the staff, establishment of a “Task force for the Eradication of Mosquito Breeding Areas” and organizing “Big Cleaning Day” at regular intervals.

To enhance the ambiance at the airport, a separate “Architectural and Landscaping and Interior Design” Division was established for the continuous upgrading of buildings, landscaped areas within the airport premises. Implementation of these programmes at the airport, resulted in following major achievements.

- Reduction in use of polyurethane lunch boxes, plastic pet bottles etc.
- Increased utilization of natural lighting and ventilation in the design of new buildings
- Reduction in water consumption with the introduction of sensor based water taps, urinals, etc.
- Introduction of energy-efficient products and installation of photovoltaic(PV) solar panels for the conservation of energy.
- Installation of double glazed panels with air gap and heat reflective films to reduce heat gain to optimize energy efficiency and to enhance light penetration

- Increased awareness, knowledge and application of environmental conservation practices by the employees of AASL.

Several automated sewer underground pump pits have been proposed for New Car Park & VIP Area to prevent sewage overflowing and discharging them to the Sewerage Treatment Plant through underground pumping main piping. Treated waste water with acceptable Sri Lanka Standard finally discharged to the environment by reducing and preventing of environmental water pollution.

Improvements to the Central Air Conditioning Systems in the Passenger Terminal Building & several other buildings have been proposed to improve the performance of the Air Conditioning System to meet the increased passenger movements and to provide green air concept inside the buildings.

### Reductions in GHG Emissions

CO<sub>2</sub> emissions from the International Aviation industry which is around 2% and increasing every day due to the growth of the industry, is the main concern. International Civil Aviation Organization ICAO has identified and passed a resolution A38- 18 to address the issues with a basket of measures to reduce the net CO<sub>2</sub> emissions from the aviation industry. Sri Lanka, being a member state of ICAO, has taken a number of measures to reduce the GHG emissions. AASL invested significantly to improve the Air Traffic Management infrastructure to achieve the goals set by the ICAO to reduce emissions. Implementation of Performance Based Navigation (PBN), which achieves maximum Continuous Decent Operations (CDO) and Continuous Climb Operations (CCO) at BIA, has reduced emissions significantly, also saving fuel of the all the airlines operating at BIA. Colombo Flight Information Region is 100% supported by state of the art surveillance systems which enable the aircraft to fly optimum flight trajectories, such as Flexible Routes, User Preferred Routes (UPR) and Direct Routes which enables significant fuel saving thus reducing emission. AASL is already in the process of improving on the existing emission reduction methodologies and also introducing more emission reduction concepts of ICAO such as Performance Based Communication (PBC) and Performance Based Surveillance (PBS) in the very near future to reduce emissions as much as possible as required by the ICAO to become an environmental friendly Air Navigation Service Provider to support our customers to grow in a sustainable manner.

### AASL Tree Planting at 18<sup>th</sup> Mile Post BIA, Katunayake

Tree Planting ceremony was a major event in AASL calendar and we initiated this as a first step of creating a green airport. In commemoration of 2<sup>nd</sup> year of H E the President, AASL has organized a tree planting programme along the land next to Fuel Filling Station at 18<sup>th</sup> Mile Post on 09<sup>th</sup> January 2017. Chairman of AASL Eng. Saman Ediriweera, Vice Chairman Mr. K V P Ranjith de Silva and Executive Director Mr. Johanne Jayaratne and Heads of Divisions of AASL joined this event as invitees.

Architecture, Landscaping and Interior Design Division of AASL organized this programme and planted Murutha trees which is a flowering plant with pink colour flowers parallel to the entrance of the airport road. This will be an enchanting site when blooming starts in 2-3 years' time.

### Our Journey towards Greatness

Greatness is a journey. AASL always believes that the human capital is the greatest strength behind all the challenges it faces. Focus on mobilization of human talents and the other physical resources increases its ability to arrest the capacity. Global connectivity, customer centricity, visionary leadership, technology, environmental sustainability and Synergy will drive the company towards greatness together. Looking towards a greater future with envisioned national economic development programmes and projects of the government of Sri Lanka, AASL is determined to be a catalyst of global aviation industry enhanced by the sustainable aviation engineering.

**There is no end to greatness. It's a journey without a destination.**



**MATTALA  
RAJAPAKSA INTERNATIONAL  
AIRPORT**





# FINANCIAL REVIEW

*“Soaring positive Financials will verify that your Business Model is performing”*

*Alexander Osterwalder*

The FY2017 proved to be one with full of “VUCA” (Volatility, Uncertainty, Complexity and Ambiguity) and challenges due to temporary closure of airport for the operations in day time for overlay of runway for the period spreading from 06<sup>th</sup> January to 06<sup>th</sup> April 2017. Despite the challenging environment AASL continued to consolidate its position at a double digit growth of revenue with an impressive year for the consecutive second year while being an “all-rounder” in passenger growth, EBITDA (Earnings before Interest, Tax and Depreciation) growth and increased shareholder wealth.

<b>Passenger Growth</b>	9.9 Million Passengers + 5.2% from previous year
<b>EBITDA Growth</b>	Rs. 12.4 Billion EBITDA + 21% from previous year
<b>Shareholder Wealth</b>	Rs. 23.3 Billion Equity

Despite challenging PESTEEL (Political, Economical, Social, Technological, Environmental, Ethical and Legal) factors AASL recorded strong growth in passenger movements of 5.2% to reach 9.9 million with uplift in aircraft movements by 2%, which fuels the rest of growth drive aggressively.

Total revenue rose year on year by 13% from Rs. 18.3 billion to Rs. 20.8 billion, hitting the “billion border” again in the history of AASL with both aeronautical revenue and non-aeronautical revenue streams performing well compared to the previous financial year. The growth in aeronautical revenue was driven primarily by the increase in air traffic which was 2% higher than the previous year. Notably, the increase in non-aeronautical revenue of 16% was underpinned by strong concession income, which hit a record high of Rs. 5.6 billion (a year-on-year increase of 35%) while rental income hit a record of Rs. 3.6 billion (year-on-year increase of 18%).

On the cost front, operating expenses shrink 1% year-on-year to Rs. 10.53 billion from Rs. 10.64 billion. Shrink of Provision for debtors impairment to Rs. 69.5 million from Rs. 234.6 million (by 70%), and depreciation from Rs. 2.7 billion to Rs. 2.2 billion (by 16%) against last year were two key contributors for the declined operating expenses.

Overall, during the FY2017 the company achieved EBITDA of Rs. 12.4 billion, a boost of 21% from last year. Net profit after tax closed at Rs. 8.71 billion representing a 26% increase from last year underpinned by the successful operational excellence in all areas.

The Financial Review of AASL is carried out through “CAMEL approach” under the pillars of “Capital”, “Asset”, “Management”, “Earnings” and “Liquidity”.

## Capital Pillar

Strong and solid capital base is obviously the one of the greatest strengths that AASL possessed. It has always been increasing in an impressive gear. For instance within a decade from 2007 to 2017 capital funds of AASL has increased from Rs. 4,190 million to Rs. 23,264 million which is almost 455%.

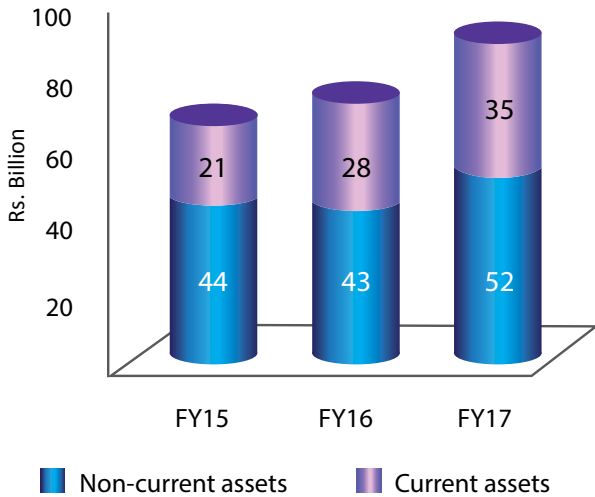
The key factor behind this growth is retained earnings of AASL backed by profit after tax.

## Asset Pillar

### Total Assets

The Company’s total assets as at 31<sup>st</sup> December 2017 were Rs. 87 billion, as against Rs. 71 billion in FY2016. The 22% increase is mainly due to investments in short term bank deposits. Total non-current assets with a value of Rs. 52 billion is due to increase of 18% of Property Plant and Equipment and increase in long term investment on debenture by 49%.

### Total Assets



### Debt

Company’s total debt was Rs. 42.8 billion as at 31<sup>st</sup> December 2017, depicting a 14% increase than year 2016. This was primarily due to the increase in loan receipts for development of Phase II Stage 2 by JICA. The above debt would be utilized as follows.

Phase II Stage 2	
JAC- Japanese Airport Consultants	Consultancy payments
HAZAMA ANDO Corporation	For development of Package B
Runway Overlay	
NACO- Netherland Airport Consultant	Project consultant for the design and review and construction supervision
CATIC- China National Aero Technology International Engineering Corporation	Design and build contractor for construction

That was further amplified by appreciation of USD and Japanese Yen against LKR as at the end of FY2017.

Nevertheless, The Company’s gearing ratio shrink down to 35% from 48% recorded in FY2016 due to increased short term bank deposits.

### Management Pillar

All key variables which made an impactful difference towards Financial Review in the context of “Management” are being discussed under MD & A.

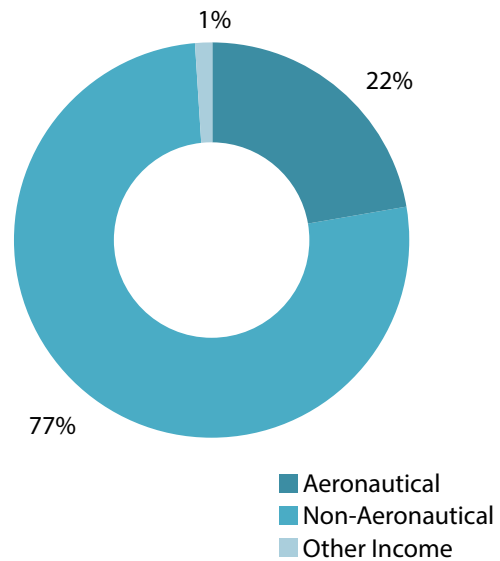
### Earnings Pillar

#### Operating Revenue

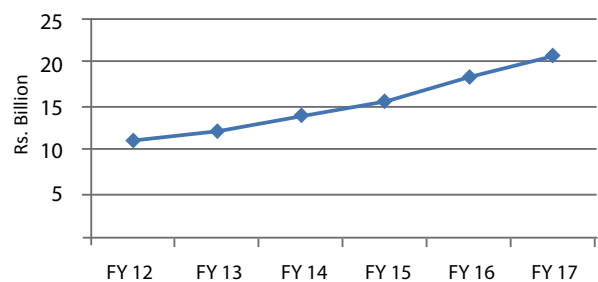
AASL recorded a vigorous growth of consolidated revenue towards Rs. 20.8 billion for FY2017 backed by Aeronautical, Non-aeronautical and Other income representing a YoY growth of 13%. In this upheaval, Aeronautical revenues grew by 5%, Non-aeronautical contributed significantly to the overall growth profile delivering a growth rate of 16%.

The company’s total operating revenue growth was underpinned by strong passenger growth and higher airport concession, embarkation levy & rental revenue. The growth in passenger movements of 5.2% from 9.47 million to 9.96 million was fueled by higher traffic of International Aircraft movements of 62,850 moved from 61,637. The addition of three airlines namely China Southern, Gulf Air & Silk Air enhanced AASL’s global connectivity and in return strengthened financial position.

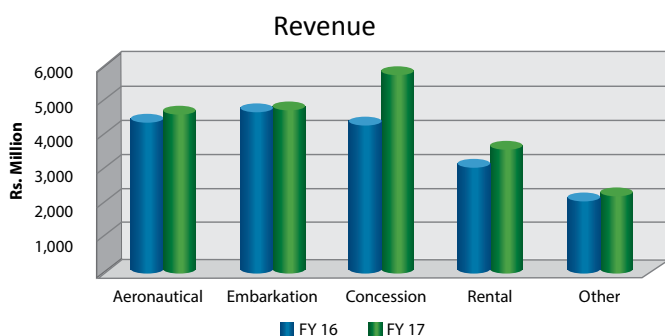
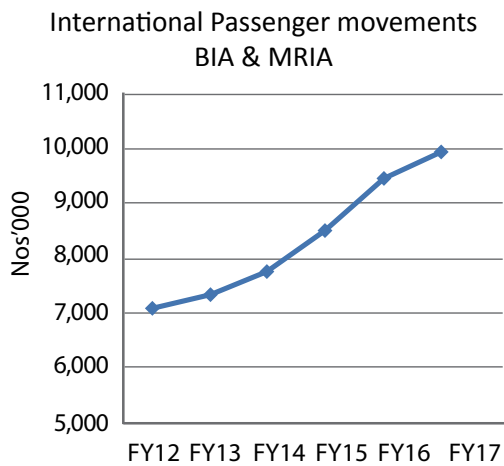
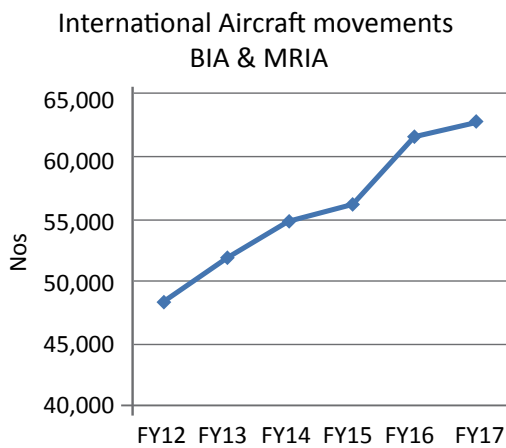
#### Composition of Revenue - 2017



#### Operating Revenue



In analysis of total revenue compositions, approximately 22% was attributable to aeronautical revenue and increase from Rs. 4.4 billion to Rs. 4.6 billion (+5%) mainly due to higher air traffic. Revenue from landing and parking including domestic increased by 4% while revenue from overflying rose by 15% comparative to the previous year. On the other hand, 76% was attributable to non-aeronautical revenue, amounting to Rs. 15.9 billion (+16%) in the reporting period. The company achieved a strong growth in non-aeronautical income streams such as concession, embarkation and rental of 17% higher comparatively year-on-year crossing Rs. 13.9 billion out of total non-aeronautical revenue.



The growth in concession revenue was mainly supported with increased rate charged in awarding core category tender, as well as exchange rate fluctuations of United States Dollar (USD) against Sri Lankan Rupee (LKR). New and refreshed arrival outer porch and public concourse retailers also contributed to boost rental income which contributes 6% on total rental income while refurbished currency exchange counters and duty free shops contributes 15% and 33% respectively.

During the year, AASL's Other non-aeronautical revenue such as profit on lounges, sale of ID cards and incineration of garbage enables to boost the total non-aeronautical revenue compared to previous year by 37%, contributing 5% on total non-aeronautical revenue with the strong performance of lounges operated by AASL contributing Gross Profits of Rs. 170 million of Araliya Lounge, Rs. 125 million of Lotus Lounge, Rs. 209 million of Silk Route and Rs. 25 million of Executive lounge contributing 23%, 17%, 28% and 3% respectively on total other non-aeronautical revenue.

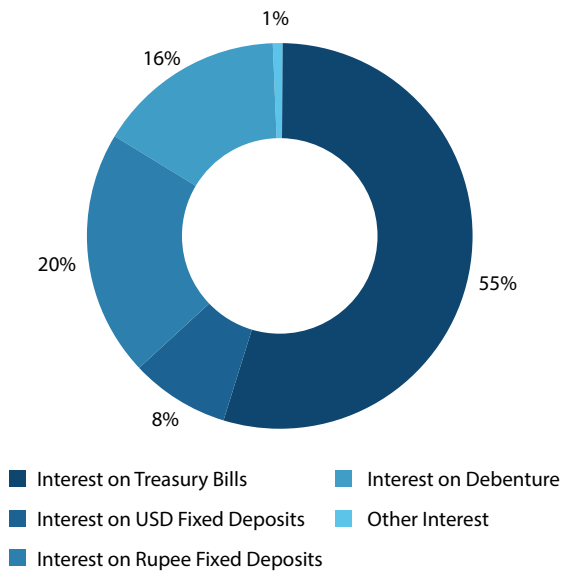
Other income drops by 17% comparing to FY2016 mainly due to drop of net exchange gain by 26% which contributes to 62% of the total other income due to exchange rate fluctuations on transactional and translational effects on USD against LKR during the FY2017. Operating profit from Fuel Filling Station was increased at 35% which contributes only 5% of the total other income.

### Finance Income

Finance income relates to the interest income on cash and cash equivalents and loan receivable balances from staff members which are brought to account using the effective interest rate method.

Finance income was shooting up by 47% to reach Rs. 2.8 billion from Rs. 1.9 billion recorded in FY2016. This was mainly due to increase in interest rates in Government Securities and prudent timely investment strategies adopted by AASL. Accordingly AASL identified the possible strategic investment opportunities and invested in various long term and short term financial instruments such as Debentures, Government Securities and Fixed Deposits while tactically balancing risk and return trade-off.

### Composition of Finance Income - 2017



In addition to personnel expenses, the increase in janitorial services, and other expenses were also escalated with transfer of expenses in connection with completed maintenance projects during the year.

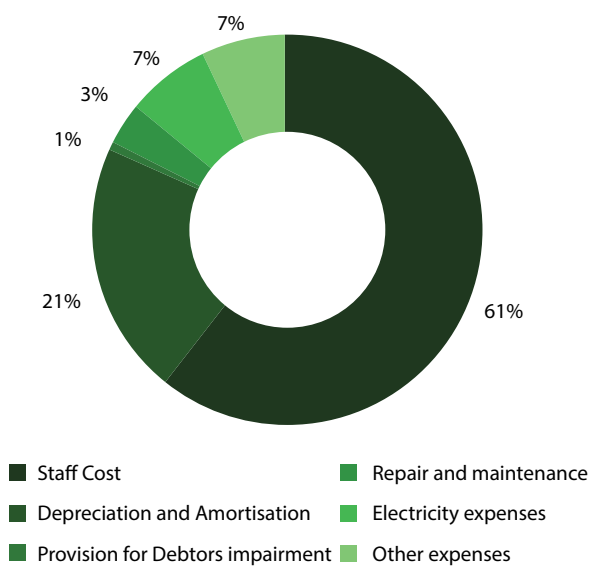
### Net Finance Cost/ Income

The finance cost derived from the long term foreign loans obtained for the airport developments has resulted a drop of 18% from Rs. 2.7 billion to Rs. 2.2 billion during the year under review due to loan repayments made during the year (other than on development of Phase II Stage 2 and Runway Overlay) and decline on exchange loss on loan and creditor conversion from Rs. 1.97 billion to Rs.1.53 billion in FY2017. Further reduction in net finance cost reaching the net finance income in FY2017 is due to 47% increase in finance income as stated above.

### Operating Expenses

Operating expenses in the reporting period shrank from Rs. 10.64 billion to Rs. 10.53 billion (-1%). The two key components behind this favorable drop were reduction of net Provision for Debtors impairment and decreased depreciation expenses compared to the FY2016 due to increased number of fully depreciated assets.

### Composition of Operating Expenses 2017



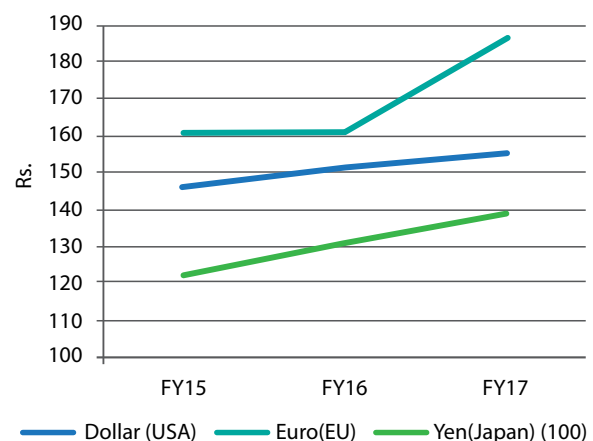
### Exchange Rates

Both buying and selling values of LKR against USD drastically fluctuated adversely throughout the year under review. As a result, forward rate market was also vulnerable to uncertainty. LKR depreciated against USD was mainly due to weaken bargaining power of LKR in import and export market due to higher imports and lower exports, Balance of payment (BOP) impact, inflation was fueled by purchasing power parity, interest rate consequences backed by interest rate parity, volume of Foreign Direct Investments (FDI) as well as political stability.

Movements of USD against LKR were gradually increased throughout the FY2017 while Euro was stabilized for the first four months of the year, thereafter Euro drastically fluctuated against LKR all over the period. Regarding Japanese Yen, for the first four months, reached an average increase and thereafter from May onwards for next six months the depreciation pressure on the LKR eased gradually, in last two months of FY2017, Yen demand raised again.

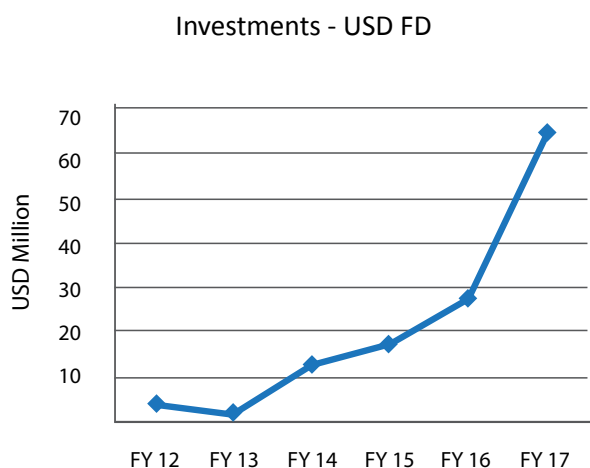
The personnel expenses for the reporting period amounted to Rs. 6.4 billion (+7%), which contributes to more than 60% of the total operating expenses. A contribution of 9% out of total personnel expenses are relating to employee retirement benefit provisions pursuant to LKAS 19. The top five expenses which contribute 85% of personnel expenses comprise of consolidated salary, employee retirement benefit provision, EPF & ETF, overtime and bonus.

### Year End Spot Rates (Selling)



Overall, the Sri Lankan Rupee (LKR) recorded a depreciation of 2.3% against the United States Dollar (USD) during the year up to end December. Reflecting cross currency exchange rate movements, the LKR depreciated against the Japanese yen by 5.55% and the Euro by 15.82%.

However, with existence of a considerable depreciation pressure on the LKR, AASL was on strategy to mitigate the risk of exchange rate by increasing USD investments of Fixed Deposits from USD 28 million to USD 65 million during the FY2017.



### EBITDA

Any business entity's authentic performance is measured by EBITDA. It's the "true profits" belonging to shareholders. AASL achieved an EBITDA of Rs. 12.4 billion, representing a 21% increase from the previous year which is very impressive. In FY2017, the company incurred a loss of Rs. 3.4 billion on its Mattala airport operations. Even after taking into account this loss, the AASL's Net Profit After Tax (NPAT) inclined by 26%, to Rs. 8.7 billion which is commendable.

### Solid Financial Position

The Company's shareholder's equity improved by Rs. 6.8 billion to reach Rs. 23.3 billion with a strong capital asset base of Rs. 48 billion. Total assets increased from Rs.71 billion to Rs. 87 billion. The increase comprised mainly investments in development projects. The major components of total assets were property, plant and equipment (of Rs. 47 billion) and cash and cash equivalents (of Rs. 30.3 billion). The surplus cash has been earmarked for the funding of on-going development projects.

Underpinned by strong growth across all operational performance metrics, AASL recorded a significant NPAT of Rs. 8.7 billion for FY2017, a growth of 26% YoY. Company's NPAT growth was also supported by higher operational performances as well as reduced operational expenses during FY2017. The AASL continued to be a top contributor to state revenues, remitting a total of Rs. 850 million to the Treasury as dividends, and Rs. 293 million to Government of Sri Lanka (GoSL) as Withholding tax and Economic Service Charges (ESC), during the financial year 2017 representing an increase of 39% YoY.

### EPS Growth

Company recorded the highest Earnings per Share of Rs. 43,574 as at 31<sup>st</sup> December 2017 which was an increase of 26% compared to Rs. 34,598 recorded in last year.

### Liquidity Pillar

#### Current Assets

Current assets of the Company has increased into Rs. 34.6 billion in FY2017 compared to Rs. 27.6 billion in FY2016, the 25% increase is mainly attributed to the increase on short term bank deposits.

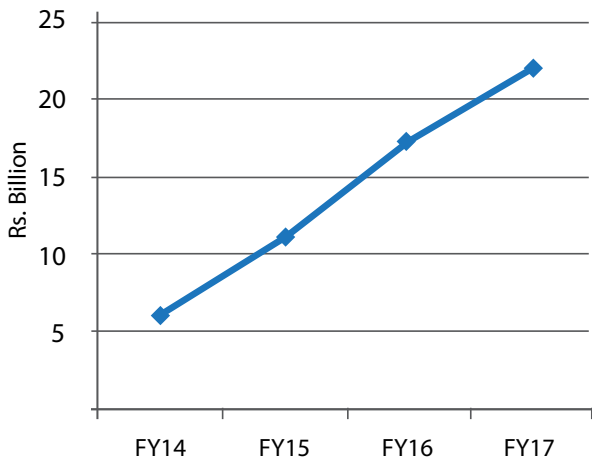
#### Current Liabilities

Current liabilities of the Company has increased to Rs. 12.4 billion compared to Rs. 10.5 billion in FY2016, the 19% increase is mainly attributed to the increase on short term portion of borrowings on development projects.

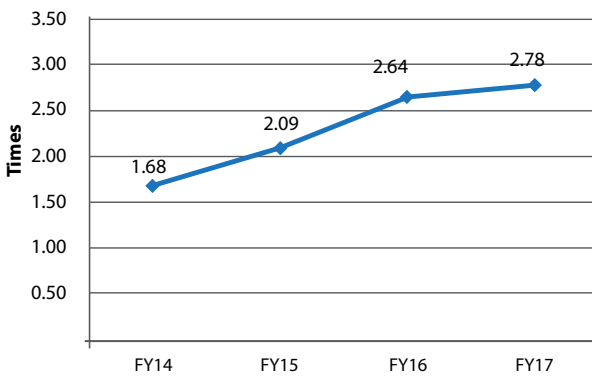
### Working Capital

Working Capital reflects liquidity of a business which stimulates its routine operations. It's a measure of short term financial health and any business's liquidity is much more vital than profitability. Hence, this represents how current liabilities could be met out of current assets. The net working capital increased by 29% during the year to stand at Rs. 22.2 billion under review as against last year figure of Rs. 17.2 billion. Therefore, all in all AASL was much stronger throughout the year.

### Working Capital



### Current Ratio



The Current Ratio, measures the liquidity which shows the Company's ability to meet short term obligations out of short term assets. This signifies the financial health of the Company. In essence AASL reported a constant growth since 2013 in Current Ratio indicating more liquidity in Company operations.

### Cash Flows

Cash generated from the AASL's operations before working capital changes stood at Rs. 12.8 billion in FY2017 compared with Rs. 10.5 billion in the previous year. In line with liquidity, cash generated from operations increased compared to the previous year, due to positive working capital changes when compared with last year. Net cash used in investment activities was Rs. 7,999.4 million during FY2017, as against Rs. 127.7 million in the previous year due to the company's investment of Rs. 9.5 billion on productivity improvement related investments including Rs. 8.6 billion was on Runway overlay, Taxiway & Airfield lighting. The Company's cash and cash equivalents at the end of 31<sup>st</sup> December 2017 was Rs. 30.3 billion, which was a 34% (Rs. 7.6 billion) improvement over last year which is significant in the momentum of ongoing project investments.

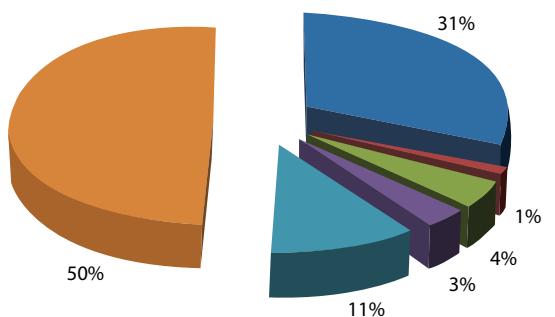
### Value Addition

AASL's total value addition for the year ended 31<sup>st</sup> December 2017 was Rs. 20.7 billion comparative to FY2016 which stood at Rs. 18.3 billion indicating an appreciation of value addition by 13%. This is due to increase in total Revenue growth of 13% compared to the expenditure shrink of 1% in the year under review. The following statement of Value Addition shows how the total value was created and distributed among employees, the Government of Sri Lanka, and the provision of doubtful debts and equity capital. Also shows the portion of value retained for reinvestment in operations by way of depreciation and reserves.

### Statement of Value Addition

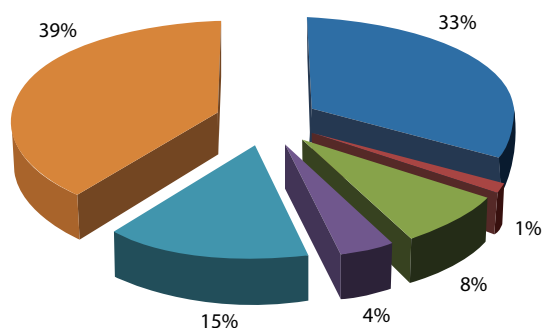
	2017 Rs.000		2016 Rs.000		
Revenue	<b>20,494,586</b>		18,013,472		
Other Income	<b>263,081</b>		315,543		
Finance Income	<b>2,783,193</b>		1,894,215		
Gain arising on changes in Actuarial assumption	<b>(978,118)</b>		4,026		
	<b>22,562,742</b>		20,227,256		
Administration, Establishment & Marketing Expenses	<b>(1,873,032)</b>		(1,964,662)		
<b>Value Addition</b>	<b>20,689,710</b>		18,262,594		
		%	%		
<b>Distribution of Value Added</b>					
To Employees	Remuneration & Benefits	<b>6,424,487</b>	31%	6,012,540	33%
To the Government	Taxes	<b>293,407</b>	1%	211,572	1%
To Shareholders	Dividends	<b>850,000</b>	4%	1,500,000	8%
To the Providers of Debt Capital	Interest	<b>664,254</b>	3%	705,413	4%
Retained within the business	Depreciation & Amortisation	<b>2,230,838</b>	11%	2,664,687	15%
Retained within the business	Reserves	<b>10,226,724</b>	50%	7,168,382	39%
		<b>20,689,710</b>	100%	18,262,594	100%

Distribution of Value Added 2017



- To Employees - Remuneration & Benefits
- To the Government - Taxes
- To Share Holders - Dividends
- To the Providers of Debt Capital - Interest
- Retained within the Business - Depreciation & Amortisation
- Retained within the Business - Reserves

Distribution of Value Added 2016



- To Employees - Remuneration & Benefits
- To the Government - Taxes
- To Share Holders - Dividends
- To the Providers of Debt Capital - Interest
- Retained within the Business - Depreciation & Amortisation
- Retained within the Business - Reserves

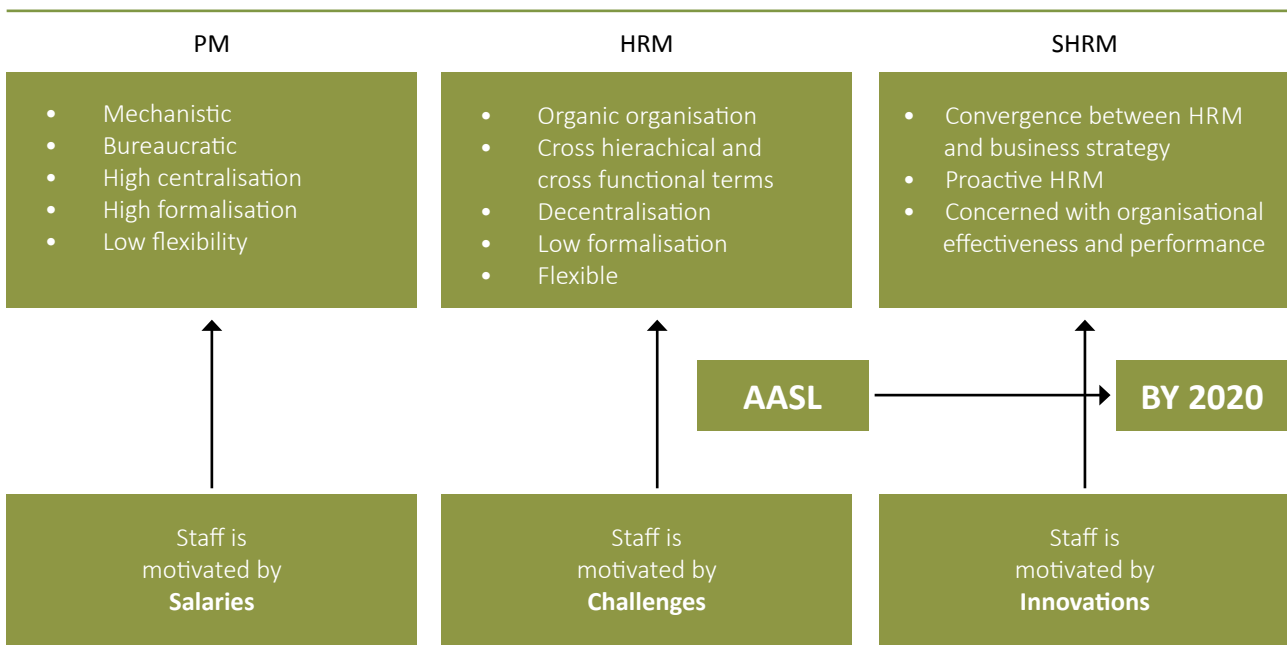


# HUMAN RESOURCE MANAGEMENT

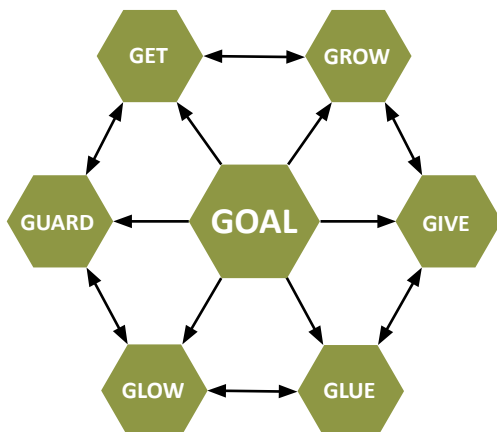
*“Always treat your employees exactly as you want them to treat your best customers. That’s Human Resource Management”*

*Stephen Covey*

Our ability to attract, select, motivate and develop the best people is key to the success of the Company. Aligning the people with the goals of an organization should be the correct approach towards a shared vision. Strategic Human Resource Management (SHRM) appears prominently in this context and we are in the middle of shifting Personnel Management/Human Resource Management towards SHRM. That is one of the ultimate aspirations of our HR Strategy.



AASL follows the below mentioned 7Gs framework explicitly linking HRM with strategic management processes of the Company and to emphasize co-ordination and congruence among the various Human Resource Management practices.



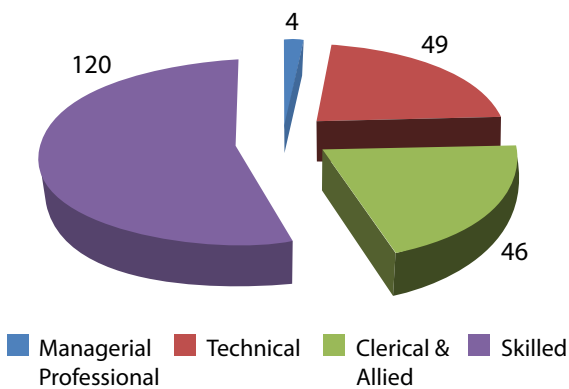
## 1. GET - Selecting the “Best Talents”

Airports in the world always face capacity pressure in operations which create potential inability to meet the demand for air travel which creates “Capacity Crunch”. It typically means lack of physical infrastructure. In addition to that, there is another crunch that needs to be addressed. Even if brand new infrastructure is designed and built, if the right people, capabilities and talent are not in place, can often freeze the operation by limiting the usefulness and return on investment which will lead towards “People Crunch”. Basically, this is all about ensuring Triple Fits namely, Task/Talent (T/T) Fit, Person / Position (P/P) Fit and Individual /Institution (I/I) Fit.

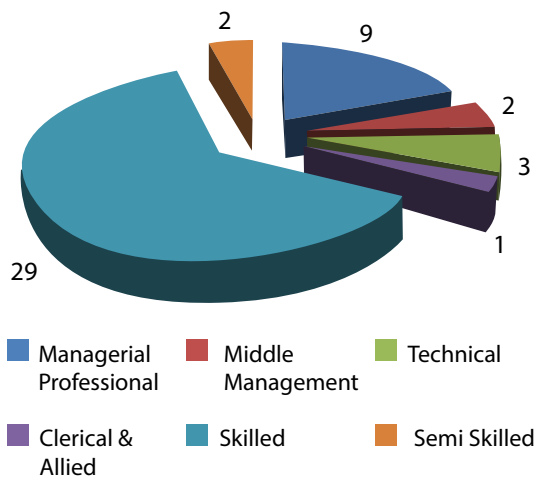
We need talented individuals who are given the right opportunities and support, to deliver the full extent of their potential in both current and future roles. Operating in an increasing globally competitive business arena, a pipeline of talent for future business leadership is essential. Developing our people to be leaders for the future is a major challenge.

We believe in maintaining a healthy mix of internal and external talents. During the year 2017, AASL provided a gainful employment for 219 people by recruiting them through various sources in Managerial, Technical, Clerical & Allied and Skilled Grade. During the year, the Human Resource Division was able to recruit best suited candidates to fill the existing cadre requirements of the Company in the following categories:

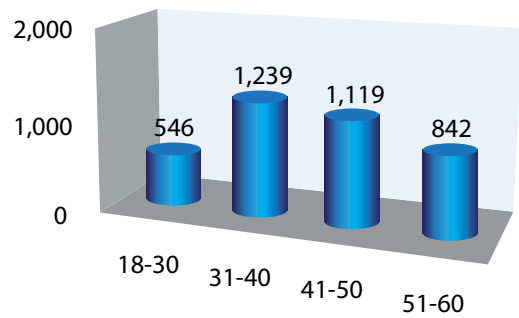
### External Recruitment - No: of Heads



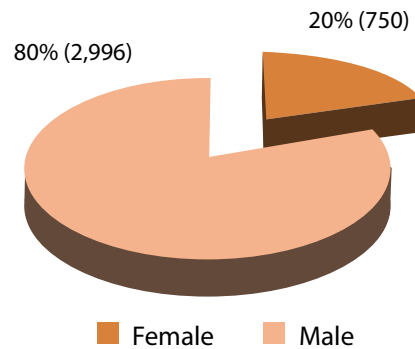
### Internal Recruitment - No: of Heads



### Company Employees' Age (Group Wise)



### Gender Statistics



## 2. GROW - Adopting "Training and Development"

AASL always believes that talent development is extremely important to organizations since it creates an added value to an employee which will be a value addition to the organization. Employees are eager for the opportunities to develop their skills and add value to themselves and to the company.

Not only training and development, succession planning and talent management also, particularly for leadership positions, are very much essential for the operational performance of an airport. This means identifying key positions and building a talent pipeline through individual development and training plans, which provide opportunities for mobility, skills development, and increasing responsibility.

### Company Employees' Age (Group Wise)

As depicted in the following charts, it is observed that the ratio of the male/female employees is 80 : 20 and the 63% of employees are within the age group of 30 – 50 yrs. This is a good indication that AASL has a healthy workforce processing wealth of knowledge to contribute for the success of the organization.

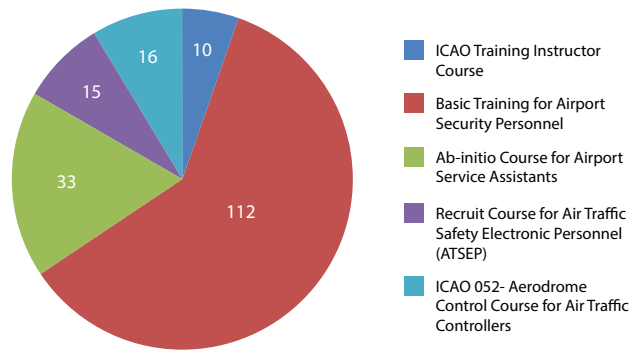


By paying due attention to the equal opportunities for the employee development, AASL was able to utilize the training budget effectively throughout the year 2017 and offered 4153 training opportunities to its employees in both locally and internationally. Further, it was able to assure the minimum 8.6 training hours per employee during the year, which was a main objective of the Human Resources Division.

### In-house Training at Civil Aviation Training Centre

The Civil Aviation Training Centre (CATC) is the training arm of AASL, which was founded in 1984. At present, it has secured the ICAO TRAINAIR PLUS full membership, providing both aviation and non-aviation training programmes.

CATC successfully carried out below training programmes during the year 2017.



AASL follows three phases of training namely pre-training, training and post training. Formalized training approach, which is being practiced will be developed into “focused training approach” in the future and this is one of the improvements required. In terms of “evaluation” of training, it is mostly in the “reaction” level, rather than following learning, behavioral or results levels.

- 1 AASL participants at an Overseas Training Programme
- 2 Basic Training and Education Programme for Airport Security Personnel
- 3 Team Building Exercise at the Ab-initio Course for Airport Service Assistants
- 4 ICAO Training Course at CATC
- 5 Emergency Training Exercise
- 6 Practical Session on Basic Fire Fighting



Both On The Job as well as Off The Job techniques are used in developing Human Resources.

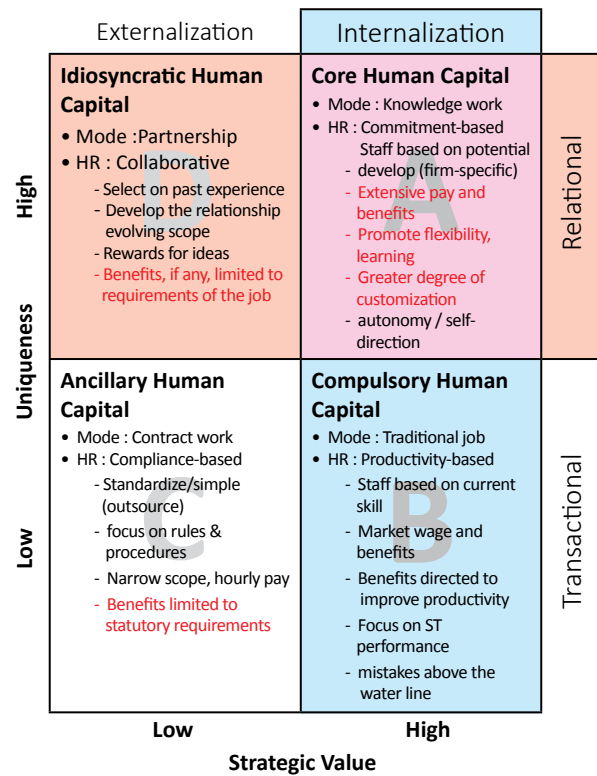
### 3. GIVE - Aspect of “Remuneration, Recognition and Promotion”

Showcasing our deep concern on career progression of internal staff during the year 2017, AASL promoted 18 employees to the Senior Managerial, 13 to Middle Management and 488 to Non-Executive positions to take up the challenging tasks in the Middle Management and Supervisory Management positions in the Company.

Classification of Employees	Line Promotion	Lateral Promotion
Managerial Professional	10	8
Middle Management	3	10
Technical	45	2
Clerical and Allied	81	3
Skilled	279	43
Semi Skilled	32	0
Unskilled	3	0
<b>Total</b>	<b>453</b>	<b>66</b>

A Company-wide study carried out by the Sri Lanka Institute of Development Administration (SLIDA) on anomalies in SORP recommended placements of employees in due positions. According to their recommendations, nearly 2000 employees were absorbed to the new schemes of recruitment and promotions during the last quarter of the year. More or less, “Transactional Approach” is adopted in Reward Management at AASL.

Further, value and uniqueness of the Human resources are identified with respect to the mode of the employment and relationship is in accordance with the following HR Architecture introduced by Lepak and Snell (1999).



Source: Lepak & Snell (1999)

### 4. GLUE - Employee engagement into “Welfare and Other Activities”

In this scenario, AASL ensures that 10Cs of employee engagement is entrusted in order to materialize its’ panoramic view towards ultimate aspiration to be the most efficient and friendliest aviation service provider in the Asian region. They are Connect, Career, Clarity, Convey, Congratulate, Contribute, Control, Collaborate, Credibility and Confidence.





3



4

- 1 *Religious activities at the Ruwanweli Seya*
- 2 *Christmas Carols and Family Get-together*
- 3 *Almsgiving to the Bhikkus under the Foster Parent Scheme*
- 4 *Champions - Janasathu Elle Tournament 2017*

### Spiritual and Religious Values of Employees

The Buddhist Association organized its annual pilgrimage to Anuradhapura on 23<sup>rd</sup> and 24<sup>th</sup> September 2017 for the Company employees and their family members. Approximately, 1,200 pilgrims attended at this pilgrimage. A special train was arranged for the pilgrims to travel to Anuradhapura and travel back after the pilgrimage.

Religious activities at the Ruwanweli Seya and a Kiripidu pooja at the Sri Maha Bodhi were arranged. The pilgrims thereafter worshiped Atamasthana prior to their departure from Anuradhapura.

The Buddhist Associations of AASL organized a visit to airport on 21<sup>st</sup>, July 2017 for 50 Samanera Bhikkus of Sri Sumedha Boduraja Vihara, Hambantota, who came under the foster Parents' Scheme maintained by certain employees of AASL at BIA. Dhana and Pirikara were offered to the Bhikkus at the Fire and Rescue Building. The Bhikkus were taken on a guided tour in the Terminal, visit to the Apron Area and a rare privilege of boarding an aircraft. This event was arranged with the generous contribution of employees of AASL.

### Vesak Celebrations

“BIA was made ready to welcome the delegates who participated at the 14<sup>th</sup> United Nations Vesak Celebrations held in Sri Lanka this year. Sangaraja Theros and VVIP’s from around the world were welcomed in a traditional style whilst assisting the other delegates through a smooth arrival process. The terminal building and the access road ways were decorated with vesak lanterns which described the vesak atmosphere to the fullest. The two Buddha Statutes at BIA were offered lotus flowers throughout the vesak poya day and the day after in celebrating.

### AASL Christmas Carols

Christian Association of AASL organized Christmas Carol, which was a major event carried out during the years. This year, the event was held on 15<sup>th</sup>, December at AASL premises. Students from Don Bosco Academy were invited and they were offered with food and gifts, to share the joy of Christmas.

### Sports Activities

34<sup>th</sup> Mercantile Athletic Tournament- 2017 was held at Diyagama – Mahinda Rajapaksa International Stadium. 54 companies participated in the tournament and Airport & Aviation was able to achieve the 5<sup>th</sup> place in the entire tournament. On behalf of the Company, 80 Nos. of athletes (71 male and 09 female) participated and won 15 Gold , 10 Silver and 13 Bronze medals.

The “Janasathu Elle Tournament 2017” was held at Trincomalee Municipal Council ground and AASL Elle team was able to win the championship of the entire tournament.

Mercantile Badminton Tournament-2017 was held at Colombo. Two of AASL employees were able to win double championship tournament after 35 years and they were selected to participate for the Asian Tournament which was held in Malaysia.



### Annual Get together

ASSL organized an annual get together for all the staff and the members of their families. This time, it was held at “Saneero Dream Paradise” Veyangoda with the participation of the Chairman and Board of Directors. More than 6,000 people participated and the several entertainment arrangements were made by the organizing committee. The event was enriched with live music by “Galaxies” musical band and the popular singers and also the dancing acts by “Red Rose” dancing troupe.

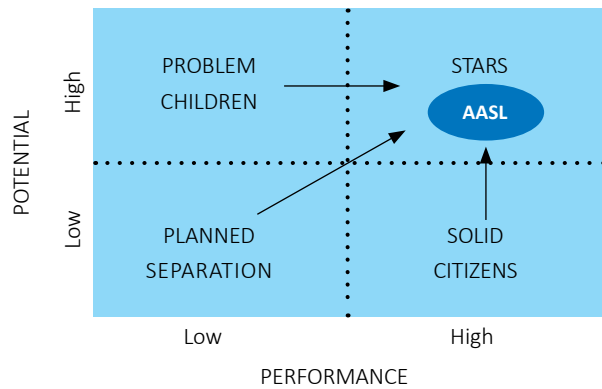
### Death Gratuity Scheme

In 2017, foundation was laid to expand the coverage of the Employee Death Gratuity Scheme which is unique to AASL. As a result of the scheme, it encompasses the employee deaths caused by work related accidents and pay a higher terminal benefit over and above the statutory compensation.

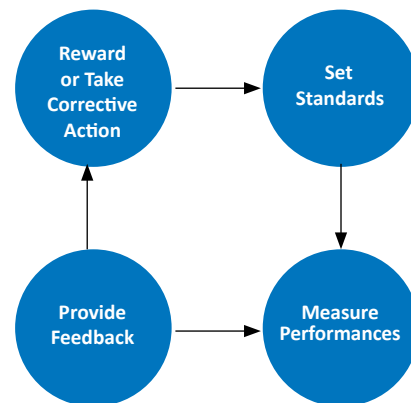
### 5. GLOW –Advancement of “Performance Management and Development System”

Since the Performance Management and Development System applicable for non-executive grades has been successfully implemented, more focus was given to the Performance Management system which is applicable to managerial grade officers. As an organization, actions were taken during the year for further improvements in the appraisal systems. AASL conducted Awareness Programmes to enhance the knowledge and importance of effective Performance Management System in the Company. The aim of this whole exercise is to create a performance based culture in the organization.

### Purpose of PMDS at AASL



### Overview of PMDS at AASL



## 6. GUARD –Improve “Corporate Value” through policy changes

Under the Guard, the main concern is Employee Relations and Policy Framework.

AASL Corporate values were synchronized with the key behavioral competencies expected from all employees in order to strengthen the customer focused service delivery which is the fundamental success factor for the company. This policy decision provides the necessary impetus to derive high performance from all as the “Corporate Values” have to be “lived” by every employee. This is one of the “ongoing, never ending” development drive at AASL.

Specific HR Policies are being implemented in the following areas;

- Employee Relations
- Age and Employment
- Discipline
- Leave
- Overtime
- Grievances
- Health & Safety
- Promotion and Reward

Generally adopted steps in HR Policy Development at AASL

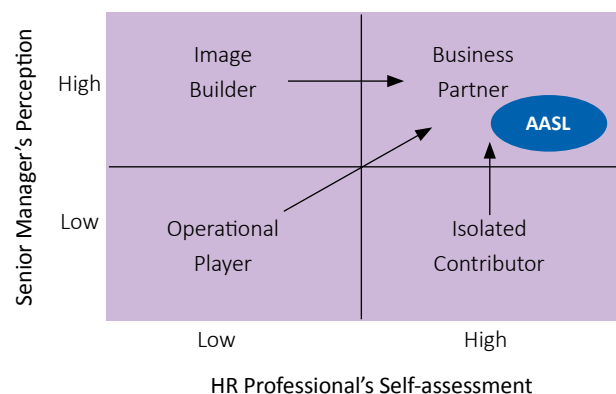
- a) Establish need for a policy
- b) Develop Policy Content
- c) Draft the Policy
- d) Write the Procedure
- e) Review the Policy by the Key Parties
- f) Approval
- g) Implementation of Policy
- h) Policy Review and Update
- i) Communication of Changes

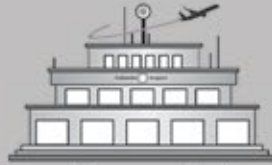
## 7. GOAL –Contribution of HR towards “Corporate Goals and Vision”

The Management has always recognized the employees by placing them in correct positions and levels in order to motivate them by recognizing and strengthening financially to accomplish the corporate goals and the Vision of the Company through avoiding “People Crunch”.

AASL has a Big Hairy Audacious Goal (BHAG) in order to shift towards Strategic Human Resources Management (SHRM) drive where the staff will be inspired by innovations from the prevailing Human Resources Management (HRM) approach in a challenging work environment.

The ultimate Goal of the Human Resource Management at AASL is to bring the blend of SHRM into AASL’s Corporate Culture being a “ Business Partner” as given below.





# **Colombo Airport**

Ratmalana





COLOMBO AIRPORT



# CORPORATE GOVERNANCE

***“Good Corporate Governance, its’ all about Proper and Prosper “***

**Toba Beta**

## **1. Overview**

The Corporate Governance framework has been developed to comply with the legal requirements and voluntarily adopted frameworks of best practice of Companies Act No.7 of 2007 and the Institute of Chartered Accountants of Sri Lanka and the Public Enterprises Guidelines for Good Governance issued by Department of Public Enterprises, Ministry of Finance under the Category “A” Commercial Public Enterprises.

Under the guidance of the Board, AASL is committed to achieving high standards of Corporate Governance to protect its stakeholder value. The Company recognises the importance in adopting clearly defined corporate governance policies and practices in enhancing corporate accountability and sustainability.

In addition to the compliance with the statutory requirements, effective governance systems and practices towards improving transparency, disclosures, internal controls and ethics at work-place have been institutionalized.

AASL recognizes that good Corporate Governance is a continuing exercise and reiterates its commitment to pursue the highest standards of Corporate Governance in the overall interest of all the stakeholders under the following four pillars.

### **Accountability**

- Ensure that Management is accountable to the Board
- Ensure that the Board is accountable to shareholders

### **Fairness**

- Protect Shareholders rights
- Treat all shareholders including minorities, equitably
- Provide effective redress for violations

### **Transparence**

- Ensure timely, accurate disclosure on all material matters, including the financial situation, performance, ownership and corporate
- Governance

### **Independence**

- Procedures and structures are in place so as to minimise or avoid any business or other relationships
- Independent Directors and Advisors

***“As well stated by the above four pillars, Governance is a key to driving performance and to delivering sustainable value to our stakeholders over the long term. The Board of Directors, as the highest decision making body of the company, is responsible for setting in place an effective corporate governance framework which maintains an appropriate balance between empowerment and accountability together with explicit statements of values and standards.”***

## **2. The Board**

The core responsibility of the Board of Directors is to exercise their judgment to act in what they reasonably believe to be the best interests of the Company and long-term value creation for the betterment of all stakeholders.

The Board is responsible for the Company’s overall finance, investment, distribution strategies as well as implementation of risk management and corporate governance practices.

To ensure the efficient discharge of its responsibilities and to provide Independent oversight of Management, the Board has established the Audit Committee. The Audit committee is primarily made up with Non-Executive Directors.

### 3. Board Meetings and Attendance

The Board meetings for each month are scheduled in advance to enable the Directors and Management to plan accordingly and fit the Board meetings into their respective plans.

To ensure that Board meetings are conducted effectively and efficiently, the time allocation for each agenda item is determined in advance. Heads of the Divisions and external consultants are invited as and when required to attend Board meetings to present additional information and provide further clarity to the Board.

The Board meets monthly with a view to discharging its duties effectively. In addition, special Board meetings are also held whenever necessary to deal with specific matters. A total of 15 meetings were held in 2017, which included 01 special meeting. The attendance of Directors at these meetings is set out in the table below.

Name	Position	Attendance
Eng. S S Ediriweera	Chairman	15/15
Mr. K V P Ranjith de Silva	Vice Chairman	15/15
Mr. Johanne Jayaratne	Executive Director	14/15
Mr. N R Hewathanthri	Non-Executive Director	15/15
Mr. N P L P Fernando	Non-Executive Director	11/15
Mr. W M Anuradha Wijekoon	Non-Executive Director	13/15
Dr. S Earl W Gunasekera	Non-Executive Director	3/15
Mr. L W A De Soysa	Non-Executive Director	11/15
Mr. R Ketawalage	Non-Executive Director	14/15
Mr. J M Goonewardena	Non-Executive Director	13/15
Mr. S R Attygalle *	Non-Executive Director -Treasury Representative	10/13
Mr. P B S C Nonis **	Non-Executive Director -Treasury Representative	2/2

\* Retired with effect from 12/12/2017

\*\* Appointed with effect from 12/12/2017

### 4. Our Approach and Commitment

AASL is a fully owned Government company and its Board is responsible to the Government for the strategic guidance and oversight of the Company. The Board is responsible for taking business decisions within a framework of effective accountability and transparency in the process of meeting our core objective of maximizing value for our stakeholders.

The Company is guided by the Corporate Governance Regulatory framework recommended by the Department of Public Enterprises and the Ministry of Finance. This governance framework is underpinned by five (05) core principles.

- i. Leadership and Direction
- ii. Transparency and Integrity
- iii. Accountability to the Government as its key shareholder
- iv. Recognising the legitimate interests of stakeholders
- v. Timely and balanced disclosure principle

### 5. Leadership and Direction

The Company's business and operations are managed under the supervision of the Board, which consists of members with experience and knowledge in the areas of business management and finance governance appointed by the Minister of Transport and Civil Aviation in line with reference to the Articles of Association. The Chairman, who leads the Corporate Governance policies of the organization and is responsible for providing leadership to the Board, is appointed by the Minister.

The Board of Directors executes a statutory responsibility in the stewardship of the company on behalf of the Government and its stakeholders. Their principal functions are:

- a) To lead the company towards achieving its vision.
- b) To oversee the Management, operations and the performance of the company as a whole.

The Board comprises of 11 Directors, of which 08 are Non-Executive Directors and 03 are Executive Directors and majority of the Board comprises Non-Executive Directors of high repute as per requirements of the Code. This Board composition reflects the independence of Management, in both fact and appearance. That is not only on Directors' individual relationships, personal, employment or business, but also on the Board's overall attitude towards Management. Providing objective independent judgment is at the core of the Board's oversight role.

All Directors have independent and joint access in respect of both internal and external information of the Company. The Company Secretary ensures that Board procedures are followed and guidance on legal requirements are provided regarding Board proceedings.

In addition, the Secretary circulates the notices of Board Meetings, Minutes of meetings and Board papers together with other relevant documents with adequate information to enable the Board to make informed decisions. Follow-up on actions on Board decisions are also executed by the Secretary.

All the Departments of the Company were divided among the three Executive Directors to have greater supervision and a proper control over them. All the Directors are having independent access to the Senior Management.

## **6. Matters reserved for the leadership of the Board include:**

- a) Providing the vision and the direction for the Company based on its specific mission built up within the scope of the provisions in Civil Aviation Act No 14 of 2010 and how best it could serve the interests of the Government and other stakeholders.
- b) Ensuring that legal requirements are fulfilled and the Company operates in accordance with the provisions of the Companies Act No. 7 of 2007 and Articles of Association.
- c) Framing different types of policies including Risk Management in order to achieve optimum returns and benefits to the Government and other key stakeholders.
- d) Reviewing public policy objectives periodically and providing strategic direction to formulate long term goals and objectives for future growth.
- e) Guaranteeing adequate accountability by delegating responsibility.

The Board is responsible for the overall management of the Company through established effective systems of internal controls, and the implementation of the same in its optimum mixture through proper delegation of authority amongst Senior Managers.

## **7. Matters reserved for the Board in this capacity include:**

- a) Ensuring that Board policies are executed in the same spirit as it was framed and in the best interests of the institution and the public at large.

- b) Monitoring and evaluating the managerial performance by means of Management Information reports to ensure that the company is on track in its operations.
- c) Taking remedial action without delays to ensure that goals are met, if results are not in line with desired expectations.
- d) Appointing competent personnel as Managers and ensuring that there is adequate delegation of authority amongst the Senior Management.
- e) Attending Committee on Public Enterprises (COPE) meetings and Parliamentary Consultative Committee (PCC) meetings or delegating the authority for the same towards Senior Management when and where necessary.

## **8. The Role of the Audit and Management Committee (AMC) in Corporate Governance aspects**

The Audit and Management Committee (AMC) was formed in terms of PED/12 Para 7:4:1 to assist the Governing Council in the supervision of the affairs of AASL and to ensure the integrity of the company financial statements and the procedures of the institute.

The Audit Committee is comprised of three Non-Executive Board Members including a treasury representative with financial acumen. It is chaired by Mr. Anomal de Soysa as a Committee Chairman. Other members are Mr. N P L P Fernando and Mr. S R Attygalle as Deputy Secretary to the Treasury as a Treasury Representative. A representative from the Auditor General's Department Ms A D Dilrukshi – Superintendent of Audit participate as an Observer. In addition Head of IA & QA of AASL acted as the Convener. The Company Secretary coordinates this committee and act as a Secretary of the committee.

Throughout the year the committee members met four times during the year ended 31<sup>st</sup> December 2017.

### **The AMC's responsibilities include:**

- Monitoring the integrity of the financial statements and formal announcements relating to financial performance and reviewing significant reporting judgments. Director General and Senior Managers attend Audit Committee when necessary.
- Reviewing the accounting principles, policies and practices which have been adopted by the institute in preparation of the annual financial statements, financial reporting issues and disclosures in financial reports.

- Reviewing and monitoring the effectiveness of the institute's internal control and risk management systems, including reviewing the process for identifying, assessing and reporting key risks and control activities.
- Approving the internal audit plan and reviewing regular reports on the effectiveness of the internal control system.
- Reporting to the Governing Council any matters which have been identified that the committee needs to be considered, auctioned or improved upon.
- Review with Management, procedures relating to financial controls, including internal audit plans and reports. Review with external auditors, the scope and result of their audit.

The formal role of the AASL Audit and Management Committee (AMC) is to support the Governing Council by monitoring the implementation of the decisions and processes designed to ensure the integrity of financial reporting and robust systems of internal control and risk management. The AMC currently consists of five members.

In accordance with detail activities which consist of the rules and procedures of AASL and the Government regulations covering accounting and financial activities, the AMC reviewed the financial statements of the company to ensure its conformity to the Administrative Regulations (AR) & Financial Regulations (FR), AASL regulations as observed by the Auditor General.

Both the external and internal audit functions play a critical role in contributing to the integrity of the audited financial information. Accordingly, it is important that they are overseen and evaluated effectively by the Audit Committee at least quarterly. The AASL's line Ministry, the Ministry of Transport & Civil Aviation and the General Treasury need the assurance that the AASL's audit functions are effective and have been robustly evaluated. The scope of the evaluations should encompass all relevant issues including:

1. Quality of work undertaken during the evaluation period.
2. Caliber and experience of audit personnel.
3. The appropriateness of its reporting line in respect of Government and Internal Audit.

## Audit Committee Effectiveness

The Committee reviewed the existing systems, procedures, any deviations and submitted suggestions to improve the existing systems to the Governing Council for its approval from time to time. The Committee reviewed the queries raised by the Auditor General and Internal Auditor and the replies given by the relevant divisions. Matters were discussed with relevant Heads of Divisions in order to ensure correct implementation and avoid repetition of such errors.

### 8.1 Transparency and Integrity

Ongoing organizational cultural adoption towards safeguarding the integrity of the Company's financial reporting which demands enhanced governance, accountability and transparency is reviewed and monitored by the AMC. The entire procurement process of the Company based on the guideline issued by the Department of Public Finance of the Treasury provides a fully transference when acquiring goods and services.

### 8.2 Internal Audit

AMC is assisted by the AASL Internal Audit and Quality Assurance (IA & QA) Division. The Head of IA & QA is act as a Convener to the AMC and report to the Chairman. The main focus of the IA & QA Division is to conduct independent review on the overall prevailing system of internal control by evaluating the adequacy, integrity and effectiveness of internal controls, while ensuring that standards of quality for certain areas of the airport services are satisfactorily met and make appropriate recommendation to the Management in order to strengthen the internal controls. The Internal Audit includes;

- Reviewing prevailing system of internal control.
- Ensure that major decisions undertaken by the Board of Directors are implemented effectively.
- Evaluating and making recommendations on risk assessment over management decisions and activities under the purview of each division of the AASL, to the AMC and the Chairman of the AASL.
- Making observations on risk assessment by External Auditors in respect of systems and controls.
- Adhoc and periodic Financial Reviews with respect to Income and Expenditure and its recognition as well as reporting.
- Undertaking quality audits regarding selected airport facilities and airport services.

- Review of procurement procedures in compliance with the National Procurement Agency applicable procurement guidelines.

## 9. Accountability to the Government as the Key Stakeholder of AASL

As a fully Government owned Business undertaking, accountability to the Government is exercised through the line Ministry by AASL using the following mechanism:

### 9.1 Parliament

Annual Reports of the company should be tabled in Parliament within 150 days from the end of the financial year as per the Treasury Circular PE/PF 21 dated May 24, 2002 for review.

### 9.2 Committee on Public Enterprises (COPE)

The Parliamentary Committee on Public Enterprises (COPE) is empowered to review the performance of the Company and to assess the extent to which the Company achieves performance targets and fulfills social responsibilities. When summoned by the COPE, the Chairman, Directors and Senior Managers together with the Secretary to the Ministry of Transport & Civil Aviation, the Chief Accounting Officer should be present at the reviews, to respond to any queries and matters of concern regarding the activities of the Company. During the year, AASL was summoned by the COPE for one such meeting.

### 9.3 Parliamentary Sectoral Oversight Committee

As per the resolution of Parliament adopted on 19th December 2015 AASL comes under the Sectoral Oversight Committee on Transport and Communication. The main purpose of the committee is to evaluate and monitor the overall project progress, performance and any other special matters. Sectoral Oversight Committee Chaired by an opposition Member of Parliament in order to maintain the objectivity in the entire process.

### 9.4 Minister of Finance / General Treasury

The Minister of Finance or the General Treasury on his behalf is responsible for financial discipline in the public sector, including public enterprises. A Treasury representative is appointed to the Board to monitor performance, ensure compliance with statutes, rules and regulations etc. and to report on any matters of concern to the Minister. Mr. S. R Attygalle, the Treasury Representative, performed this function during the year under review.

The responsibility for monitoring the financial management and control of Public Enterprises lies in the hands of the Department of Public Enterprises (DPE), General Treasury.

### 9.5 Ministry of Transport and Civil Aviation

The Secretary of the Ministry of Transport and Civil Aviation and the Chief Accounting Officer is accountable to the Government for the financial administration and management of the Company and in this capacity regularly reviews the following matters with the Board.

1. Corporate Plan and Budgets
2. Physical and Financial performance of the Capital Projects undertaken in the current year
3. Audit Deliverables including Management Letter and Financial Performance of the year as a whole
4. Matters arising from meetings of the COPE or any other Statutory/Regulatory institution

## 10. Recognise the legitimate interests of stakeholders

Stakeholder value is enhanced when an entity treats the stakeholders well and has a reputation towards civic responsibility and legal compliance. In light of that, the Company recognizes the legal and other obligations to all legitimate stakeholders including the Government and other affiliated constituencies who have an interest over AASL's affairs, employees, users of the airport (airlines, passengers and the business community who run their businesses inside the airport) suppliers and other service providers and the community as a whole. These obligations are best viewed as part of the paramount duty to optimize long term stakeholder value.

It demonstrates its commitment to appropriate corporate practices, which comprise of the following areas:

1. Due diligence by the Board and Management to the regulatory framework.
2. Fulfilling the responsibilities of the Government, acting as the statutory service provider of airport operations.
3. Promptly meeting obligations to creditors and financial institutions.

4. Consistently meeting obligations in relation to fair trading and ensuring a level playing field when dealing with suppliers and other service providers.
5. Ensuring ethical business practices affecting the community.
6. Carrying out all operations and activities as stipulated by law and following best practices as appropriate.
7. Non-discriminatory treatment of all airport users.
8. Treat employees fairly and equitably.

The Company Secretary is primarily responsible to ensure compliance with applicable statutory, new regulations and is the interface between the Management and the regulatory authorities for governance matters.

## **11. Timely and Balanced Disclosure**

Providing timely, accurate information with required coverage of depth and breadth for prudent decision making is the crust of our information disclosures internally as well as externally. The company's established policies and procedures ensure compliance with the disclosure requirements of all laws and regulations, including the circulars stipulated in the Department of Public Enterprises of the General Treasury and Sri Lanka Financial Reporting Standards (SLFRS/LKAS)

AASL maintains effective and candid communication with the stockholders with the goal to help stockholders understand the business, risk profile, financial condition and operating performance and trends of the corporation. Many periodic and adhoc reports and analyzed information are provided as a practice and on demand. The employees are updated with true position of corporate operations and financial performance. The Company intranet serves the purpose of information dissemination enhancement to employees. AASL contributes to public policy dialogue whenever there is a development, enactment and revision of the laws and regulations that impact our business and affect the community in which we operate.

## **12. The Company Secretary**

The Company Secretary plays a key role in ensuring that the Board procedures are followed and regularly reviewed. The Company Secretary ensures that all relevant information, details and documents are made available to the Directors for effective decision making at the meetings.





# RISK MANAGEMENT

***“If you are not a risk taker, you should get the hell out of business”***

***Ray Croc***

When it comes to the arena of Risk Management some safety and risk management terms are commonly used when addressing the subject in particularly in “Airports”. Therefore, in this review, typical key terms are defined further to ensure consistent understanding in the airport industry and to minimize misuse or interchanging of terms.

Safety Plays a “Pivotal Role” in aviation risk avoiding possible “Hazards”.

Both terms are elaborated below.

## **Safety**

A well understood definition of the term “Safety” is necessary given that the Safety Risk Management (SRM) process deals predominately with safety risks. Three definitions of safety follow:

- a) **Safety**- “Freedom from harm or danger: the state of being safe; the state of not being dangerous or harmful.” (Merriam-Webster)
- b) **Safety**- “Freedom from unacceptable risk. (Federal Aviation Administration)” (FAA))
- c) **Safety**- “The state in which the risk of harm to persons or property damage is reduced to, and maintained at or below, an acceptable level throughout a continuing process of hazard identification and risk management.” (International Civil Aviation Organization (ICAO))

From an airport perspective, any of the definitions can suffice. The FAA’s definition is the simplest, while ICAO’s definition is the most complete. All definitions address risks which can do harm within the organization. Airports should develop or adopt a definition for safety that is compatible with their safety policies and objectives. For this guidebook, the FAA definition is the accepted definition.

## **Hazard**

Airport personnel must have a clear, consistent understanding of the term “Hazard”. Many airports in the early stages of SRM implementation use hazard synonymously with the term risk; however, these are different although related terms. A hazard must exist for the airport to be at risk. A hazard is defined as any existing or potential condition that can lead to injury, illness, or death to people; damage to or loss of a system, equipment, or property; or damage to the environment. A hazard is a condition that is a prerequisite of an accident or incident. A hazard might or might not result in a situation of high risk. Airport personnel need to learn the difference between a hazard and the risks posed by a hazard. The SRM process functions effectively only when the organization actively identifies conditions or potential conditions that can result in undesirable or harmful outcomes; the airport identifies hazards, then assesses and mitigates the risks.

## **Risks**

Hazards present risk. Risk is the composite of predicted severity and likelihood of the potential outcome of a hazard.

Risks may be categorized as follows:

- 1) **Initial** - The severity and likelihood of a hazard’s risk when it is first identified and assessed. Including the effects of pre-existing risk controls in the current system.
- 2) **Current** - The predicted severity and likelihood of a hazard’s risk at the current time.
- 3) **Residual** - The risk that remain after all risk mitigations have been implemented or exhausted and all risk mitigations have been verified.

Before understanding how risk can be managed, it is necessary to fully understand what risk is and how it relates to hazards. Risk combines two components: **likelihood** (or probability) and **severity**. Under the Safety Management System (SMS) approach, risk is the

probability of an undesirable event occurring. Although risk is sometimes represented as a mathematical equation (risk = likelihood × severity of outcome), risk is not calculated using this formula to come up with a quantitative value. The “risk formula” is a simple representation that the parameter (risk) has two components (likelihood and severity).

## Risk Mitigation

An airport operator-developed option or an alternative strategy to modify or reduce the risk of an identified hazard. Mitigations can be used to reduce the hazard’s effects on the system. Risk mitigation is also referred to as a “Risk Control”. Most risk management strategies address medium and high-risk hazards. Low-risk hazards may be accepted after considering risk. Risk management activities should identify feasible options to manage risk according to the following categories:

- a) **Avoidance** - Selecting a different approach or not participating in, or allowing, the operation or procedure.
- b) **Acceptance** - Accepting the likelihood, probability, and consequences associated with the risk.
- c) **Control** - Developing options and alternatives that minimize or eliminate the risk.
- d) **Transfer** - Shifting the risk to another area.

## Baseline Safety

An airport uses an Safety Management System (SMS) to improve safety performance. In order to measure change, airport management must establish a safety performance baseline. Safety performance cannot be measured daily like the number of departures or gallons of fuel pumped into aircraft. Safety performance is assessed over extended periods. The baseline level of safety performance is established before SMS implementation. Airport Management should review and analyze past safety performance measures and identify a period when performance was judged acceptable. This could be for a 3-month period, a 6-month period, or as long as a year. The longer the selected period, the more patient the organization must be in assessing the success of SMS initiatives. Key decision makers should receive regular updates on safety performance compared with baseline safety. These update help decision makers to make informed decisions on mitigation of risks associated with safety.

A SMS enables an airport to

- (1) anticipate and manage safety risks
- (2) find out how to improve safety after accidents and incidents have happened

Airports have been pursuing these goals since long before SMS was introduced to the industry. With SMS, airports can move from sporadic and isolated safety initiatives to a systematic process in which the entire airport works in a coordinated, more effective manner. The success of an airport’s SMS hinges on identifying potential hazards and deciding the likelihood of accidents occurring and then using this information to make decisions in time to lessen unacceptable risk. SRM also includes monitoring mitigations to find out their effectiveness and to start future hazard mitigation plans. This is what SRM does and the reason that SRM is considered the “heart” of an SMS. Even with the importance of SRM, its effective use cannot improve safety performance by itself. Effective SRM application works in coordination with the other three components of SMS: Safety Policy, Safety Assurance, and Safety Promotion. None exists as a standalone element and each component provides inputs to and supports the others. SRM is the primary operational component of the airport SMS. SRM is used by every airport function to manage risks at the airport every day. Effective SRM needs the active participation of all personnel at the airport (that is, airport staff, airlines, tenants, business partners, and other stakeholders). For SRM to work to benefit the airport, those involved in flight operations, emergency response, ground handling, and facility maintenance must constantly watch for conditions that could disrupt aircraft operations and the flow of passengers and cargo or cause damage to the assets needed to promote air transportation.

## Risk Management

Risks cannot be removed; the goal in most cases is to lessen the risk by either reducing the **likelihood** of an undesirable outcome or reducing the **severity** of the outcome to an acceptable level. Managing risk is to take actions to control unacceptable risks and use available resources to improve the overall safety of airport operations.

Risk management is a decision-making process applied to control risks associated with a single or multiple hazards. An airport always has multiple hazards to control and the risk management process involves assessing and classifying each risk, defining control measures and allocating the resources needed to implement the controls. These actions are carried out, so risks can be compared and ranked to make the best use of limited resources to control the risks.

## Risk Classification

One key task in risk management is to classify the risks. Risk classification allows one to rate the risks according to acceptability and use a consistent reference to compare risks-a reference that is relevant no matter

which airport function or project is being addressed. Using the same “measure” for every risk allows for comparisons, prioritization, and effective management. A risk matrix is a tool used to assess the risks associated with a particular hazardous condition. A risk matrix provides a way to decide where a risk fits into an airport’s predetermined levels of risk tolerance. The risk matrixes found in the FAA and ICAO guidance reflect

five levels of severity and five levels of likelihood, also referred to as a 5x5 (five-by-five) matrix. Regardless of the number of levels for either severity or likelihood, the definitions for each level need to represent the local conditions and risk tolerance of the individual airport. A 5x5 risk matrix is the most common matrix structure used in aviation. Each airport should adopt a matrix that fits its needs and complexity as given below in figure 1.

Severity \ Likelihood	No Safety Risk	Minor	Major	Hazardous	Catastrophic
Frequently	L5	M13	H20	H22	H25
Probable	L4	M12	M15	H21	H24
Remote	L3	L8	M14	M17	H23
Extremely Remote	L2	L7	L10	M16	M19
Extremely Improbable	L1	L6	L9	L11	M18

Low	Medium	High
No action required	Monitor, determine if risk can be mitigated to low risk	Must be mitigated to a medium risk

Figure 01: Proposed Risk Matrix for AASL

When identifying and classifying the risks, the qualitative criteria for risk probability recognized by the FAA- Internal Order 5200.11 to be followed.

	NAS System & ATC Operational	NAS Systems		ATC Operational		Flight Procedures	Airports
		Individual Item/System	ATC Service/NAS Level System	Per Facility	NAS-wide		Airport Specific
<b>Frequent A</b>	Probability of occurrence per operation/operational hour $\geq 1 \times 10^{-3}$	Expected to occur about once every 3 months for an item	Continuously experienced in the system	Expected to occur more than once per week	Expected to occur more than every 1-2 days	Probability of occurrence per operation/operational hour $\geq 1 \times 10^{-5}$	Expected to occur more than once per week or every 2,500 departures, whichever occurs sooner
<b>Probable B</b>	Probability of occurrence per operation/operational hour $\geq 1 \times 10^{-5}$	Expected to occur about once per year for an item	Expected to occur frequently in the system	Expected to occur about once every month	Expected to occur about several times per month		Expected to occur about once every month or every 250,000 departures, whichever occurs sooner
<b>Remote C</b>	Probability of occurrence per operation/operational hour is $\leq 1 \times 10^{-5}$ but $\geq 1 \times 10^{-7}$	Expected to occur several times during the lifecycle of an item	Expected to occur numerous times in a system's lifecycle	Expected to occur about once every year	Expected to occur about once every 3 years	Probability of occurrence per operation/operational hour $\leq 1 \times 10^{-5}$ , but $\geq 1 \times 10^{-7}$	Expected to occur about once every year or every 2.5 million departures, whichever occurs sooner
<b>Extremely Remote D</b>	Probability of occurrence per operation/operational hour $\leq 1 \times 10^{-7}$ but $\geq 1 \times 10^{-9}$	Unlikely to occur, but possible in an item's life cycle	Expected to occur several times in a system's lifecycle	Expected to occur once every 10-100 years	Expected to occur about once every 3 years	Probability of occurrence per operation/operational hour $\leq 1 \times 10^{-7}$ , but $\geq 1 \times 10^{-9}$	Expected to occur every 10-100 years or 25 million departures, whichever occurs sooner
<b>Extremely Improbable E</b>	Probability of occurrence per operation/operational hour $< 1 \times 10^{-9}$	So unlikely that it can be assumed that it will not occur in an item's lifecycle	Unlikely to occur, but it is possible in system lifecycle	Expected to occur < every 100 years	Expected to occur < every 30 years	Probability of occurrence per operation/operational hour $< 1 \times 10^{-9}$	Expected to occur $\leq$ every 100 years

Figure 02: Qualitative criteria for Risk Probability

## Risk Management apparatus at AASL

As the statutory service provider of the Government of Sri Lanka which manages four airports, two international namely BIA, MRIA and two domestic namely RMA and Batticaloa in addition to the development of airports in the country; the business of AASL is vulnerable to a diverse range of risks that not only threatens the operational and financial performance of the organization, but also the image of the country at large. Therefore at AASL, Risk Management is one of the key elements in the Corporate Governance framework, and the Senior Management is responsible for the effectiveness of the AASL's internal control system and Risk Management. At the corporate level, risks which may hinder AASL from achieving its long term objectives are analyzed within the context of its Corporate Plan. Risks relating to AASL's short and medium term objectives need to be identified and addressed annually during the preparation of the rolling Five-year Corporate Plan.

## Risk Management Structure at AASL

The Audit and Management Committee (AMC) of AASL monitors risks management procedure and reports to the Board. However, it is a critical focus for all levels at the AASL. Company's internal control measures have been designed to identify and mitigate risks.

Company's qualitative risk profile is assessed through a bottom-up analytical approach covering all operating and supporting functions. All operating departments are required to implement a thorough risk identification mechanism to review the risk and business continuity processes (BCP) pertaining to operational areas that are critical to sustaining the continuous operation of the airport.

Key elements of AASL's prospect integrated and multi-layered risk and BCP includes the establishment of an Operational Risks Register to track and document identified risks, the development and continuous updating of preventive and responsive procedures, and the testing and drilling of action plans and procedures to ensure their effectiveness.

Operational risks identified included potential degradation of service delivery standards, unforeseen disruptions to flow management, maintenance challenges to aging facilities. Continuous investments in facilities upgrade and replacement projects had been initiated. Other appropriate controls such as constant monitoring of service delivery standards, operating procedures and fallback contingency plans had been established to ensure impact on passengers is minimized. Regular fire drills and emergency exercises are also carried out to test the response capabilities of all concerned parties in case of eventualities.

## 01. Safety and Security Risks

### Safety Risks

Safety Unit is responsible for the safety concerns related to airfield areas in particularly;

- a) Airfield Constructions
- b) Wildlife Hazards
- c) Foreign Object Debris
- d) Airfield Configuration
- e) Severe Weather
- f) Airside Driving

Some of the risk concerns identified pertaining to the above areas are given below.

1. What will occur when the haul routes crossing operational areas?
2. Risk of the hazard if temporary haul routes crossing rapid exit taxiways?
3. What will occur if a landfill close to the airport?
4. Risk of the hazard if a wastewater treatment facility near the airport?
5. Risk of the wetlands, grasslands, wooded areas at or near the airport?
6. Risk of risk if dredge spoil containment areas near the airport?
7. Risk of the hazard of development of favourable habitat conditions for certain species?
8. Risk of the hazard if loose material from freshly mowed areas?
9. Risk of the hazard of proximity of helipads to unpaved areas?
10. Risk of the complex airfield configuration and intersections?
11. What are the nearness of taxiway intersections to runway thresholds?
12. Risk of the hazard of joint use of runway as taxiway?
13. Risk of the risk of extended shifts, distractions, weather conditions, etc., impacting situational awareness?
14. Risk of the risk of vehicle improperly marked, lighted, equipped and not inspected prior to operation?

## Security Risk

Airport security continued to see challenges arising from increasing volumes of passenger traffic and the evolving nature of the threats to civil aviation.

Risks associated with aviation security namely global terrorism such as ISIS, drug trafficking, dangerous liquids and solids, un-quarantined animals and plants, unruly passengers, malicious acts against passengers, aircraft and other aviation assets and threats to border security, contrabands and touting for customers etc. are in an increasing trend across the region.

### Risk Evaluation (Potential Impact on AASL)

The potential impact on AASL can be ranked as “High” before applying any risk mitigation or monitoring techniques.

### Risk Control & Mitigation

Safe operation is achieved through the concerted efforts of AASL, airlines and other key stakeholders.

In parallel with this, instilling an effective safety culture from the top management down has remained a priority.

Reporting of safety hazards and occurrences has been encouraged and monitored at all levels. As in previous years, safety, as measured by the rate of airport staff and passenger injuries and aircraft incidents and accidents at the airport, remains one prime key performance indicator of AASL’s Corporate Dashboard. AASL regularly reviews various standard operating procedures that cover all parts of AASL’s operations in the airfield, on the apron, at gates and in maintenance areas. As applicable to AASL the main focus of safety management is not only the risks already faced but the potential conditions that lead to various risks specially in the airfield.

For example bird population trends has been identified as a leading factor for accidents and incidents (due to bird strikes).

In order to avoid this risk, measures taken primarily at aerodrome such as Avifauna assessment and management. In addition, the Bird Hazard Control Unit under at AASL executes the recommendations spelt out by the Field Ornithology Group of Sri Lanka attached to Department of Zoology of University of Colombo in their periodic studies carried out at both BIA and MRIA.

The Aviation Security Division of AASL is responsible for the security of Civil Aviation operations at Bandaranaike International Airport (BIA) and Mattala Rajapaksa International Airport (MRIA) for the following areas.

- a) Access Control
- b) Aircraft Security
- c) Passenger & Carry-on Baggage
- d) Hold Baggage
- e) Cargo, Mail, Catering & Stores/Supplies
- f) Emergency & Contingency Management
- g) Surveillances, Investigations & Intelligence
- h) Recruiting ,Training & Revision of methodologies

## 02. Procedural and Bureaucratic Risk

Operational risks emerging through increased procedures and red tapes restricting the financial autonomy will limit the growth of AASL and competitive advantages and drives AASL towards “Compliance Driven” entity rather “Performance Driven” organization.

### Risk Evaluation (Potential Impact on AASL)

The potential impact on AASL can be ranked as “High”.

### Risk Control & Mitigation

The only mitigation mechanism available is “Compliance”

## 03. Volatility of Policies and Procedures

Political Risks also will limit AASL’s growth potential since the Management ability to make “right business decisions” at the “right time” adapting to the “right business atmosphere” is disturbed due to changes in policies of the Government and Administrative Regulatory authorities of the line Ministry and Finance Ministry.

### Risk Evaluation (Potential Impact on AASL)

The potential impact on AASL can be ranked as “High”

### Risk Control & Mitigation

Negotiation and compromise with line Ministry and other State Ministries to get things done faster.

## 04. High dependency on the national carrier- Sri Lankan Airlines.

Sri Lankan Airlines is the largest customer of AASL with a 50% share of passenger volume of the BIA.

### Risk Evaluation (Potential Impact on AASL)

Exposing AASL to a high level of structural risk resulting adversely to negotiate in terms of the market and customer base. Potential impact on AASL can be ranked as “High”.

## Risk Control & Mitigation

AASL is in a continuous effort to synchronize the business plans of both the airport operator and the national carrier. The country's Aviation Master Plan consists of strategies to safeguarding the interests of the national carrier along with a trade-off in the open-skies policy.

### 05. Information Technology related risks

Today IT Related risk mitigation techniques have become very important due to the following reasons.

#### Use of Social Media

Use of social media technologies is expanding into new areas. Examples include user communities, business collaboration, and commerce. Possible risks may be unauthorized access to confidential data, regulatory or legal violations. Current AASL policies may not readily apply.

#### Rapid Expansion of Devices

Rapid expansion of number of devices, and functionality (e.g., 15+ million iPads in current circulation). M-Commerce enabling technologies within companies introduces new risks such as loss / release of critical AASL data, security and identity management and application development challenges.

#### Expanding Cyber-Threat Trends

If 2016 was the year hacking went mainstream, 2017 will be the year hackers innovate, said Adam Meyer, Chief Security Strategist at SurfWatch Labs. Meyer analyzes large and diverse piles of data to help companies identify emerging cyber-threat trends. "2017 will be the year of increasingly creative hacks" he said. In the past, cyber security was considered the realm of IT departments, Meyer explained, but no longer. As smart companies systematically integrate security into their systems, the culture hackers too will evolve. "Cyber criminals follow the money trail" Meyer said, and smart companies should adopt proactive policies. Ransomware attacks grew quickly he said, because the attacks are "cheap to operate and many organizations are not yet applying the proper analysis and decision-making to appropriately defend against this threat."

Therefore, the effectiveness and security of information technology infrastructure and systems is critical to ensure the reliable and safe operation at the AASL. Some of the critical IT related risks (in addition to the risks of hackers and viruses to our confidential, sensitive and safety related information, firewall mechanism that is in place) are IP PABX Network failure due to lightning, devices failure/ telephone instrument failure, failure of

analog gateways, failure of hardware in systems such as EDGE System including email, web DNS, Sam, BMS, PA, Airfield Lighting Control, VDGS, Fire Detection System, Clock System, FID System etc, mainly due to lightning from network and from the power lines.

In general "Failure of Systems" will cause serious IT related risks to emerge.

#### Non Availability of Strategic Information Systems (SISs)

Today, regional airports are planning to experiment "Cloud Computing" techniques, use more SIS and IoT (Internet of Things) using "Big Data" they generate through provision of aviation services. Their aim is to transfer generic data into information, then into knowledge and finally make wisdom out of those data in order to achieve "competitive advantage" through "prescriptive analysis" of data.

However, yet AASL depends only on the "Generic Information Systems" based on "historic data" and even no single SIS is in operation at AASL.

During the years to come this will be a major constraint or risk if AASL wants to achieve its ultimate aspiration of "To be the most Efficient and Friendliest Premier Aviation Hub in the Asian Region". Because without having competitive advantage, AASL cant go there and to gain competitive advantage AASL must convert data into wisdom using SISs.

#### Risk Evaluation (Potential Impact on AASL)

Since ultimately IT related risks will cause disruption to operations, passenger dissatisfaction and loss of competitive advantage, the potential impact on AASL can be ranked as "high" before applying any risk mitigation techniques.

However, up to date and state of art risk mitigation tools are in place and therefore residual risk can be categorized as "Low" or "Moderate".

#### Risk Control & Mitigation

Historical audits are insufficient as risks are rapidly evolving. Need to complete an inventory of social media usage and existing policies, procedures and controls. Draft and execute new IT audit plan based on emerging risks and current usage within the organization – may need to include the HR, IT, and Legal departments.

Advanced system authentication controls with special focus on network access control and intrusion, detection, in addition to safeguard introduced for the prevention of hackers and unlawful interferences, to the system.

Any interruption of the IT services and failure of system contingency may disrupt airport operations. To address this risk, preventive maintenance, detective monitoring and containment measures are implemented to mitigate the risk of operation disruption. Security threats are mitigated through preventive and detective measures including restricted network access, installation of intrusion detection system and the use of security monitoring tools to alert Management on risks and vulnerabilities.

IT Governance Framework and IT Risk Management Framework are established to ensure consistent risk assessment and management. Annual review is undertaken to ensure that IT projects align with corporate strategies. IT obsolescence status is reviewed periodically. Emerging IT security risks are monitored and proactive measures are in place to enhance risk awareness. Some specific risk mitigation techniques are being implemented at AASL are ;

Deployment of optical/ redundant fiber networks, on line UPS and protectors, purchase based on warranty one to one replacement, maintenance of spare instrument stock, surge protection devices for programmable logic controllers (PLCs) and all incomers etc.

Further, pre-monitoring mechanisms as well as post monitoring and detection systems are in place to prevent and minimize the system failures. The Central Fault Monitoring System is such a pre monitoring system which displays the current status and faults graphically and warns on future collapses.

Fire detection systems and contingency plans are in place to ensure the prompt detection of faults while minimizing the loss or damage.

Data Centre at airport support advanced technologies like network virtualization, server virtualization & consolidation and storage virtualization.

AASL is currently discharging the business continuity services enabling minimization of the machine down time of IT systems from Disaster Recovery (DR) Centre located at BIA – Katunayake. The modular architecture of the current DR site provides greater flexibility in relocating to MRIA in future.

## **06. Non availability of ERP System**

Non availability of Integrated Enterprise Resources Planning (ERP) solution supporting provision of reliable up to date Management Information.

Currently this has become an evolving “information type” risk which may bring negative consequences across all other categories of risks already discussed.

At present even small scale organizations use comprehensive ERP solutions in their financial and non financial activities enabling them to retrieve reliable management information generating competitive advantage within their industries.

### **Risk Evaluation (Potential Impact on AASL)**

At present risk can be categorized as “High”.

### **Risk Control & Mitigation**

Previous risk mitigation approaches taken by AASL to reduce the particular risk were failed. However, currently IT, SCM and Finance Divisions are collaboratively working on introducing ERP solution and hopefully will be implemented within next couple of year’s time.

## **07. Credit Risk**

This refers to the risk of debt not being paid by the debtors when they fall due.

Default risk is mainly related to nonscheduled overflying operations.

### **Risk Evaluation (Potential Impact on AASL)**

Since this risk carries a direct relationship in respect of the cash flow of AASL, before applying any mitigation techniques, credit risk can be categorized as “High risk” factor.

### **Risk Control & Mitigation**

Prior to permitting or extending a credit line, AASL obtains bank guarantees from majority of their debtors, based on predetermined limits of credit which adequately cover the risk of default.

AASL has further legal provisions in place to terminate the contract for the provision of services or commercial space at the airport if there is a risk of the debtor moving beyond the stage of recovery. Guaranteed Performance Contracts are entered with minimum parameters dictated for turnover earned by concessionaires at BIA. Bank guarantees are incorporated in to the agreements, which also cover liquidated damages, penalties, duration and settlement procedures.

The liquidity risk arising out of default payment is mitigated by charging a higher default interest rate than the lending rate offered by Government securities.

## 08. Aircraft incidents in the Colombo Flight Information Region

### Risk Evaluation (Potential Impact on AASL)

If this risk is not properly mitigated it would result in loss of core business of AASL. The risk can be considered as “High”.

### Risk Control & Mitigation

Regulation, education and training supports to mitigate the said risk.

The adherence to universally accepted Standards And Recommended Practices (SARPs) related to safety, personnel licensing, operation of aircraft, aerodromes, air traffic services, accident investigation and the environment are maintained with periodic surveillance audits carried out by the regulatory authorities.

Installation of ADS-B Ground Stations at Katunayake, Ratmalana, Piduruthalagala, Mattala, Sooriyakanda, & Kilinochchi and Supply, Installation & Commissioning of Air Traffic Management (ATM) System at BIA also can be considered as risk control & mitigation actions.

## 09. Foreign Exchange Risk on Loan Repayments

Exposure or uncertainty inherent in dealing with more than one currency that does not have fixed parity values.

This is a type of risk that is far beyond the control of AASL. If LKR depreciation is higher against foreign currency, then this risk will be increased. For an example in the year 2017, AASL profitability was adversely affected by Rs.1.5 billion exchange loss.

In order to get the magnitude of impact LKR vs US\$ conversion rates are given below.

Year 2010 to 2017, the LKR/USD exchange rate has increased by 44% from Rs. 110.95 to Rs. 159.33.

### Risk Evaluation (Potential Impact on AASL)

Adverse impact on profitability and liquidity on translation of foreign currency transactions to base reporting currency.

However these risks are beyond AASL’s control and are being monitored by the monetary and financial stability policies of the Central Bank of Sri Lanka. Further may fluctuate generating both adverse as well as favorable financial results.

## Risk Control & Mitigation

Internal hedging through matching technique (Equating assets and liabilities in foreign currencies wherever possible) and look into the possibilities of increased earnings in foreign currency.

## 10. Interest Rate Risk (on short, medium and long term investments)

### Risk Evaluation (Potential Impact on AASL)

Opportunity cost on the cash flows invested and decreased returns on investments due to low interest rates resulting reduced contribution to the Profit Before Tax (PBT).

Potential risk impact can be rated as “low or moderate”.

### Risk Control & Mitigation

In order to minimize interest rate risk and improve yields, AASL has adopted the following mechanism.

- Invest in long term debentures at a higher rate.
- Invest in daily overnight Treasury bills.
- Invest under various terms of maturity such as daily, specific number of days, monthly, quarterly, bi-annually and annually.
- Invest in different products to maintain a diverse investment portfolio comprising Treasury Bills, Fixed Deposits and USD Fixed Deposits etc.
- Maintaining a daily interest earning Fund Management Account into which daily surplus cash transferred if specifically not invested.

## 11. Impact created by Pressure Groups

Operational risk arising from diverse claims of Internal and external pressure groups such as unions attached to various political parties, Customs, Immigration and Emigration, Sri Lanka Air Force, Sri Lanka Police etc.

### Risk Evaluation (Potential Impact on AASL)

If there is a higher risk then it will lead to disruption of operations, loss of profits & dissipation of resources. However, considering the historic experiences potential impact on AASL can be ranked as “low or moderate”.



## Risk Control & Mitigation

The currently adopted risk mitigation mechanism is coordination and cooperation with those internal and external pressure groups in order to avoid any possible “operational breakdown”.

## 12. Interruption in Utility Services

As an international airport there are number of utility services and service providers such as Electricity Board, Water Board, Ceylon Petroleum Corporation, Sri Lanka Telecom etc, who are actively dealt with routine operations. Any interruption in these services will directly and adversely affect AASL’s business.

### Risk Evaluation (Potential Impact on AASL)

Since adequate mitigation measures have already been implemented against “Obstruction to Operations” potential impact is “Low”.

## Risk Control & Mitigation

Improvement of the ground water harvesting system through additional bore wells in order to reduce the overdependence on the main water supply system to ensure an uninterrupted supply of water to the BIA A sufficient number of generators with the required capacity have been deployed as the back-up plan in case of electricity failure. In addition there are adequate fuel stocks maintained in order to face possible fuel shortage.

## 13. Impact created by Disruptive Technologies

Impact created by Disruptive Technologies worldwide such as;

- a) Internet of Things (IoT)
- b) Artificial Intelligence (AI)
- c) Space Colonization
- d) 3D Printing
- e) High-Speed Travel
- f) Blockchain Technology
- g) Autonomous Vehicles

The risk of emerging these disruptive technologies is that would change the entire “business model” of airports if they are unable to adopt the consequences of these advanced technologies come from various shapes and directions. Especially if these technologies that are blended into the technologies that are frequently being used at airports such as X-ray screen, ATM, ADS-B, AIM worldwide and if AASL’s adoptability is remote or delayed it will create a risk.

## Risk Evaluation (Potential Impact on AASL)

Today, impact created by disruptive technologies are treated as key risks in aviation sector, especially in the developed airports because, these technologies due to their developed technicality, have ability to challenge the prevailing security concerns. Further, there is a higher probability of using them for destructions.

Therefore, uncertainty as well as impact of such technologies can be categorized as “medium or low” in case of Sri Lanka’s aviation sector right now.

## Risk Control & Mitigation

“Triple A” Approach to be followed;

- A**cknowledge
- A**ssess
- A**ddress

Currently, in the context of AASL, there are no specific identified risk control and mitigation mechanism to face such adverse implications created by disruptive technologies; because even identifying and categorizing of such impacts are also challengeable. Therefore, at the moment, acknowledging such risks is adequate instead of assessing and addressing them.



Batticaloa Airport



# FINANCIAL REPORTS & CALENDAR

*“The three most vital things do not appear in the Balance Sheet of a company are People, Reputation and Ethics”*

*Henry Ford*

## FINANCIAL REPORTS

Report of the Auditor General	90
Statement of Comprehensive Income	93
Statement of Financial Position	94
Statement of Changes in Equity	95
Statement of Cash Flows	96
Notes to the Financial Statements	97

## FINANCIAL CALENDAR

Final Dividends for 2016 was paid on  
**July 27, 2017**

Interim Dividends for 2017  
was paid on **December 04, 2017**

Annual Report and Accounts for 2017  
signed on **May 30, 2018**

Thirty Sixth Annual General Meeting to  
be held on **June 29, 2018**

# INDEPENDENT AUDITOR'S REPORT



විගණකාධිපති දෙපාර්තමේන්තුව  
கணக்காய்வாளர் தலைமை அறிப்பி திணைக்களம்  
**AUDITOR GENERAL'S DEPARTMENT**



My No. AVA/A/AASL/06/17/60

19 June 2018

To the Shareholders of the

Airport and Aviation Services (Sri Lanka) Limited.

## **Report of the Auditor General on the Financial Statements of the Airport and Aviation Services (Sri Lanka) Limited for the year ended 31 December 2017**

The audit of the financial statements of the Airport and Aviation Services (Sri Lanka) Limited ("Company") for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

### **Board's Responsibility for the Financial Statements**

The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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

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

## Basis for Qualified Opinion

- a. The statement of financial position includes property, plant and equipment relating to the Mattala Rajapaksha International Airport (MRIA) with a carrying amount of Rs.24 Billion as at 31 December 2017. There had been a downturn in the operations of MRJA from commencement and presently there are no international flight movements except few domestic flights.

I consider these to be indicators of impairment in accordance with LKAS 36, Impairment of assets, as the economic performance of MRJA has deteriorated at the date of this report with full potential of the airport not expected to be realized in the near future. However, management has not carried out an impairment assessment to check whether there is any indication that MRJA may be impaired, on the basis of it being a separate cash generating unit, and thereby has not carried out an impairment test to determine whether any impairment write down should be applied to the amounts recorded in the statement of financial position as at 31 December 2017. In the absence of information to assess the recoverable amount of the property, plant and equipment of MRJA, I am unable to satisfy myself as to the carrying amount of such property, plant and equipment as at 31 December 2017.

Further I draw attention to Note 11 (iii) to the financial statements. Even though there were discussions held with Government of India (GOI), the proposal from GOI still has not finalized.

- b. I draw attention to Note 2.1.1 to the financial statements which explains the basis for amalgamating the financial statements of the Company with the Government Grant for Capital Expenditure (Voted Fund) and the Retained Revenue Fund. Based on the Cabinet decision dated 17 August 2005, the Secretary to the Treasury has directed the Company to fulfill the following conditions by his letter No.PE/GOCO/1/1 dated 04 February 2006.

- i. Action being taken to value the land and building of airport presently owned by the Government and other movable and immovable assets held by the Company
- ii. Taking over the liabilities relating to Airport Development presently serviced by the Government of Sri Lanka, and
- iii. Issuance of shares to the Government of Sri Lanka for the net assets thus transferred

However, the company had taken over only the liabilities neither valuing the Land and Buildings and other movable and immovable assets owned by the Government and brought to the accounts nor issuing shares to the Government of Sri Lanka for the net assets transferring.

- c. Foreign loans obtained by the Government of Sri Lanka relating to Katunayake Airport Development Project, Colombo International Airport Development Project, 02 loans relating to Modernization of Ratmalana Air Traffic Control System had been recorded as liability in the accounts of the Company based on the letter issued by the Secretary to the Treasury on 04 February 2006 without any loan agreement. The total loan outstanding as at 31 December 2017 in respect of the above loans was Rs.10,139 Million. It was further observed these loans are also shown as liabilities in the Republic Account by duplicating of recording the loans.

Further, foreign loan obtained for Mattala Rajapaksa International Airport (MRIA) had also been transferred to the Company by General Treasury through a Memorandum of Understanding (MOU) without any valid loan agreement or transfer. The outstanding loan balance as at 31 December 2017 was Rs.24,643 Million which is equivalent to USD 159 Million.

## Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Airport and Aviation Services (Sri Lanka) Limited as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## Report on Other Legal and Regulatory Requirement

As required by Section 163 (2) of the Companies Act No.07 of 2007, I state the followings:

- a. The basis of opinion and scope and limitations of the audit are as stated above.
- b. In my opinion except for the matters described in the basis for qualified opinion paragraph :
  - I have obtained all the information and explanations that required for the audit and as far as appears from my examinations, proper accounting records have been kept by the Company
  - The financial statements of the Company comply with the requirement of Section 151 of the Companies Act No. 07 of 2007.

## Report to Parliament

My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.



H.M. Gamini Wijesinghe

**Auditor General**

# FINANCIAL STATEMENTS

## STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Sri Lanka Rupees)

	Note	Year ended December 31	
		2017 Rs.	2016 Rs.
<b>Revenue</b>	5	<b>20,494,586,197</b>	18,013,471,729
Other Income	6	<b>263,081,411</b>	315,543,437
		<b>20,757,667,608</b>	18,329,015,165
Administration and Establishment Expenses	7	<b>(10,528,356,810)</b>	(10,641,888,262)
<b>Operating Profit</b>		<b>10,229,310,798</b>	7,687,126,903
Finance Income	8	<b>2,783,192,657</b>	1,894,214,701
Finance Cost	8	<b>(2,192,751,424)</b>	(2,672,747,250)
Net Finance (Cost) / Income		<b>590,441,233</b>	(778,532,549)
<b>Profit Before Income Tax</b>		<b>10,819,752,031</b>	6,908,594,354
Income Tax Expenses	9	<b>(2,104,829,836)</b>	11,149,716
<b>Profit for the Year</b>		<b>8,714,922,195</b>	6,919,744,070
Basic Earning Per Share	10	<b>43,574.18</b>	34,598.37
<b>Other Comprehensive Income</b>			
Gain/(loss) arising from changes in assumptions on computing Retirement Benefit Obligation	23	<b>(1,358,497,532)</b>	5,591,439
Deferred Tax on Actuarial Gain/(Loss)	13	380,379,309	(1,565,603)
<b>Total Other Comprehensive Income</b>		<b>(978,118,223)</b>	4,025,836
<b>Total Comprehensive Income for the Year</b>		<b>7,736,803,972</b>	6,923,769,906

The notes on pages 97 to 127 form an integral part of these financial statements.

Independent Auditors Report on Page 90 to 92.



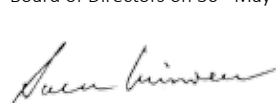
# STATEMENT OF FINANCIAL POSITION

(All amounts in Sri Lanka Rupees)

As at December 31

	Note	2017 Rs.	2016 Rs.
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, Plant and Equipment	11	47,053,158,074	39,918,222,376
Intangible Assets	12	39,753,131	12,830,190
Deferred Tax Assets	13	1,270,719,995	797,895,349
		<b>48,363,631,200</b>	40,728,947,916
<b>Long Term Investment</b>			
Investment in Debentures	14	3,940,000,000	2,650,000,000
Loans to Company Officers	16.1	101,851,456	92,448,969
		<b>4,041,851,456</b>	2,742,448,969
<b>Current Assets</b>			
Inventories	15	762,291,133	473,538,561
Trade and Other Receivables	16	3,526,540,564	3,475,445,561
Income Tax Receivable	17	Nil	970,271,595
Treasury bills/Repurchase agreements and short term Bank deposits	18	29,439,372,183	21,520,929,076
Cash and Cash Equivalents	18	887,203,598	1,187,019,995
		<b>34,615,407,478</b>	27,627,204,787
<b>Total Assets</b>		<b>87,020,890,134</b>	71,098,601,672
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Stated Capital	19	20,000,200	20,000,200
Reserves	20	1,040,226,769	1,019,226,769
Retained Earnings	21	22,203,458,660	15,396,983,807
		<b>23,263,685,629</b>	16,436,210,776
<b>Non-Current Liabilities</b>			
Borrowings	22	39,728,329,448	35,068,548,732
Retirement Benefit Obligation	23	4,267,855,253	2,576,178,455
Deferred Tax Liability	13	6,157,239,962	5,321,588,674
Deferred Government Grant	24	1,156,493,306	1,244,099,064
		<b>51,309,917,970</b>	44,210,414,924
<b>Current Liabilities</b>			
Trade and Other Payables	25	9,297,506,582	7,841,175,329
Borrowings	22	3,051,834,362	2,610,800,642
Income Tax Payable	17	97,945,592	Nil
		<b>12,447,286,536</b>	10,451,975,971
<b>Total Liabilities</b>		<b>63,757,204,506</b>	54,662,390,896
<b>Total Equity and Liabilities</b>		<b>87,020,890,134</b>	71,098,601,672

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were authorised by the Board of Directors on 30<sup>th</sup> May 2018.



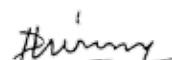
**Chairman**

Signed on behalf of the Board on 30<sup>th</sup> May 2018.



**Executive Director**

I certify that these financial statements have been prepared in compliance with the requirements of the Companies Act, No. 07 of 2007.



**Head of Finance**

The notes on pages 97 to 127 form an integral part of these financial statements. Independent Auditors Report on Page 90 to 92.

# STATEMENT OF CHANGES IN EQUITY

(All amounts in Sri Lanka Rupees)

	Note	Stated Capital	Other Reserves	Retained Earnings	Total
		Rs.	Rs.	Rs.	Rs.
Balance as at January 01, 2016		20,000,200	1,008,226,769	9,984,213,901	11,012,440,871
Profit for the Year		Nil	Nil	6,919,744,070	6,919,744,070
<b>Other Comprehensive Income</b>					
Actuarial Gain on Post Employment Benefit Obligations		Nil	Nil	5,591,439	5,591,439
Deferred Tax on Actuarial Gain		Nil	Nil	(1,565,603)	(1,565,603)
<b>Other Comprehensive Income, net of Tax</b>		Nil	Nil	4,025,836	4,025,836
<b>Total Comprehensive Income</b>					
Dividend Paid	27	Nil	Nil	(1,500,000,000)	(1,500,000,000)
Transfer to Reserve Account		Nil	11,000,000	(11,000,000)	Nil
Balance as at December 31, 2016		20,000,200	1,019,226,769	15,396,983,807	16,436,210,776
<b>Balance as at January 1, 2017</b>		<b>20,000,200</b>	<b>1,019,226,769</b>	<b>15,396,983,807</b>	<b>16,436,210,776</b>
Prior Year Adjustment				(59,329,119)	(59,329,119)
<b>Profit for the Year</b>		<b>Nil</b>	<b>Nil</b>	<b>8,714,922,195</b>	<b>8,714,922,195</b>
<b>Other Comprehensive Income</b>					
Actuarial Gain on Post Employment Benefit Obligations		Nil	Nil	(1,358,497,532)	(1,358,497,532)
Deferred Tax on Actuarial Gain		Nil	Nil	380,379,309	380,379,309
<b>Other Comprehensive Income, net of Tax</b>		<b>Nil</b>	<b>Nil</b>	<b>(978,118,223)</b>	<b>(978,118,223)</b>
<b>Total Comprehensive Income</b>					
Dividend Paid	27	Nil	Nil	(850,000,000)	(850,000,000)
Transfer to Reserve Account		Nil	21,000,000	(21,000,000)	Nil
<b>Balance as at December 31, 2017</b>		<b>20,000,200</b>	<b>1,040,226,769</b>	<b>22,203,458,660</b>	<b>23,263,685,629</b>

The notes on pages 97 to 127 form an integral part of these financial statements.

Independent auditor's report- pages 90 and 92.

# STATEMENT OF CASH FLOWS

(All amounts in Sri Lanka Rupees)

	Note	Year ended December 31	
		2017 Rs.	2016 Rs.
<b>Cash Flows from Operating Activities</b>			
Profit Before Income Tax Expenses		10,819,752,031	6,908,594,354
<b>Adjustment for :</b>			
Depreciation	11	2,221,649,869	2,652,137,717
Amortization of Intangible Assets	12	9,187,877	12,549,232
Prior year Depreciation adjustment		5,550,752	-
Exchange (gain)/loss	22	1,407,331,954	1,777,079,530
Income from Investment	8	(2,765,865,060)	(1,874,898,049)
(Profit)/Loss on Sales of Property, Plant and Equipment		67,566,314	(1,363,891)
Prior year Adjustments		(59,329,119)	-
Amortization of Deferred Government Grants	24	(87,605,758)	(87,605,758)
Finance Cost	8	664,253,749	705,413,235
Provision for Retirement Benefit Plan	23	555,270,168	404,904,826
<b>Operating Profit before Working Capital Changes</b>		<b>12,837,762,777</b>	<b>10,496,811,196</b>
(Increase)/ Decrease in Inventories		(288,752,572)	(124,165,183)
(Increase)/ Decrease in Trade and Other Receivables		(51,095,004)	1,094,780,525
Increase /(Decrease) in Trade and Other Payables		1,456,331,253	281,454,240
<b>Cash Generated from Operations</b>		<b>13,954,246,454</b>	<b>11,748,880,779</b>
Defined Benefit Plan Costs Paid	23	(222,090,902)	(218,479,647)
Interest Paid	8	(664,253,749)	(705,413,235)
Income Tax Paid	17	(293,406,697)	(211,571,814)
<b>Net Cash Generated from Operating Activities</b>		<b>12,774,495,107</b>	<b>10,613,416,084</b>
<b>Cash Flows from Investing Activities</b>			
Acquisition of Property, Plant and Equipment	11	(9,437,506,306)	(2,391,642,012)
Acquisition of Intangible Assets	12	(36,110,818)	(7,951,985)
Investment in Debentures	14	(1,290,000,000)	(1,600,000,000)
Proceeds from Sale of Property, Plant and Equipment		7,803,672	2,306,572
Withdrawal of Debenture Investment		-	2,000,000,000
Interest Received	8	2,765,865,060	1,874,898,049
Staff Loan Granted		(127,877,117)	(112,968,905)
Staff Loan Receipt		118,474,631	107,622,164
<b>Net Cash used in Investing Activities</b>		<b>(7,999,350,877)</b>	<b>(127,736,117)</b>
<b>Cash Flows from Financing Activities</b>			
Dividend Paid	21	(850,000,000)	(1,500,000,000)
Loan Receipt	22	6,333,088,591	763,697,010
Loan Repayment	22	(2,639,606,108)	(2,591,072,366)
<b>Net Cash used in Financing Activities</b>		<b>2,843,482,483</b>	<b>(3,327,375,358)</b>
<b>Net Increase in Cash and Cash Equivalents</b>		<b>7,618,626,712</b>	<b>7,158,304,610</b>
<b>Cash and Cash Equivalents at the Beginning of the Year</b>	18	<b>22,707,949,070</b>	<b>15,549,644,460</b>
<b>Cash and Cash Equivalents at the end of the Year</b>	18	<b>30,326,575,782</b>	<b>22,707,949,070</b>

The notes on pages 97 to 127 form an integral part of these financial statements.

Independent Auditors Report on Page 90 to 92.

# NOTES TO THE FINANCIAL STATEMENTS

**(In the notes all amounts are shown in Sri Lanka Rupees unless otherwise stated)**

## **1. Corporate Information**

### **1.1 General**

Airport and Aviation Services (Sri Lanka) Limited ("Company") is a limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at Bandaranaike International Airport, Katunayake.

### **1.2 Principal Activities and Nature of Operations**

During the year, the principal activities of the Company were management of airports at internationally accepted standards, provision of air navigational services for inbound aircraft and aircraft flying through the Sri Lanka Flight Information Region (FIR) and providing other necessary facilities to the users of the airports.

### **1.3 Date of Authorization for Issue**

The financial statements of Airport and Aviation Services (Sri Lanka) Limited for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 30th May 2018

## **2. Summary of Significant Accounting Policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **2.1 Basis of Preparation**

The financial statements have been prepared in accordance with and comply with Sri Lanka Accounting Standards (SLFRSs/LKAS). The financial statements are prepared under the historical cost basis, as modified by fair valuation of certain financial assets and

liabilities and present value of defined benefit obligations.

The preparation of financial statements in conformity with SLFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgment in the process of applying the Company's accounting policies. The areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

These financial statements are presented in Sri Lanka Rupees. The preparation and presentation of these financial statements is in compliance with the Companies Act, No 07 of 2007.

### **2.1.1 Amalgamation**

These financial statements present the amalgamated position of the Company including:

- (a) The Voted Fund representing the government grants for capital expenditure; and
- (b) The Retained Revenue Fund,

Which were prepared and presented separately up to the year 2011 pending an opinion from the Attorney General.

The Attorney General's opinion was sought by the Civil Aviation Authority based on a request made by the Company to the Ministry of Transport and Civil Aviation to initiate action to commence the statutory amendments mentioned under paragraph 3.5 of the Cabinet Memorandum given in the Cabinet approval dated 17 August 2005 to amalgamate the assets and liabilities of the airport with those of the Company along with the necessary legislative amendments.

The necessity for the above Cabinet approval was due to the ownership of only part of the assets held by the former Airport Authority been transferred to the Company in 1983 with the formation of the Company and dissolution of the Airport Authority with the remaining assets and liabilities been held and accounted under the voted and the retained revenue funds.

## Notes to the Financial Statements (Contd)

The Board of Directors of the Company on 28 June 2013 approved the amalgamation in order to comply with the Sri Lanka Accounting Standards (SLFRS/LKAS), on the basis that the Company in engaging in its principal activities deriving economic benefits from the use of the assets recorded in the two funds and also accounting for obligations on debt servicing without recording the related liability, thus deviating from fundamental accounting concepts.

### 2.1.2 Statement of Compliance

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company as per the provisions of the Companies Act and the SLFRSs.

The statement of financial position, statement of comprehensive income, changes in equity and cash flows, together with accounting policies and notes, ("Financial Statements") of the Company as at 31 December 2017 and for the year then ended together with the comparative information are comply with the Sri Lanka Accounting Standards (SLFRS/LKAS) laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act.

These Standards are listed at [www.casrilanka.com](http://www.casrilanka.com).

### 2.1.3 Comparative Information

The accounting policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1.4 Basis of Measurement

The Financial Statements of the Company have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

Investments - Fair Value  
Short Term Investments - Fair Value.

Net Defined Benefit Liability- Liability is recognised as the present value of the Defined Benefit Obligation plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial Losses

### 2.1.5 Functional and Presentation Currency

Items included in the Financial Statements of the Company are measured using the currency of the primary economic environment in which the Company operates (The Functional Currency). These Financial Statements are presented in Sri Lankan Rupees, the Company's Functional and Presentation Currency. There was no change in the Company's Presentation and Functional Currency during the year under review.

### 2.1.6 Presentation of Financial Statements

The assets and liabilities of the Company presented in its Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. Financial Assets and Financial Liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle permitted by an Accounting Standard or Interpretation, and as specifically disclosed in the Accounting Policies of the Company.

### 2.1.7 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard-LKAS 1 on 'Presentation of Financial Statements'.

### 2.1.8 Use of Judgments and Estimates

In preparing the Financial Statements of the Company in conformity with SLFRSs the

# NOTES TO THE FINANCIAL STATEMENTS

management has made judgments, estimates and assumptions that affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively when necessary.

## 2.1.9 Going Concern

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on going concern basis.

## 2.1.10 Fair Value of Financial Instruments

The Company has measured its financial instruments at fair value.

## 2.1.11 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Assumptions are made to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

## 2.1.12 Changes in Accounting Policy and Disclosures

### **New standards, amendments and interpretations adopted by the Company**

A number of new standards and amendments to standards which have been issued but not yet effective as at the reporting date have not been applied in preparing these Financial Statements. Accordingly, these Accounting

Standards have not been applied in preparing these Financial Statements.

The following new standards are not expected to have a significant impact of the Company's Financial Statements.

SLFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of SLFRS 9 was issued in July 2014. It replaces the guidance in LKAS 39 that relates to the classification and measurement of financial instruments. SLFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in LKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. SLFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'Hedged Ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under LKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is yet to assess SLFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

## Notes to the Financial Statements (Contd)

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct use and obtain the benefits from the good or service. The standard replaces LKAS 18 'Revenue' and LKAS 11 'Construction Contracts' and related interpretations. The standard is effective for accounting periods beginning on or after 1 January 2018 and earlier application is permitted. The Company is assessing the impact of IFRS 15.

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Statement of Financial Position finance leases and Off-Statement of Financial Position operating leases. Instead there will be a single On-Statement of Financial Position accounting model that is similar to current finance lease accounting. SLFRS 16 is effective for annual reporting periods beginning on or after 01, January 2019.

There are no other SLFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

### 2.2 Foreign Currency Translation

#### a) Functional and Presentation Currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Sri Lanka Rupees, which is the Company's functional and presentation currency.

#### b) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'other (losses)/gains – net'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognised in the Statement of Comprehensive Income, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

### 2.3 Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the Statement of Comprehensive Income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the Statement of Financial Position date.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

# NOTES TO THE FINANCIAL STATEMENTS

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Statement of Financial Position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority.

## 2.4 Inventories

Inventories are stated at the lower of cost and net realizable value after making due allowances for obsolete and slow moving items.

Spare parts and consumables for fire equipment brought before 31 December 2003 are valued based on a valuation and thereafter on weighted average basis.

The cost incurred in bringing inventories to its present location and conditions are accounted using the weighted average basis other than fuel which is valued at First-in, First-out (FIFO) basis.

Company has made allowances for all inventories which are non-moving for more than 10 years.

## 2.5 Trade and Other Receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Other receivables are recognized at cost less allowances for bad and doubtful receivables.

## 2.6 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

## 2.7 Property, Plant and Equipment

All property, plant and equipment are initially recorded at cost and stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items and also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is



## Notes to the Financial Statements (Contd)

derecognized. All repairs and maintenance costs are charged to Statement of Comprehensive Income during the financial period in which they are incurred.

Cost of long term capital projects are carried forward in capital projects work- in – progress until the projects are completed and the related assets are available for use.

Depreciation begins when an item of property, plant and equipment is available for use and will continue until it is derecognized, even if during that period the item is idle. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their costs to their residual values over their estimated useful lives.

The useful lives of the assets are estimated as follows:

Buildings	Over 50 Years
Plant and Machinery	Between 04 to 20 Years
Motor Vehicles	Between 04 to 15 Years
Furniture, Fittings and Office Equipment	Over 08 Years
Communication and Navigation Equipment	Between 05 to 10 Years
Other Equipment	Over 08 Years
Airport Infrastructure	Between 08 to 50 Years

An asset's carrying amount is written down immediately to its recoverable amount if the asset carrying amount is greater than its estimated recoverable amount.

When each major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Comprehensive Income in the year the asset is de-recognized.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other income / (losses) net, in the statement of comprehensive income.

### Impairment of Property, Plant and Equipment

The carrying value of Property, Plant and Equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount the assets are written down to their recoverable amount. Impairment losses are recognized in the Statement of Comprehensive Income unless it reverses a previous revaluation surplus for the same asset.

### 2.8 Stated Capital

Ordinary shares are classified as equity.

### 2.9 Trade Payables

Trade Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Liabilities classified as trade and other payables in the Statement of Financial Position are those which fall due for payment on demand or within one year from the Statement of

# NOTES TO THE FINANCIAL STATEMENTS

Financial Position date. Items classified as non-current liabilities are those which fall due for payment beyond a period of one year from the Statement of Financial Position date.

Trade payables are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method.

## 2.10 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

## 2.11 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

## 2.12 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

## 2.13 Retirement Benefit Obligations

### a) Defined Benefit Plan

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the actuarial valuation. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to

## Notes to the Financial Statements (Contd)

the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The company has obtained an independent actuary valuation services for the year for the computation of defined benefit obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

### b) Defined Contribution Plans

All employees of the company in Sri Lanka are members of the Employees' Provident Fund and Employees' Trust Fund, to which the Company contributes 12% and 3% respectively, of such employees' basic or consolidated wage or salary.

### 2.14 Grants and Subsidies

The monetary grants related to assets are recognized as cost and deferred in the Statement of Financial Position and credited to the Statement of Comprehensive Income over the useful life of the asset.

### 2.15 Impairment of Non-Financial Assets

Assets that have an indefinite useful life- for example, goodwill or intangible assets not ready to use- are not subject to amortization and are tested annually for impairment. Assets that are subject to impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows

(Cash-Generating Units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2.16 Financial Assets

### 2.16.1 Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

#### a) Financial Assets at fair value through profit or loss

A financial asset is classified into this category if acquired principally for the purpose of selling in the short term designated by management. Assets in this category are classified as current assets if expected to settle within 12 months; otherwise, they are classified as non-current assets. Derivatives are also categorized as financial assets at fair value through profit or loss unless they are designated as hedges.

#### b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. Loans and receivables of which maturity greater than 12 months classified as non-current asset. The company's loans and receivables comprise "Trade & other receivable and Cash & Cash equivalent" in the Statement of Financial Position.

#### c) Held to Maturity Investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

# NOTES TO THE FINANCIAL STATEMENTS

## d) Available for Sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of them within 12 months of the Statement of Financial Position date.

Income as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the Statement of Comprehensive Income as part of other income. Dividends on available-for-sale equity instruments are recognized in the Statement of Comprehensive Income as part of other income when the company's right to receive payments is established.

## 2.16.2 Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade-date- the date on which the company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognized at fair value, and transaction costs are expensed in the Statement of Comprehensive Income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income within other gains/(losses)- net, in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognized in the Statement of Comprehensive Income as part of other income when the company's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the Statement of Comprehensive

## 2.17 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

## 2.18 Impairment of Financial Assets

### a) Assets carried at Amortised Cost

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulties, default or delinquency in interest or principle payment, the probability that they will enter bankruptcy or other financial reorganization, and where observable data

## Notes to the Financial Statements (Contd)

indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that co- relate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the Statement of Comprehensive Income. If a loan or held- to- maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the Statement of Comprehensive Income.

### b) Assets classified as Available for Sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the company uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss- measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss- is removed from equity and recognized in profit or loss. Impairment losses recognized in the Statement of Comprehensive Income on equity instruments are not reversed through the Statement of Comprehensive Income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the Statement of Comprehensive Income.

### 2.19 Financial Liabilities

The Company's financial liabilities include trade and other payables, bank loans and other borrowings and unfavorable currency forward contract. All other financial liabilities except for financial liabilities at fair value through profit or loss are recognized initially at their fair values and subsequently measured at amortized cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

### 2.20 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

#### a) Rendering of Services

Revenue from rendering of services is recognized in the accounting period in which the services are rendered or performed.

#### b) Interest

Interest Income is recognized as the interest accrues unless collectability is in doubt.

#### c) Rental Income

Rental income is recognised as specified in the rental agreements on an accrual basis.

#### d) Franchise Fee and Concessions

Franchise fees and concessions are recognized

# NOTES TO THE FINANCIAL STATEMENTS

on an accrual basis in accordance with the substance of the relevant agreement.

e) Landing & Parking Income International / Domestic

Landing and parking income is based on the Maximum Take Off Weight (MTOW), subject to a minimum charge and parking duration in the apron of the airport and recognised on an accrual basis.

f) Overflying Income

Overflying income is calculated based on the MTOW of aircraft and recognised on an accrual basis.

g) Aerobridge Charges

Aero Bridge income is calculated based on usage time of aerobridge and type of aircraft. Income is recognised on an accrual basis.

h) Embarkation Levy

Embarkation levy is collected by Civil Aviation Authority of Sri Lanka as per the Finance Act and USD 9.75 is remitted to AASL. Revenue is recognised on cash basis.

i) Entry Permit Fees, Parking Fees (Vehicles), Paging Board

Revenue is collected and recognised on cash basis

j) Others

Lounge income is recognised on cash and accrual basis depending on the payment method.

Incinerator income is recognise on accrual basis

Other income sources is recognized on cash and accrual basis depending on the payment method.

## 3. Financial Risk Management

### 3.1 Financial Risk Factors

The company's activities expose it to a variety of financial risks: market risk (including foreign currency risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

a) Market Risk

(i) Foreign Exchange Risk

The company is sensitive to the fluctuations in exchange rates and is principally exposed to fluctuations in the value of the Sri Lanka Rupee (LKR) against the United States Dollar (USD), Euro, and Japanese Yen. The company's functional currency is LKR in which most of the transactions are denominated, and most of other currencies are considered foreign currencies for loan repayment purposes. Certain trade and other receivables and trade and other payables are denominated in foreign currencies.

The Company's financial statements which are presented in Sri Lanka Rupees, are affected by foreign exchange fluctuations through both translation risk and transaction risk. Changes in foreign currency exchange rates may affect the company's profits or losses. For example weakening of the Sri Lanka Rupee against the United Stated Dollar can have adverse effects on the company's profitability through its impact on repayment of loans taken by foreign currencies through Department of Treasury.

"The table below shows the Company's sensitivity to reasonable possible change in exchange rate of LKR against USD, Euro and Japanese Yen assessed by the Company, while all other variables are held constant. The USD and Japanese Yen are the major currencies in which Company's financial instruments are denominated after the Company's presentation and document currency- LKR. The impact of the movement in exchange rates of USD, Euro and Japanese Yen on equity are given in the table below.

## Notes to the Financial Statements (Contd)

### Sensitivity of the Exchange Rate of USD against LKR

	<b>2017</b> <b>Increase/ (Decrease)</b> <b>in Profit (LKR)</b>	<b>2016</b> Increase/ (Decrease) in Profit (LKR)
10 % appreciation/ depreciation (2016- 10%) of the USD	<b>(54,563,283)</b>	(90,680,460)
15 % appreciation/ depreciation (2016- 15%) of the USD	<b>(81,844,925)</b>	(136,020,696)
20 % appreciation/ depreciation (2016- 20%) of the USD	<b>(109,126,566)</b>	(181,360,920)

### Sensitivity of the Exchange Rate of Euro against LKR

	<b>2017</b> <b>Increase/ (Decrease)</b> <b>in Profit (LKR)</b>	<b>2016</b> Increase/ (Decrease) in Profit (LKR)
10 % appreciation/ depreciation (2016- 10%) of the Euro	<b>(903,773)</b>	(972,499)
15 % appreciation/ depreciation (2016- 15%) of the Euro	<b>(1,355,660)</b>	(1,458,748)
20 % appreciation/ depreciation (2016- 20%) of the Euro	<b>(1,807,546)</b>	(1,944,998)

### Sensitivity of the Exchange Rate of Japanese Yen against LKR

	<b>2017</b> <b>Increase/ (Decrease)</b> <b>in Profit (LKR)</b>	<b>2016</b> Increase/ (Decrease) in Profit (LKR)
10 % appreciation/ depreciation (2016- 10%) of the Yen	<b>(85,266,140)</b>	(86,054,995)
15 % appreciation/ depreciation (2016- 15%) of the Yen	<b>(127,899,209)</b>	(129,082,492)
20 % appreciation/ depreciation (2016- 20%) of the Yen	<b>(170,532,280)</b>	(172,109,990)

#### (ii) Cash Flow and Fair Value Interest Rate Risk

The Company's interest rate risk arises from long term borrowings denominated in USD, Euro, and Japanese Yen. These are issued at fixed rates and thus it mitigates the cash flow interest rate risks on borrowings. This will further mitigated by the cash held at variable rates. Borrowings issued at fixed rates expose the company to fair value interest rate risk.

The Company has considered movements in these interest rates over the last four years and has concluded that the movement in interest rates is not deemed to have a material effect on equity.

#### (b) Credit Risk

The credit risk arises from trade and other receivables from outside parties.

#### (c) Liquidity Risk

Cash flow forecasting is performed by the finance division. The finance division monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with

# NOTES TO THE FINANCIAL STATEMENTS

Statement of Financial Position ratio targets and, if applicable external regulatory or legal requirements- for example, currency restrictions.

Surplus cash held by the company over and above balance required for working capital management are invested in short term government securities to mitigate the liquidity risk.

## 3.2 Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The company assesses solvency prior to declaration of dividend to maintain the dividend ratio. Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Debt is calculated as total borrowings including 'current and non-current borrowings' as shown in the Statement of Financial Position. Total capital is calculated as 'equity' as shown in the Statement of Financial Position.

The Gearing Ratio as at 31 December 2016 and 31 December 2017 were as follows:

	Company	
	2017 Rs.	2016 Rs.
Total Borrowings (Note 22)	<b>42,780,163,810</b>	37,679,349,374
Less: Cash and Cash Equivalents (Note 18)	<b>(30,326,575,782)</b>	(22,707,949,070)
<b>Net Debt</b>	<b>12,453,588,028</b>	14,971,400,304
Total Equity	<b>23,263,685,629</b>	16,436,210,776
<b>Total Capital</b>	<b>35,717,273,657</b>	31,407,611,080
<b>Gearing Ratio</b>	<b>35%</b>	48%

The above loan wholly consists of loans obtained through General Treasury for the development of Bandaranaike International Airport, Rathmalana Airport & Mattala Rajapaksa International Airport under sovereign guarantee. The fair value of borrowings equals their carrying amount as the impact of discounting is not significant.

## 3.3 Fair Value Estimation

The Company had no financial instruments measured at fair value.

## 4 Critical Accounting Estimates and Judgements

Estimates and Judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

#### (a) Defined Benefit Plan- Gratuity

The present value of the Defined Benefit Plan depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for defined benefit plan include the discount rate. Any changes in these assumptions will impact the carrying amount of defined benefit plan. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to



## Notes to the Financial Statements (Contd)

### (b) Provisions

determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligations. Other key assumptions for defined benefit plan are based in part on current market conditions. Additional information is disclosed in Note 23.

The Company recognizes provisions when it has a present legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. The recording of provisions requires the application of judgments about the ultimate resolution of these obligations. As a result, provisions are reviewed at each Statement of Financial Position date and adjusted to reflect the company's current best estimate.

<b>5. Revenue</b>	<b>2017 Rs.</b>	<b>2016 Rs.</b>
Aeronautical	<b>4,618,897,281</b>	4,378,530,773
Non-Aeronautical	<b>15,875,688,915</b>	13,634,940,956
	<b>20,494,586,197</b>	18,013,471,729
<b>Aeronautical Revenue</b>		
Landing & Parking Income	<b>3,083,419,518</b>	2,966,442,300
Overflying Income	<b>1,191,059,377</b>	1,036,388,088
Aerobridge Income	<b>330,691,657</b>	362,422,220
Domestic Landing & Parking Income	<b>13,726,730</b>	13,278,165
	<b>4,618,897,281</b>	4,378,530,773
<b>Non-Aeronautical Revenue</b>		
Embarkation Levy	<b>4,741,398,587</b>	4,702,319,798
Concession	<b>5,616,576,443</b>	4,149,163,443
Rental	<b>3,566,918,011</b>	3,030,668,988
Other Non-Aeronautical Income	<b>746,528,956</b>	543,451,592
Entry Permits	<b>349,847,407</b>	447,446,823
Franchise fee on Ground Handling- SLA	<b>438,130,249</b>	372,721,248
Franchise fee- SLCS	<b>276,125,183</b>	246,709,673
Parking fees- Vehicles	<b>106,722,334</b>	108,946,046
Domestic Ground Handling- RMA/BIA	<b>13,210,048</b>	11,308,691
Miscellaneous Revenue	<b>13,903,825</b>	15,513,814
Training Centre Income	<b>6,327,871</b>	6,690,841
	<b>15,875,688,915</b>	13,634,940,956
<b>Total Aeronautical and Non-Aeronautical Revenue</b>	<b>20,494,586,197</b>	18,013,471,729

# NOTES TO THE FINANCIAL STATEMENTS

## 6. Other Income

	<b>2017</b>	<b>2016</b>
	<b>Rs.</b>	<b>Rs.</b>
Amortization of Government Grant	<b>87,605,758</b>	87,605,758
Operating profit from Fuel Filling Station (Note 6.1)	<b>12,999,224</b>	9,635,332
Net foreign exchange gain/ (loss) on transactions/ translations	<b>162,476,429</b>	218,302,347
	<b>263,081,411</b>	315,543,437

### 6.1 Operating Profit from Fuel Filling Station

	<b>2017</b>	<b>2016</b>
	<b>Rs.</b>	<b>Rs.</b>
Sales	<b>1,163,515,097</b>	1,157,123,732
Less: Cost of Sales	<b>(1,127,820,430)</b>	(1,127,104,956)
Gross Profit	<b>35,694,667</b>	30,018,776
Less : Personnel and Administration Expenses	<b>(22,695,443)</b>	(20,432,520)
Sundry Income	-	49,076
<b>Operating Profit</b>	<b>12,999,224</b>	9,635,332

## 7. Administration, Establishment Expenses

	<b>2017</b>	<b>2016</b>
	<b>Rs.</b>	<b>Rs.</b>
Directors' Emoluments	<b>9,648,429</b>	8,975,378
Staff Cost	<b>5,292,873,435</b>	5,048,103,459
Defined Contribution Plan Costs	<b>566,695,464</b>	550,555,879
Defined Benefit Plan Costs	<b>555,270,168</b>	404,904,824
Auditor's Remuneration	<b>765,030</b>	750,000
Depreciation (Note 11)	<b>2,221,649,869</b>	2,652,137,717
Amortization (Note 12)	<b>9,187,877</b>	12,549,232
Provision for Debtors Impairment	<b>69,457,484</b>	234,550,031
Repair and Maintenance	<b>307,319,266</b>	300,529,211
Electricity Expenses	<b>738,015,048</b>	792,399,026
Legal Fees	<b>1,471,339</b>	1,878,746
Donations	<b>1,175,000</b>	2,843,650
Other Expenses	<b>754,828,401</b>	631,711,109
	<b>10,528,356,810</b>	10,641,888,262

## Notes to the Financial Statements (Contd)

### 8. Net Finance Cost / (Income)

	2017 Rs.	2016 Rs.
<b>8.1 Finance income</b>		
Interest on Treasury Bills under repurchase agreements	<b>(1,523,736,834)</b>	(1,217,685,359)
Interest on USD Fixed Deposits	<b>(232,967,802)</b>	(93,989,860)
Interest on Rupee Fixed Deposits	<b>(572,820,972)</b>	(155,492,839)
Interest on Debenture	<b>(436,339,451)</b>	(407,729,990)
Interest on Staff Loans	<b>(25,978,037)</b>	(35,984,006)
IFRS Interest on Staff Loan	<b>8,650,440</b>	16,667,354
	<b>(2,783,192,657)</b>	(1,894,214,701)
<b>8.2 Finance Cost</b>		
Loan Interest	<b>664,253,749</b>	705,413,235
Exchange (gain) / loss on Loan Conversion	<b>1,407,331,954</b>	1,777,079,530
Exchange (gain) / loss on Creditors Conversion	<b>121,165,722</b>	190,254,485
	<b>2,192,751,424</b>	2,672,747,250
<b>Net Finance Cost / (Income)</b>	<b>(590,441,233)</b>	778,532,549

### 9. Income Tax Expense

The major components of income tax expense for the year ended 31 December, are as follows :

	2017 Rs.	2016 Rs.
<b>Current Income Tax</b>		
Current Tax Charge	<b>1,361,623,884</b>	Nil
<b>Income Tax</b>	<b>1,361,623,884</b>	Nil
<b>Deferred Income Tax</b>		
Charge / (Reversal) in respect of deferred taxation (Note 13)	<b>743,205,952</b>	(11,149,716)
<b>Total Tax Expense</b>	<b>2,104,829,836</b>	(11,149,716)

The tax on the Company's profit before tax differs from the theoretical amount that would arise using basic tax rate (28%) applicable to profits of the company as follows :

	2017 Rs.	2016 Rs.
<b>Profit Before Tax</b>	<b>10,819,752,031</b>	6,908,594,354
Tax calculated at the effective tax rate of 28% (2016- 28%)	<b>3,029,530,569</b>	1,934,406,419
Tax effect on Profit not subject to Tax	<b>(603,588,072)</b>	(852,892,866)
Tax effect on Expenses not deductible for Tax	<b>1,247,858,894</b>	1,124,526,972
Tax effect on Income not subject to Tax	<b>(1,014,615,662)</b>	(295,331,082)
Tax effect on Expenses deductible for Tax	<b>(1,297,561,845)</b>	(2,050,891,551)
Tax losses for which no deferred Income Tax asset was recognised	<b>743,205,952</b>	129,032,393
<b>Total Tax Expense</b>	<b>2,104,829,836</b>	(11,149,716)

# NOTES TO THE FINANCIAL STATEMENTS

## 10. Basic Earnings Per Share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

The following reflects the income and share data used in the basic earnings per share computation.

	<b>2017</b>	<b>2016</b>
Net profit attributable to shareholders- Rs	<b>8,714,922,195</b>	6,919,744,070
Weighted average number of ordinary shares in issue	<b>200,002</b>	200,002
Basic earnings per share- Rs	<b>43,574</b>	34,598

## 11. Property, Plant and Equipment

- (i) Land and building includes land amounting to Rs.940,412,498 as at 31 December 2017 (2016 - 940,412,498) which is located at Katunayake.
- (ii) The construction of second International Airport at Mattala (MRIA) which commenced operations in March 2013 had been constructed on a land leased out by the Government of Sri Lanka on a 99 year lease period. The base payments on the lease fall due after a grace period of 50 years from 2011. A total asset value of Rs. 24 Bn relating to MRIA is included in the amalgamated Property, Plant & Equipment as at 31.12.2017.
- (iii) A proposal has been received from the Government Of India (GOI) by the Government of Sri Lanka (GOSL) on G2G offer basis for commercial operations and maintenance of the MRIA for a period of 99 years on equity sharing basis of 70:30 as a Joint Venture Company (JVC). The proposal of GOI shows the interest to operate, manage, maintain and develop MRIA as a commercial aviation venture. The proposal indicates the willingness of GOI to invest USD 205 Million as their equity share (70%) of GOSL to share the balance of USD 88 Million (30%) totaling USD 293 Million.

A Cabinet Appointed Negotiation Committee (CANC) and a Project Committee (PC) were appointed on 27-07-2017 to evaluate the proposal submitted by GOI. The PC submitted its interim report on 28-11-2017 to the CANC with an addendum dated 06-12-2017. On the direction of CANC, Attorney General's opinion was sought with regard to legal implications on granting the international aerodrome license of MRIA to the JVC. On 28-03-2018, CANC along with the PC had one to one meeting with the representatives of GOI and informed the opinion of the Attorney General which specified that an amendment to the Civil Aviation Act.14 of 2010 and to amend the regulations, in order to facilitate the proposal submitted by the GOI. Subsequent to the meeting held on 28-03-2018, Representatives of the GOI requested additional details such as Master plan, Human Resource plan of MRIA etc., for further study and the requested information were provided to them on 27-04-2018. CANC is still awaiting the confirmation from the GOI to proceed with the proposal.

## Notes to the Financial Statements (Contd)

- (iv) Part of the buildings of the Katunayake airport are constructed on Government land.
- (v) Property, Plant and Equipments includes fully depreciated assets amounting to Rs.13,262,977,618/- (2016- Rs 12,381,839,085/-).
- (vi) “As per the Extraordinary Gazette Notification bearing No.2050/38 dated 21.12.2017, the Minister In Charge of the Subject of the Civil Aviation has made an order in transferring and vesting the Aerodromes and aeronautical facilities in the Civil Aviation Authority of Sri Lanka.(CAASL) When going through the aforesaid sequence of events, it is presumed that from the inception, AASL has been in use and control of immovable properties vested in the Director General of CAASL (DGCAASL), holding immovable properties vested in the DGCAASL or Withholding immovable properties with the permission of CAASL has never held title to such properties. Therefore, the above Gazette Notification merely a demonstration of a mechanism of the ownership of immovable properties which are being used by AASL and which is a continuation of previous scenarios.”

## Notes to the Financial Statements (Contd)

### 11. Property, Plant and Equipment (Contd.)

	Land & Bulidings	Plant and Machinery	Motor vehicle
	Rs.	Rs.	Rs.
<b>As at 1<sup>st</sup> January 2016</b>			
Cost	17,519,347,663	4,648,842,519	1,245,299,423
Accumulated Depreciation	(3,341,248,001)	(3,608,152,633)	(829,793,123)
<b>Closing net book amount</b>	<b>14,178,099,662</b>	<b>1,040,689,886</b>	<b>415,506,299</b>
<b>Year ended 31<sup>st</sup> December 2016</b>			
Opening net book amount	14,178,099,662	1,040,689,886	415,506,299
Additions	251,977,835	157,111,638	103,837,214
Transfer from WIP	-	-	-
Transfers- cost	-	-	-
- Accumulated depreciation	-	-	-
Disposals- cost	-	(3,470,709)	(2,755,000)
- Accumulated depreciation	-	3,461,207	2,754,998
Depreciation charge (Note 7)	(336,053,177)	(327,324,335)	(101,026,521)
<b>Closing net book amount</b>	<b>14,094,024,321</b>	<b>870,467,686</b>	<b>418,316,991</b>
<b>As at 31 December 2016</b>			
Cost	17,771,325,499	4,802,483,448	1,346,381,637
Accumulated Depreciation	(3,677,301,178)	(3,932,015,761)	(928,064,646)
<b>Closing net book amount</b>	<b>14,094,024,321</b>	<b>870,467,686</b>	<b>418,316,991</b>
<b>As at 1<sup>st</sup> January 2017</b>			
Opening net book amount	<b>14,094,024,321</b>	<b>870,467,686</b>	<b>418,316,991</b>
Additions	<b>23,000,165</b>	<b>60,466,564</b>	<b>7,862,400</b>
Adjustments- cost	-	-	-
- Accumulated Depreciation	<b>(274,016)</b>	<b>(580,443)</b>	-
Disposals- cost	<b>(81,000,000)</b>	-	<b>(4,132,921)</b>
- Accumulated Depreciation	<b>5,809,808</b>	-	<b>4,132,915</b>
Written off- cost	-	-	-
- Accumulated Depreciation	-	-	-
Transfers- cost	<b>(957,351)</b>	<b>677,351</b>	-
- Accumulated Depreciation	<b>12,747</b>	<b>(112,737)</b>	-
Depreciation charge (Note 7)	<b>(335,815,306)</b>	<b>(167,449,834)</b>	<b>(101,439,361)</b>
<b>Closing net book amount</b>	<b>13,704,800,367</b>	<b>763,468,587</b>	<b>324,740,023</b>
<b>As at 31<sup>st</sup> December 2017</b>			
Cost	<b>17,712,368,313</b>	<b>4,863,627,362</b>	<b>1,350,111,116</b>
Accumulated Depreciation	<b>(4,007,567,945)</b>	<b>(4,100,158,775)</b>	<b>(1,025,371,093)</b>
<b>Closing net book amount</b>	<b>13,704,800,367</b>	<b>763,468,587</b>	<b>324,740,023</b>

Furniture, Fittings & Office Equipment	Communication & Navigation Equipment	Other Equipment	Airport Infrastructure	Capital Work In Progress	Total
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1,062,744,108	7,759,288,188	995,808,176	27,591,161,323	1,797,848,789	62,620,340,189
(891,193,967)	(5,663,347,838)	(788,086,714)	(7,318,857,151)	-	(22,440,679,427)
171,550,141	2,095,940,350	207,721,462	20,272,304,172	1,797,848,789	40,179,660,762
171,550,141	2,095,940,350	207,721,462	20,272,304,172	1,797,848,789	40,179,660,762
17,686,132	44,190,136	10,699,471	2,819,001	2,113,870,982	2,702,192,409
-	-	-	-	-	-
-	(275,678)	-	(3,313,584)	(306,961,136)	(310,550,397)
-	-	-	-	-	-
(14,396,632)	(2,516,242)	(5,748,126)	(933,696)	-	(29,820,404)
13,487,076	2,508,946	5,731,836	933,661	-	28,877,723
(46,829,021)	(628,182,382)	(43,420,998)	(1,169,301,283)	-	(2,652,137,717)
141,497,696	1,511,665,132	174,983,645	19,102,508,271	3,604,758,634	39,918,222,376
1,066,033,608	7,800,686,404	1,000,759,522	27,589,733,044	3,604,758,634	64,982,161,796
(924,535,911)	(6,289,021,273)	(825,775,877)	(8,487,224,773)	-	(25,063,939,420)
141,497,696	1,511,665,132	174,983,645	19,102,508,271	3,604,758,634	39,918,222,376
<b>141,497,696</b>	<b>1,511,665,132</b>	<b>174,983,645</b>	<b>19,102,508,271</b>	<b>3,604,758,634</b>	<b>39,918,222,376</b>
<b>43,433,825</b>	<b>384,973,534</b>	<b>23,701,273</b>	<b>8,826,135,307</b>	<b>9,639,873,106</b>	<b>19,009,446,172</b>
-	-	-	-	<b>(365,595,806)</b>	<b>(365,595,806)</b>
<b>(504,668)</b>	<b>(329,781)</b>	-	<b>(3,861,844)</b>	-	<b>(5,550,752)</b>
<b>(14,200)</b>	<b>(188,750)</b>	<b>(51,907)</b>	-	-	<b>(85,387,778)</b>
<b>2,607</b>	<b>20,556</b>	<b>51,906</b>	-	-	<b>10,017,792</b>
-	-	-	-	<b>(83,351,755)</b>	<b>(83,351,755)</b>
-	-	-	-	-	-
<b>193,120</b>	-	-	-	<b>(9,122,905,425)</b>	<b>(9,122,992,305)</b>
<b>40,276</b>	-	-	-	-	<b>(59,714)</b>
<b>(47,668,217)</b>	<b>(318,822,986)</b>	<b>(42,606,444)</b>	<b>(1,207,788,008)</b>	-	<b>(2,221,590,155)</b>
<b>136,980,439</b>	<b>1,577,317,705</b>	<b>156,078,474</b>	<b>26,716,993,726</b>	<b>3,672,778,753</b>	<b>47,053,158,074</b>
<b>1,109,646,353</b>	<b>8,185,471,188</b>	<b>1,024,408,888</b>	<b>36,415,868,351</b>	<b>3,672,778,753</b>	<b>74,334,280,324</b>
<b>(972,665,914)</b>	<b>(6,608,153,484)</b>	<b>(868,330,414)</b>	<b>(9,698,874,625)</b>	-	<b>(27,281,122,250)</b>
<b>136,980,439</b>	<b>1,577,317,705</b>	<b>156,078,474</b>	<b>26,716,993,726</b>	<b>3,672,778,753</b>	<b>47,053,158,074</b>

## Notes to the Financial Statements (Contd)

### 12. Intangible Assets

	Software Rs.	Total Rs.
<b>As at 1<sup>st</sup> January 2016</b>		
Cost	42,116,339	42,116,339
Accumulated Depreciation	(24,688,902)	(24,688,902)
<b>Closing net book amount</b>	<b>17,427,437</b>	<b>17,427,437</b>
<b>Year ended 31<sup>st</sup> December 2016</b>		
Opening net book amount	17,427,437	17,427,437
Additions	7,951,985	7,951,985
Amortisation during the year	(12,549,232)	(12,549,232)
<b>Closing net book amount</b>	<b>12,830,190</b>	<b>12,830,190</b>
<b>As at 31<sup>st</sup> December 2016</b>		
Cost	50,068,323	50,068,323
Accumulated Depreciation	(37,238,133)	(37,238,133)
<b>Closing Net Book Amount</b>	<b>12,830,190</b>	<b>12,830,190</b>
<b>Year ended 31<sup>st</sup> December 2017</b>		
Opening net book amount	<b>12,830,190</b>	<b>12,830,190</b>
Additions	<b>36,110,818</b>	<b>36,110,818</b>
Amortisation during the year	<b>(9,187,877)</b>	<b>(9,187,877)</b>
<b>Closing Net Book Amount</b>	<b>39,753,131</b>	<b>39,753,131</b>
<b>As at 31<sup>st</sup> December 2017</b>		
Cost	<b>86,179,142</b>	<b>86,179,142</b>
Accumulated Depreciation	<b>(46,426,010)</b>	<b>(46,426,010)</b>
<b>Closing net book amount</b>	<b>39,753,131</b>	<b>39,753,131</b>

The useful lives of the software assets are estimated as 4 years



### 13. Deferred Income Tax

	Statement of Financial Position		Statement of Comprehensive Income	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
<b>Deferred Tax Liability on :</b>				
Accelerated Tax Depreciation	<b>6,157,239,962</b>	5,321,588,674	<b>835,651,289</b>	43,117,063
	<b>6,157,239,962</b>	5,321,588,674	<b>835,651,289</b>	43,117,063
<b>Deferred Tax Assets on :</b>				
Defined Benefit Plan	<b>1,194,999,466</b>	721,329,966	<b>(473,669,500)</b>	(50,633,446)
Provision for Inventory & Debtors	<b>27,797,155</b>	27,682,582	<b>(114,573)</b>	(3,027,158)
Deferred Government Grant	<b>47,923,374</b>	48,882,802	<b>959,427</b>	959,428
Deferred Income Tax Charge	<b>1,270,719,995</b>	797,895,349	<b>(472,824,645)</b>	(52,701,176)

#### Other Comprehensive Income

Deferred Income Tax on Actuarial gain/(loss) on Defined Benefit Plan	<b>380,379,309</b>	(1,565,603)
Deferred Income Tax Charge/ Credit (Note 9)	<b>743,205,952</b>	(11,149,716)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net deferred tax amount is as follows;

	2017 Rs.	2016 Rs.
Deferred Tax Asset	<b>1,270,719,995</b>	797,895,349
Deferred Tax Liability	<b>(6,157,239,962)</b>	(5,321,588,674)
Deferred Tax Asset (net)	<b>(4,886,519,968)</b>	(4,523,693,324)

### 14. Investment in Debentures

Investment in Debentures wholly consists of investment in 5- 8 years redeemable debentures of Bank of Ceylon, Sampath Bank, Regional Development Bank & Hatton National Bank. The carrying value of the investment, held to maturity equals the fair value.

	2017 Rs.	2016 Rs.
Debentures at weighted average rates of interest		
6 month TB Rate + 1.25%	<b>800,000,000</b>	1,300,000,000
Debentures at fixed rate (11.25%- 15.50%)	<b>3,140,000,000</b>	1,350,000,000
	<b>3,940,000,000</b>	2,650,000,000

Debenture date of issue and date of redemption are as follows ;

		Amount of Investment	
Date of issue	Date of redemption	2017 Rs.	2016 Rs.
25.10.2013	24.10.2018	<b>250,000,000</b>	250,000,000
08.10.2015	07.10.2023	<b>800,000,000</b>	800,000,000
25.10.2016	24.10.2021	<b>750,000,000</b>	750,000,000
25.10.2016	24.10.2023	<b>50,000,000</b>	50,000,000

Date of issue	Date of redemption	2017 Rs.	2016 Rs.
16.03.2016	15.03.2021	<b>300,000,000</b>	300,000,000
01.06.2016	31.05.2021	<b>500,000,000</b>	500,000,000
31.03.2017	31.03.2022	<b>800,000,000</b>	-
03.04.2017	04.04.2022	<b>150,000,000</b>	-
18.12.2017	17.12.2022	<b>340,000,000</b>	-
		<b>3,940,000,000</b>	2,650,000,000

## Notes to the Financial Statements (Contd)

### 15. Inventories

	2017 Rs.	2016 Rs.
General	52,172,371	39,649,181
Electronics	56,974,829	70,871,832
Engineering	184,838,518	167,692,222
Fuel	13,330,009	11,957,598
Fire equipment spare parts	21,988,505	18,744,707
Goods in Transit	502,912,954	234,273,703
Stock- Lounge	398,709	264,891
	<b>832,615,895</b>	543,454,133
Less : Allowance for slow moving inventories	<b>(70,324,762)</b>	(69,915,573)
	<b>762,291,133</b>	473,538,561

The general inventory includes painting items, stationeries, staff uniforms and other hardware items, etc.

### 16. Trade and Other Receivables

	2017 Rs.	2016 Rs.
Trade Debtors	4,167,357,072	4,063,061,702
Less: Provision for doubtful debts	<b>(1,269,749,277)</b>	(1,200,301,143)
	<b>2,897,607,795</b>	2,862,760,558
Other Receivables	379,779,136	362,192,667
Advances and Prepayments	155,083,609	161,208,641
Less: Provision for Doubtful Debts	<b>(1,476,881)</b>	(1,476,881)
	<b>533,385,864</b>	521,924,427
Loans to company officers (Note 16.1)	95,546,904	90,760,576
	<b>95,546,904</b>	90,760,576
	<b>3,526,540,564</b>	3,475,445,561

Loans to company officers are receivable from employees in equal monthly installments over the loan period not exceeding 4 years. Interest is charged on employee loans at a rate of 4.2% per annum. As per accounting policy the employee loans are measured at amortized cost using the effective interest method of each reporting date. The effective interest on employee loans were 15% in 2017 (2016: 15%)

#### 16.1 Loans to Company Officers

	2017 Rs.	2016 Rs.
Less than 1 year	95,546,904	90,760,576
More than 1 year	101,851,456	92,448,969
	<b>197,398,360</b>	183,209,545

All non- current receivables are due within five years from the end of the reporting period.

## 17. Income Tax Receivable/ Payable

	<b>2017</b>	<b>2016</b>
	<b>Rs.</b>	<b>Rs.</b>
Balance at the beginning of the year	<b>970,271,595</b>	758,699,782
Provisions for the year	<b>(1,361,623,884)</b>	-
Payments during the year	<b>293,406,697</b>	211,571,814
Balance at the end of the year	<b>(97,945,592)</b>	<b>970,271,595</b>

## 18. Cash and Cash Equivalents

	<b>2017</b>	<b>2016</b>
	<b>Rs.</b>	<b>Rs.</b>
Short term bank deposits	<b>19,177,487,355</b>	7,800,984,383
Treasury Bills/Bonds under Repurchase Agreements	<b>10,261,884,828</b>	13,719,944,693
	<b>29,439,372,183</b>	21,520,929,076
Cash at Bank	<b>886,596,182</b>	1,186,495,498
Cash in Hand	<b>607,416</b>	524,497
	<b>887,203,598</b>	1,187,019,995
Total Cash and Cash Equivalents for the purpose of cash flow statement	<b>30,326,575,782</b>	22,707,949,070

## 19. Stated Capital

	<b>Number of Shares</b>	<b>2017</b>	<b>2016</b>
		<b>Rs.</b>	<b>Rs.</b>
Stated Capital	<b>200,002</b>	<b>20,000,200</b>	20,000,200
		<b>20,000,200</b>	20,000,200

All issued shares are fully paid

## 20. Reserves

	<b>2017</b>	<b>2016</b>
	<b>Rs.</b>	<b>Rs.</b>
Net assets taken over from Airports Authority	<b>892,726,769</b>	892,726,769
Reserve for lightning damages to property, plant -and equipment and inventory	<b>147,500,000</b>	126,500,000
	<b>1,040,226,769</b>	1,019,226,769

The reserve consists of value of net assets transferred to the Company from the Airports Authority which was dissolved upon the incorporation of the Company. Rs. 126.5 Mn transferred from retained earnings (5% of annual asset additions of electronic, electrical, communication & other equipment) for fire damages to property plant and equipment due to lightning with effect from 2013.

## Notes to the Financial Statements (Contd)

### 21. Retained Earnings

	2017 Rs.	2016 Rs.
As at beginning of the year	15,396,983,807	9,984,213,901
Current year Profit	8,714,922,195	6,919,744,070
Prior Year Adjustments	(59,329,119)	-
Other Comprehensive Income / (Expenses)	(978,118,223)	4,025,836
Transfer to Reserve account	(21,000,000)	(11,000,000)
Dividend paid during the year	(850,000,000)	(1,500,000,000)
As at end of the year	<b>22,203,458,660</b>	15,396,983,807

### 22. Borrowings

	2017 Rs.	2016 Rs.
<b>Loans</b>		
Balance at the beginning of the Year	37,679,349,374	37,729,645,200
Loans obtained during the Year	6,333,088,591	763,697,010
	<b>44,012,437,965</b>	38,493,342,210
Loans settled during the Year	(2,639,606,108)	(2,591,072,366)
Exchange (gain)/loss on translation	1,407,331,954	1,777,079,530
Balance at the end of the Year	<b>42,780,163,810</b>	37,679,349,374
Current portion of borrowings	3,051,834,362	2,610,800,642
Non- current portion of borrowings	39,728,329,448	35,068,548,732
	<b>42,780,163,810</b>	37,679,349,374

#### Maturity analysis of the borrowings

	2017 Rs.	2016 Rs.
No later than 1 year	3,051,834,362	2,610,800,642
Later than 1 year and no later than 5 years	12,989,403,468	12,635,631,163
Later than 5 years	26,738,925,980	22,432,917,569

The above wholly consists of loans denominated in foreign currency includes Rs.12,622,094,717/- loan obtained through General Treasury for the development of Bandaranayake International Airport under sovereign guarantee. The fair value of borrowings equals their carrying amount as the impact of discounting is not significant.

The fair values are based on cash flows discounted using rates based on each of the following loans :

	2017 (%)	2016 (%)
United States Dollar (USD)		
- Mattala Rajapakse International Airport	2.00	2.00
- Runway Overlay	LIBOR + 2.00	-

Japanese Yen	<b>2017</b>	<b>2016</b>
	<b>%</b>	<b>%</b>
- BIA Development Project	<b>1.80</b>	1.80
- BIA Development Project-Phase II Stage 1	<b>0.75</b>	0.75
- BIA Development Project-Phase II Stage 2	<b>0.20</b>	0.20
Euro		
- Modern RMA Air Traffic Control System- Tranche- 2	<b>4.90</b>	4.90
- Modern RMA Air Traffic Control System- Tranche- 3	<b>2.10</b>	2.10

The carrying amounts of borrowings denominated in foreign currencies are as follows; (values in foreign currencies)

	<b>2017</b>	<b>2016</b>
United States Dollar (USD)	<b>194,380,078</b>	170,990,396
Japanese Yen	<b>9,008,735,478</b>	8,843,302,821
Euro	<b>710,290</b>	815,732

### 23. Retirement Benefit Obligation

**Movement in the liability recognized in the Statement of Financial Position is as follows:**

	<b>2017</b>	<b>2016</b>
	<b>Rs.</b>	<b>Rs.</b>
As at beginning of the year	<b>2,576,178,455</b>	2,395,344,715
Current Service Cost	<b>271,910,856</b>	141,416,907
Interest Cost	<b>283,359,312</b>	263,487,919
Payments made during the year	<b>(222,090,902)</b>	(218,479,647)
Gain/(loss) arising from changes in assumptions used	<b>1,358,497,532</b>	(5,591,439)
<b>As at end of the year</b>	<b>4,267,855,253</b>	2,576,178,455

The principle assumptions used in determining the cost of employee benefits using the projected unit credit method to calculate the liability for defined benefit obligation at year end were as follows,

	<b>2017</b>	<b>2016</b>
Discount rate	<b>10%</b>	11%
Rate of future salary increases	<b>5% - 12%</b>	4%- 5%
COLA increment rate	<b>5%</b>	4%
Rate of staff turnover	<b>1%</b>	1%
Retirement age	<b>60 years</b>	60 years

The liability for defined benefit obligations is not externally funded.

## Notes to the Financial Statements (Contd)

### 24. Deferred Government Grant

Treasury Grant	2017 Rs.	2016 Rs.
At the beginning of the year	1,244,099,064	1,331,704,822
Received during the year	-	-
Amortization for the year	<b>(87,605,758)</b>	(87,605,758)
At the end of the year	<b>1,156,493,306</b>	1,244,099,064

#### 24.1 The above grants include:

- (a) A sum of Rs.34,265,267 received in 2010 from the Telecommunication Regulatory Commission as a grant received for the microwave link established between Piduruthalagala and Ratmalana during 2008, which had been amortized effective from 2008 over the useful life of the communication equipment estimated as 8 years.
- (b) An amount of Rs 8,479,962,767 received from the Department of Treasury, accounted as Treasury contributions in the Voted Fund in previous years prior to the amalgamation and now accounted as a grant representing amounts received for BIA development projects since incorporation of the Company. On amalgamation the amounts received prior to 2001 utilized for assets purchased prior to that year had been adjusted to opening equity balance. The balance Rs 2,297,170,632 represents the grants received for assets acquired subsequent to 2001 and is being amortized over the useful life periods of those assets.

### 25. Trade and Other Payables

	2017	2016
Trade Payables	<b>7,380,681,656</b>	5,950,137,560
Refundable Deposits	<b>270,759,895</b>	288,916,390
<b>Other Payables</b>	<b>1,646,065,032</b>	1,602,121,379
	<b>9,297,506,582</b>	7,841,175,329

### 26. Financial Instruments by Category

#### (a) Financial Instruments

	2017 Rs.	2016 Rs.
<b>Financial Assets</b>		
<b>Loans and Receivables</b>		
Trade and Other Receivables (Note 16)	<b>3,430,993,659</b>	3,384,684,985
Cash and Bank Balances (Note 18)	<b>887,203,598</b>	1,187,019,995
	<b>4,318,197,257</b>	4,571,704,980
<b>Held to Maturity Financial Assets</b>		
Investment in Debentures (Note 14)	<b>3,940,000,000</b>	2,650,000,000
Investments in Treasury Bills Repurchase (Note 18)	<b>10,261,884,828</b>	13,719,944,693
Short Term Bank Deposits (Note 18)	<b>19,177,487,355</b>	7,800,984,383
	<b>33,379,372,183</b>	24,170,929,076
<b>Financial Liabilities</b>		
<b>Other Financial Liabilities</b>		
Borrowings (Note 22)	<b>42,780,163,810</b>	37,679,349,374
Trade and Other Payables (excluding non financial liabilities) (Note 25)	<b>9,297,506,582</b>	7,841,175,329
	<b>52,077,670,392</b>	45,520,524,703

## (b) Credit Quality by Class of Financial Assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

### 31<sup>st</sup> December 2017

	Neither past due nor impaired Rs.	Past due but not impaired Rs.	Individually impaired Rs.	Total Rs.
Trade Receivables (Note 16)	2,026,972,080	869,158,834	1,271,226,158	4,167,357,072
Loans to Company Officers	197,398,360	-	-	197,398,360
Total Financial Assets	2,224,370,441	869,158,834	1,271,226,158	4,364,755,433

### 31<sup>st</sup> December 2016

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
Trade Receivables (Note 16)	1,992,124,844	869,158,834	1,201,778,024	4,063,061,702
Loans to Company Officers	183,209,545	-	-	183,209,545
Total Financial Assets	2,175,334,388	869,158,834	1,201,778,024	4,246,271,246

## Cash at Bank and Short-Term Bank Deposits

	2017 Rs.	2016 Rs.
AA+(Ika)	20,064,083,538	8,987,479,881
Total	20,064,083,538	8,987,479,881

## 27. Dividends

The dividends paid in 2017 amounting to Rs.850 Mn as shown in the statement of changes in equity, represents the final dividend of Rs. 350 million paid in respect of the year ended 31 December 2016 and the interim dividend of Rs.500 million for the year 2017 respectively. Final dividend for the year 2017 is to be proposed at the Annual General Meeting.

## 28. Contingencies

The Company is the defendant in the following lawsuits filed against the Company. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal action will not give rise to any significant loss. Accordingly, no provision is made in the financial statements, in respect of these lawsuits.

(a) Members of two Taxi Associations have filed 133 cases against the Company demanding approximately Rs. 62 million for breach of contract. Court order directed AASL to pay Rs.40,000 each to the Plaintiffs of two cases in the District Court. However, as a result of an appeal these cases are to be re-tried at the District Court of Negombo.

Other than the above, there were no material contingent liabilities outstanding at the Statement of Financial Position date.

## Notes to the Financial Statements (Contd)

### 29. Commitments

#### 29.1 Capital Expenditure Commitments

	2017 Rs.	2016 Rs.
Contracted but not provided for	<b>1,112,024,628</b>	1,056,094,039
Authorized by the Board, but not contracted for	<b>30,333,296,966</b>	3,865,490,995
	<b>31,445,321,594</b>	4,921,585,034

#### 29.2 Financial Commitments

There are no any other financial commitments other than those disclosed under borrowings (Note 22).

### 30. Transactions with Key Management Personnel

	2017 Rs.	2016 Rs.
Emoluments and Fees	<b>9,648,429</b>	8,975,378
	<b>9,648,429</b>	8,975,378

The Board of Directors have been considered as key management personnel of the Company.

### 31. RELATED PARTY TRANSACTIONS

AASL being a State Owned Enterprise (SOE) carried out the following significant financial transactions with given other SOEs during the year concerned in the normal course of business operations. In addition, both receivable and payable balances in material nature related to such SOEs are also disclosed.

Name of the Entity	Relationship	Nature of the Transaction	2017 Rs. Mn.	2016 Rs. Mn.
Bank of Ceylon	Government Owned	Investments-Short Term & Long Term	<b>22,858.8</b>	17,457.9
National Saving Bank	- Do-	Investments-Short Term	<b>6,920.6</b>	5,663.0
Civil Aviation Authority	- Do-	Embarkation levy Income	<b>4,741.4</b>	4,702.3
Sri Lankan Airlines	- Do-	Landing, Parking, Rental, Franchise Income	<b>2,653.5</b>	2,420.6
Ceylon Petroleum Corporation	- Do-	Fuel Purchases	<b>1,127.4</b>	1,127.6
Rural Development Bank	- Do-	Investments-Long Term	<b>950.0</b>	-
General Treasury	- Do-	Dividend Payments	<b>850.0</b>	1,500.0
Central Bank of Sri Lanka	- Do-	EPF	<b>834.7</b>	810.6



<b>Name of the Entity</b>	<b>Relationship</b>	<b>Nature of the Transaction</b>	<b>2017 Rs. Mn.</b>	<b>2016 Rs. Mn.</b>
General Treasury	Government Owned	Loan Repayments	<b>804.2</b>	805.8
Ceylon Electricity Board	- Do-	Electricity Payments	<b>738.0</b>	792.0
Department of Inland Revenue	- Do-	Taxes	<b>715.3</b>	808.4
Sri Lankan Catering Ltd	- Do-	Franchise Fee Income	<b>517.9</b>	409.2
Sri Lankan Catering Ltd	- Do-	Catering Services	<b>446.6</b>	361.5
General Treasury	- Do-	Interest Payments	<b>180.0</b>	194.9
Ceylon Petroleum Corporation	- Do-	Franchise Fee Income	<b>154.4</b>	137.8
Bank of Ceylon	- Do-	Rental Income	<b>116.2</b>	93.9
Employees Trust Fund Board	- Do-	ETF	<b>113.8</b>	110.5
People's Bank	- Do-	Rental Income	<b>64.9</b>	69.5
Sri Lanka Insurance Corporation Ltd	- Do-	Insurance payments	<b>62.2</b>	39.7
Sri Lanka Telecom Plc	- Do-	Telephone chargers	<b>47.1</b>	40.0
Urban Council	- Do-	Rates Payments	<b>39.0</b>	39.0
Board of Investment	- Do-	Water Chargers	<b>30.0</b>	26.5
Water Supply & Drainage Board	- Do-	Water Chargers	<b>20.1</b>	17.2
Sri Lanka Bureau of Foreign Emp.	- Do-	Rental Income	<b>13.4</b>	12.4
Sri Lanka Air Force	- Do-	Aero Income	<b>1.8</b>	1.4
<b>Receivables</b>				
Sri Lankan Airlines	Government Owned	Income	<b>1,524.3</b>	1,589.3
Sri Lankan Catering Ltd	- Do-	Income	<b>89.9</b>	74.9
Divisional Secretary Katana	- Do-	Deposits for Land Acquisition	<b>39.4</b>	39.4
Ceylon Petroleum Corporation	- Do-	Concession Income	<b>36.2</b>	28.4
Sri Lanka Air Force	- Do-	Landing & Parking Income	<b>4.5</b>	2.3
People's Bank	- Do-	Rental Income	<b>1.0</b>	1.2
Sri Lanka Bureau of Foreign Emp.	- Do-	Rental Income	<b>0.5</b>	1.1
Bank of Ceylon	- Do-	Rental Income	<b>0.2</b>	0.2

**Payables**

Department of Inland Revenue	Government Owned	Taxes	<b>90.8</b>	62.0
Sri Lankan Catering Ltd	- Do-	Purchases	<b>77.2</b>	64.4
Central Bank of Sri Lanka	- Do-	EPF	<b>71.0</b>	67.3
Ceylon Petroleum Corporation	- Do-	Fuel Deposit	<b>45.3</b>	44.3
Ceylon Electricity Board	- Do-	Electricity Deposit	<b>35.6</b>	25.1
Employees Trust Fund Board	- Do-	ETF	<b>9.7</b>	9.2
Sri Lanka Telecom Plc	- Do-	Telephone chargers	<b>4.6</b>	4.3

**Notes to the Financial Statements (Contd)**

Limited disclosures have been made in accordance with LKAS 24-'Related Party Disclosures' for transactions that are individually significant because of their size and due to the 'impracticability of capturing and disclosure of all transactions which have been carried out with all Government controlled / related entities.

Balances from / to entities controlled by the GOSL are included under Trade and Other Receivables / Payables and Interest-Bearing Liabilities in the Statement of Financial Position.

**32. Events after the Reporting Period**

There have been no material events occurring after the Statement of Financial Position date that require adjustments to or disclosure in the financial statements.







# CORPORATE INFORMATION

Company Registration Number	: PV 7931 ( Companies Act No. 7 of 2007 )
Date of Incorporation	: 23 <sup>rd</sup> February 1982
Legal Form	: Limited Liability Company
Key Shareholder	: Secretary to the Ministry of Finance
Ministry	: Ministry of Transport and Civil Aviation
Regulator	: Civil Aviation Authority of Sri Lanka
Empowered by	: Civil Aviation Act No: 14 of 2010
Registered Office	: Bandaranaike International Airport, Katunayake
Other Airports	: • Mattala Rajapaksa International Airport, Mattala • Colombo Airport, Ratmalana • Domestic Airport, Batticaloa
Auditors	: Auditor General's Department
Company Secretary	: M C G Mahipala (Mrs)
Bankers	: Bank of Ceylon PLC



Designed & Produced by : AASL  
Digital plates & Printed by :  
Printhub-Metropolitan Office (Pvt) Ltd



Airport & Aviation Services  
(Sri Lanka) Limited