

Keeping Growth On Track



Annual Report 2016

AIRPORT & AVIATION SERVICES (SRI LANKA) LIMITED



We are firmly on fast track on growth and AASL is heading upward in the right direction. Sound implementation of our development strategies with the successful execution of effective cost control mechanisms, helped in boosting our operating profits and have strongly positioned the Company to capitalize on its future growth strategy. The strength, vitality and innovative spirit continues to be demonstrated through our record breaking revenue, profits and many other remarkable milestones achieved during the year. This growth achieved in the midst of a dynamic environment where change is accelerating, shows the manner in which AASL strategically balanced to achieve the desired outcome, **“KEEPING GROWTH ON TRACK”**.

CONTENTS

Financial Highlights	01
Performance Highlights.....	02
History of Aviation in Sri Lanka	03
Chairman’s Review	05
Board of Directors	09
Senior Management	11
Report of the Board of Directors on the affairs of the company.....	13
Management Discussion & Analysis	21
Financial Review.....	45
Human Resources Management.....	55
Corporate Governance.....	61
Risk Management	67
Report of the Auditor General	85
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
Explanatory Notes to the Report of the Auditor General.....	126
Corporate Information	132

Financial Highlights

	2016 Rs. Mn.	2015* Rs. Mn.	2016 /2015 +/- %	2014* Rs. Mn.	2015 /2014 +/- %
Turnover	18,343	15,698	17%	13,887	13%
Operating expenses before Depreciation	7,991	7,466	-7%	6,757	-10%
EBITDA	10,264	8,127	26%	6,979	16%
Depreciation of Fixed Assets	2,665	2,658	-0.2%	2,664	0.2%
Net Finance costs / (Income)	779	3,196	76%	(1,030)	-410%
Profit Before Taxation	6,909	2,378	191%	5,496	-57%
Income Tax	(11)	1,561	101%	2,084	25%
Profit After Taxation	6,920	817	747%	3,412	-76%
Profit attributable to Equity Shareholders	6,920	817	747%	3,412	-76%
Dividends	1,500	497	202%	500	-1%
Cash and Cash Equivalents as at December 31	22,708	15,550	46%	10,238	52%
Shareholders Fund as at December 31	16,436	11,012	49%	10,568	4%
Total Carrying Amount of Non-Current Assets as at December 31	43,471	44,079	-1%	45,578	-3%
Total Current Asset as at December 31	27,605	21,206	30%	14,952	42%
Total Current Liabilities as at December 31	10,430	10,132	3%	8,908	14%
Total Capital Expenditure for the year	2,400	617	289%	1,234	-50%

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

All figures are subject to rounding differences

+ = Favourable % Variance

- = Adverse % Variance



Performance Highlights

		2016	2015	2014	2013	2012
Operating Highlights						
International Flight Movements	Nos.	61,637	56,156	54,960	51,972	48,416
Passenger Movements **	Nos.	9,466,248	8,505,740	7,780,724	7,330,421	7,079,920
Cargo Movements ***	MT.	248,347	218,402	209,607	194,020	186,618
Overflying Movements	Nos.	35,118	32,694	31,600	27,529	23,835
Total no.of Employees as at December 31	Nos.	3,810	3,871	3,932	3,674	3,445
Highlights in Ratios						
Return on Equity	%	42	7	32	48	65
Net Profit before tax to Total Net Revenue	%	38	15	40	39	35
Net Profit before tax to Share holders Fund	%	42	22	52	64	92
Total Revenue to Total Assets	Times	0.26	0.24	0.23	0.22	0.22
Total Assets per Employee	Rs'000	18,655	16,865	15,394	15,316	*14,415
Total Staff Cost per employee- Per Annum	Rs'000	1,578	1,462	1,203	1,182	1,020
Total cost per Flight Handled	Rs'000	216	256	184	188	164
Revenue per Passenger	Rs	1,938	1,846	1,785	1,652	1,570
Profit After Tax per Passenger	Rs	731	96	438	485	387
Aircraft Movement per Employee	Nos.	16	15	14	14	14
Passengers per Aircraft	Nos.	154	151	142	141	146
Passengers per Employee	Nos.	2,485	2,197	1,979	1,995	2,055
Gearing Ratio	%	48	67	71	82	89
Return on Total Assets	%	10	1	6	6	6
Profitability Ratio	%	38	5	25	29	25
Capital Productivity Index	Times	0.26	0.23	0.24	0.20	0.19
Earning Per Share	Rs.	34,598	4,084	17,058	17,768	13,688
Current Ratio	Times	2.65	2.09	1.68	1.29	*1.78
Total Income to Total Expenditure	Times	1.52	*1.17	*1.54	*1.48	1.53

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

** Passenger movements include International Arrival, Departure, Transfer and Transit passengers. Domestic passengers are excluded.

*** Cargo movements include Export, Import and Transhipment. Domestic cargo & Air mails are excluded.

History of Aviation In Sri Lanka

"In 1983, Airport & Aviation Services (Sri Lanka) Limited (AASL) was incorporated and appointed as the Agent of the Government to discharge of 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 (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.

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

1934

1936

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

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

1937

1938

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

An emergency landing is conducted in Puttalam.

1939

1942

With the outbreak of World War 2, the Royal Air Force takes control of functions at the Ratmalana Airport.

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

1945

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.

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.

1947

1948

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

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

1950

1955

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



	International flight operations are shifted to Katunayake.	1959
1963	Development program 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.	
	Construction of a larger terminal building, apron and taxiway takes place.	1968
1979	Inauguration of the National Carrier – Air Lanka. Airports Authority Act of 1979 promulgated and the Airport Authority is established.	
	The Airports Authority takes over civil airport operations from the Department of Civil Aviation.	1980
1981	The Government decides to establish a government owned company to handle civil aviation in Sri Lanka.	
	Amendments are made to the Air Navigation Act.	1982
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.	
	Development program launched to construct a new Runway, Passenger Terminal Building, Cargo Complex, Control Tower and Navigation Services and Maintenance Complex.	1984
1987/88	Development program is completed and the new Runway and Passenger Terminal Building is commissioned with an annual handling capacity of 3.5 Mn passengers.	
	The Air Cargo Village inaugurated	1992
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.	
	AASL celebrated 25 years Silver Jubilee.	2008
2010	The Civil Aviation Act No.14 of 2010 was passed in 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.	
	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 th December 1912.	2012
2013	Sri Lanka's second International Airport MRIA at Hambanthota declared open on 18 th March	



CHAIRMAN'S Review

"We are growing stronger and well positioned to deliver on our Vision, generating significant economic benefit to **our stakeholders and to the country as a whole**"



Performance Overview 2016

2016 marked another record breaking successful year in the history of Airport & Aviation Services (Sri Lanka) Limited providing expected returns to its stakeholders. We have achieved a number of strategic objectives set out at the beginning of the year, increasing the efficiency and profitability of the company, in terms of both traffic figures and financial results. Overall passenger numbers grew by 11% from last year's 8.5 Mn to 9.5 Mn in year under review, establishing a new record. Bandaranaike International Airport (BIA) operated 1.6 times in excess of its passenger handling capacity, breaking bottlenecks and ensuring customer and passenger safety while providing facilitation at all times.

We were able to earn the best ever revenue of Rs.18.3 Bn in 2016 which is a 17% growth compared to Rs.15.7 Bn recorded in previous year. This resulted in the Revenue per passenger increasing to Rs.1,938 from Rs.1,846 in 2015. Commercial income growth was largely driven by tendering of airport premises for duty free shops and other operators for a longer contract period of 3 to 5 years by adhering to the policies of good governance and transparency in the entire process. Strategic improvements and rearrangement of shop locations within the passenger terminal building helped to improve the passenger experience and increased commercial yield.

It is pertinent to note that operating profit of the Company increased significantly by 38% from Rs. 5.6 Bn to Rs. 7.7 Bn, after absorbing the Rs. 2.3 Bn operating loss of Mattala Rajapaksa International Airport (MRIA) and maintaining the operational expenditure increase at a lower rate of 5% over the previous year. Further the Company was able to record its highest ever profit before tax of Rs. 6.9 Bn which is 191% over the previous year. The main contributory factors to this are the notable increase in investment income on short term and long term investment of 79% from Rs.1.0 Bn to Rs. 1.8 Bn and reduction of Exchange loss from Rs. 3.5 Bn to Rs.2.0 Bn compared to previous year due to slow down in devaluation of reporting currency against the US Dollar.

I am delighted to announce that zero aircraft incidents and passenger casualties were reported in the year under review. Over 60,000 International flight movements got connected with BIA which is a 10% growth in comparison to 2015 and growth of cargo recorded at 14% bringing up the cargo volume to 248 thousand of Metric Tonnes. Overflying movements recorded at 35,118, which is a 7% growth compared to 32,694 in 2015. Domestic Air Travel has also attracted over 30,000 passengers which have almost doubled its last year's record.



As a responsible state owned Organization, we have contributed Rs 1.5 Bn to the General Treasury as dividend and by paying all statutory dues in a timely manner. Overall, we have done extremely well in 2016 with positive operational results and our pipeline of further investment will continue to deliver even better outcomes for our stakeholders in future.

Development through Challenges

Above outstanding results would provide a strong platform for the development initiatives taken during the year. In line with development of domestic civil aviation, civil and military joint operations were launched at the Batticaloa airport in 2016 and AASL was appointed as the service provider. Necessary proceedings and facilities are presently underway for the commencement of domestic civil air operations. At BIA, two key agreements have been signed in 2016, for major development programmes for the Runway Overlay Project and for the expansion of BIA phase II stage 2 development project.

Runway Overlay at BIA was long overdue and the contract agreement for this US\$ 48 Mn Project was signed on 2nd September 2016. Funding arrangements were made by the HSBC Hong Kong to cover 85% of the contract value and the remaining 15% domestic portion was financed by AASL. The Renovation work commenced on 6th January 2017 and the project was successfully completed by 6th April 2017 as per the time schedule. This was the first renovation of this sole runway since it began operations more than thirty years ago. Primary aims of this nationally important project were to renovate the deteriorated sections of the tarmac & taxiways and widen runway shoulders from 60 meters to 75 meters to accommodate larger aircrafts such as Airbus 380. Runway was closed for operations for 8 hours on daytime during this period of 3 months to allow the resurfacing of runway, considering the dry weather as well as to minimize passenger inconvenience. Further, MRIA and RMA airports were fully geared in facilitating airlines and to minimize the burden on operations. Availability of these other airports round the clock for operations ensured airlines to easily divert their flights for connectivity and for technical stopovers. Business jet aircraft movements during the closure were handled by RMA. Improvements to the runway and apron lighting system were carried out replacing

halogen lamps with special LED bulbs to light up the tarmac enabling pilots to visibly see the aerodrome in any weather condition while saving electricity consumption. We sincerely apologize to our passengers and stakeholders for the inconvenience that may have been caused due to restricted operations at BIA and wish to thank each and every one for the cooperation extended to overcome the barriers.

BIA phase II stage 2 expansion Project would cost around US\$ 700 Mn and includes construction of a new two storied terminal building with 180,000m², two Aircraft piers and elevated road designed to provide barrier free access and will become the International gateway to Sri Lanka. BIA presently handles over 9 Mn passengers per annum, although the designed handling capacity of terminal building stands at 6 Mn. Particularly during peak hours, the airport suffers from the lag in passenger services such as long lines to reach check-in counters and insufficient capacity at the arrival baggage claim area. After completion of the project in 2020, the airport will be able to handle more than 15 Mn passengers per annum, reducing congestion which presently causes hardship to passengers and airlines and will cater to the rising demand for services while improving convenience and safety. BIA phase II stage 2 is funded by JICA with 40 years repayment including 10 years grace period and at an annual interest rate of 0.2% per annum. Two loan agreements were signed between AASL and JICA for JPY 29 Bn and JPY 45 Bn in March 2012 and in March 2016 respectively and the construction will commence in 2017. Project plan is based on the concept of an eco-airport which would use state of the art technology and many environmentally friendly initiatives such as solar energy, LED lighting, recycled water and rain water harvesting etc.

Our challenge as the sole commercial airport operator in Sri Lanka, is to support our customers by providing the right airport infrastructure while ensuring that travelers have a better experience as they journey through our airports. Above investments with the aid of foreign loans will enable us to provide new and upgraded infrastructure with better terminal and airside facilities and improved services to achieve our long term objectives.



Above all, our strategy to drive top-line growth and improve efficiencies will continue in the coming years while focusing on delivering the above chapter in AASL's growth story with much confidence and enthusiasm.

Future as a Commercial Public Enterprise

With an aim of enhancing financial discipline and strengthening the State Owned Business Enterprises (SOBE), on the recommendation of IMF, a three year tripartite agreement for Statement of Corporate Intent (SCI) was signed by the AASL, Ministry of Finance and Ministry of Transport & Civil Aviation, on 15th March 2017. This move is in line with the country's economic goal of enhancing the contribution made to its GDP and expects to encourage and facilitate AASL to improve operational and financial efficiency by giving reasonable managerial and operational autonomy to operate as a Commercial Public Enterprise. The agreement is subjected to review after 6 months from the implementation date and AASL is expected to perform through improved corporate practices, innovative financing, strong and prudent financial management, exposure to competitiveness, international best practices and effective human resource management while enhancing public accountability.

Opportunities at MRIA

AASL is still looking for business opportunities at MRIA with private sector participation with the intervention of the Government for better utilization of the airport. Expression of Interest (EOI) was called in year 2016 from potential international and local investors which received some diverse proposals to implement aviation related activities such as Fixed Based Operations (FBO), Flying Schools, Aircraft Maintenance Repair and Overhaul (MRO) and other aviation related industries at MRIA. Discussions have taken place with few interested parties, which are yet in the initial stage. In the meantime, SriLankan Airlines recommenced its operations at MRIA and Sri-Wijaya Airlines instigated flights to Indonesia while Fly Dubai and Rotana Jet Aviation continued their operations at MRIA. These improvements in MRIA operations will provide some positive expectations in terms of return on investment.

Conclusion

2016 has been another remarkable year for AASL. I would like to thank our senior management team and all our employees for their unwavering commitment and dedication as well as all other stakeholders for their valuable contribution during the year. It has been my privilege to lead a high performing team of talented individuals who work towards a common goal. I am confident that our employees are capable of meeting the upcoming challenges and will continue to provide a high level of service to our stakeholders. I take this opportunity to express my sincere appreciation to the present Board of Directors for providing direction and guidance throughout the year with their visionary leadership. I also wish to thank the Honorable Minister and Deputy Minister of Transport & Civil Aviation, Secretary and the staff of the Ministry of Transport & Civil Aviation, Ministry of Finance and the Civil Aviation Authority for providing all necessary direction, close supervision and monitoring the affairs of the Company, and for placing confidence in us. In conclusion, I would like to place on record my sincere gratitude to the Government of Sri Lanka and other organizations that enabled and facilitated the growth of our airports and the operations. I look forward to continuing our journey together in 2017.



Eng. S S Ediriweera
Chairman
June 14, 2017





BOARD OF DIRECTORS

Left to right

N P L P Fernando - Director
N R Hewathantri - Director
L W A De Soysa - Director
K V P Ranjith De Silva - Vice Chairman
S S Ediriweera - Chairman

Not in the picture: S R Attygalle - Director
S E W Gunasekara - Director



Left to right:

S D A S Nishantha - Company Medical Officer
 L Dahanayake - Head of Finance
 W M G Karunaratne - Head of Commercial & Properties
 H S Hettiarachchi - Head of Airport Management
 M C G Mahipala - Head of Human Resources & Company Secretary

SENIOR



Left to right:

J M A U Jayamanne - Head of Electrical Engineering
 U J Lokuarachchi - Head of Information Technology
 M Ratnasinghe - Head of Legal
 A I B Karunaratne - Head of Projects
 G Withanage - Head of Civil Engineering (Planning & Designs)
 J M De Croos Rubin - Head of Architecture, Landscaping and Interior Design



MANAGEMENT

Left to right:

H A A K M Seneviratne - Head of Civil Aviation Training
 W C Tissera - Head of Air Navigation Services
 W Wimalshanthi - Head of Electronics & Air Navigation Engineering
 A D N R De Alwis Gunasekara - Head of Fire & Rescue Services
 K H C Kumarasinghe - Chief Co-ordinator - Domestic Airports Project



Left to right:

R W Wijesinghe - Head of Mechanical Engineering
 U S Jagoda - Head of Civil Engineering (Maintenance)
 W G Cyril - Head of Internal Audit & Quality Assurance
 H P L Sirimanne - Acting Head of Supply Chain Management
 S M D Wijesooriya - Acting Head of Security Services

Report of the Board of Directors On the Affairs of the Company

“No exception, even in year 2016 we continued to record a significant growth through another landmark year in AASL history. This achievement is an evidence for commitment to excellence and focused effort under superior leadership. No doubt, this will clear the path and expedite our way of marching towards
to be the most efficient and friendliest Premier Aviation Hub in the Asian region”

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 Accounting 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, Gazetted 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 at Ratmalana (RMA). Operational activities of the Batticaloa Airport were assigned to AASL during year 2016, 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 operational and financial performance, are described in detail in the Chairman's Review and Management Discussion and Analysis (MDA). These reports together with the Audited Financial Statements of the Company reflect the respective state of affairs of the Company.

Directors' Responsibility for the Financial Statements

The Directors fully understand their responsibilities pertaining to the Financial Statements as per the provision of the Company's Act No. 07 of 2007. Accordingly, they acknowledge their duty to ensure that accurate financial records are maintained in compliance with the Sri Lanka Financial Reporting Standards (SLFRS/LKAS) and requirement of the Companies Act No.7 of 2007.

The Directors are satisfied that the Financial Statements presented on page 93 to 125 provide a true and fair view of the state of affairs of the Company.

Auditor's Report

The Auditors Report on the Financial Statements of the Company is given on page 85 and 91.

Significant Accounting Policies

There are no significant changes of Accounting Policies during the year 2016. The Company adopted SLFRS/LKAS during the year and is compliant with the previous year. As recommended by the Sri Lanka Accounting & Auditing Standards Monitoring Board, additional declaration has been made on the recognition and measurement of revenue as required in the LKAS 18. The Accounting Policies adopted in the preparation of Financial Statements are given on pages 97 to 125.

Corporate Social Responsibility (CSR)

The total contribution for Corporate Social Responsibility (CSR and donations) by AASL during the year amounted to Rs. 3.2 Mn.



System of Internal Controls

Monitoring of the Company's Internal Control function comes under the purview of the Board of Directors. The scope of activities covers all Financial and non Financial activities which includes reviewing and monitoring of systems in order to achieve the Company's Strategic Goals and Objectives in accordance with the provisions made under the Corporate Governance Framework.

Future Developments

Runway Overlay and its associated work project commenced in year 2016 and the contract agreement was signed on 2nd September 2016 enabling the fulfillment of this long overdue task. 85% of the Contract value was funded through a foreign loan of USD 44 Mn granted by HSBC Hong Kong and the remaining 15% financed by internal funds. This nationally important project was successfully completed during the first quarter of 2017.

Proposed capacity expansion of BIA in terms of adding a handling capacity of further 9 Mn passengers per annum (ppa) bringing up the present capacity of 6 Mn ppa to 15 Mn ppa, by constructing a second Terminal (T2) at BIA has already commenced in year 2017. Initial loan agreement for JPY 29 Bn was signed in 2012 and an additional Loan agreement for JPY 45 Bn was signed in March 2016 with JICA. In addition, enhancement of infrastructure and associated property developments at BIA, RMA and MRJA are the projects planned for the next 5 years which will certainly be a boost to the country's aviation industry.

Income Statement and the Financial Position of the Company

Revenue

The Company recorded the highest ever gross revenue in the history of AASL amounting to Rs. 18.3 Bn. 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. 6.9 Bn for the year ended 2016, which is a significant increase of 191 % (Rs. 4.5 Bn) compared to the previous year. This resulted due

to an Increase of revenue by Rs.2.6 Bn and the contribution from net Finance Income/(Cost) due to slow down in devaluation of LKR against US\$, while other operational expenses were maintained at lower level compared to the revenue growth. There is a recorded increase in Profit After Tax (PAT) by 747% compared to previous year. In addition to the facts stated, PAT has been increased due to reversal of tax provision of Rs.11 Mn compared to tax provision of Rs. 1.6 Bn recorded in 2015.

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

Description	2016 Rs.Mn	2015 Rs.Mn
PBT for the year ended 31 December after payment of all operating expenditure and provision for Depreciation	6,909	2,378
Less : Provision for Taxation	11	(1,561)
PAT for the year	6,920	817
Gain/(Loss) arising from changes in actuarial assumption	4	124
Other Comprehensive Income	-	-
Total Comprehensive Income	6,924	941

Reserves

The reserves of the Company have been increased to Rs. 16,416 Mn as at December 31, 2016 from Rs.10,992 Mn in 2015, 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

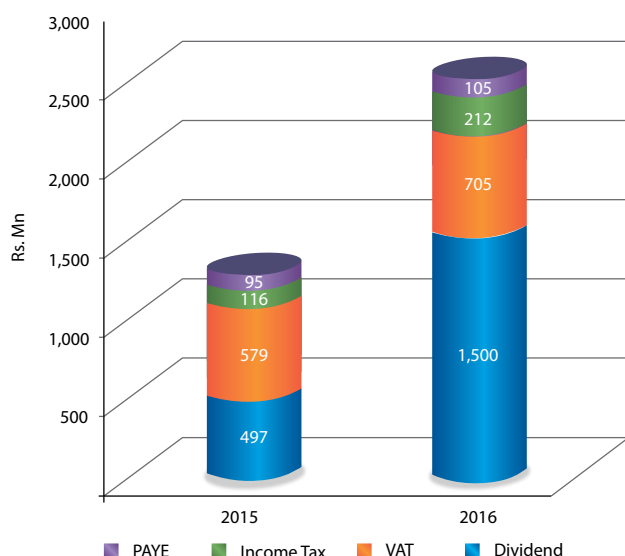
During the year, the Directors declared and paid a final dividend of Rs. 350 Mn for the year 2015. The interim dividend of Rs.1,150 Mn was paid in respect of the years 2016 & 2017. Final dividend for 2016 is to be proposed at the Annual General Meeting.



Capital Expenditure

The capital expenditure of the Company was Rs. 2,400 Mn in the year under review, compared to Rs. 617 Mn in 2015. 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



Events after the Balance Sheet Date

No material events that require adjustment to the Financial Statements have taken place, subsequent to the date of Balance Sheet.

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 December 31, 2016, is given in notes 27 and 28 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 & 120) to the Financial Statements. Additional Investment of Rs. 6.2 Bn 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 Accounts and comprises Ordinary Shares of Rs. 100/- each. The shareholding as at December 31, 2016 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 one Director was newly appointed in the year 2016 on 17th March 2016. 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 2016

Name	Position	Date of Appointment
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

Board Sub-Committees

The Audit and Management Committee (AMC) was established by the Board for the better monitoring and guidance of operations and internal control. It comprised three Non-Executive Directors appointed by the Board, namely Mr. L W A De Soysa, Mr. S R Attygalle, Mr. N.P.L.P Fernando served in this committee during the year under review. The Superintendent of Audit Ms. A.D.Dilrukshi in the Auditor General Department and Mr. C. Wannigama who is Head of Internal Audit and Quality Assurance Division of AASL were also the members of this committee in the year under review. AMC 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.7.7 Mn during the year as remuneration. This included all financial benefits namely Directors' allowances, EPF, ETF, reimbursement of entertainment expenses, telephone, leave encashment and other allowances. Non Executive Directors were paid an amount of Rs. 1.24 Mn 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.

Auditors

As per 19th amendment enacted on 15th 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 2016 was carried out by the Auditor General.

The audit fee for the period is Rs.750,000 (2015: Rs 940,753) and there was no any other fees paid to the auditors for audit related services and non-audit services.



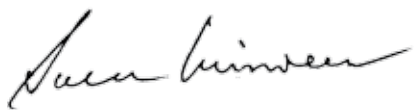
Annual General Meeting

The Annual General Meeting is scheduled to be held on June 30, 2017, at the Board Room of AASL at 3.00 P.M.

Acknowledgement

The Board of Directors wishes to thank the Management team for their hard work, encouragement and professionalism revealed towards the achievement of success by the company. 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 stake holder and the regulator of the company. Further, we wish to state our 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 07, 2017





Bandaranaïke International Airport Development Project

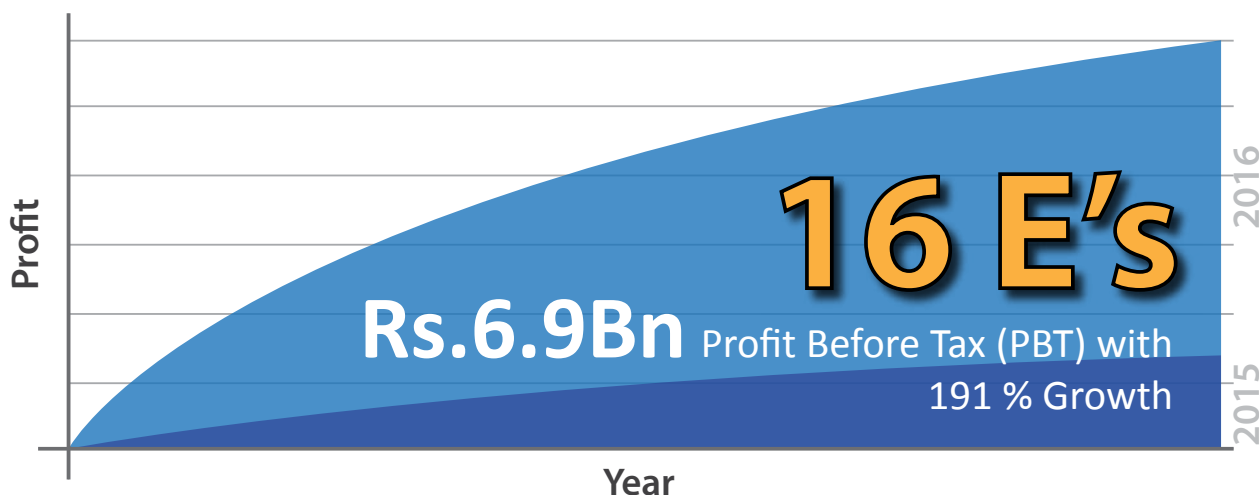


“It’s going to be a reality to accommodate over 15 Mn passengers in the years to come...”

Management **Discussion & Analysis**

AASL – Journey towards shared Vision,
“Keeping growth on Track” with

“16 Es” in 2016



9,466,248 Passengers with 11% Growth



61,637 Aircraft Movements with 10 % Growth



248,347 MT Cargo with 14% Growth

2015 World Airport Traffic Report



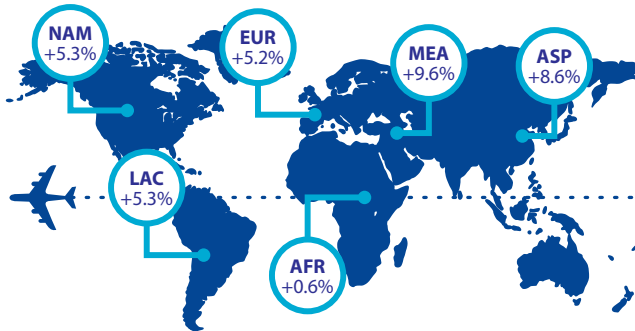
Worldwide airport passenger numbers increased to **7.2 billion** (+6.4%)



37 airports with over **40 million** passengers



Worldwide aircraft movements increased to **88.5 million** (+2.0%)



Growth in passenger traffic for the first half of 2016

5.6%

Worldwide airport cargo increased to

106 MILLION

METRIC

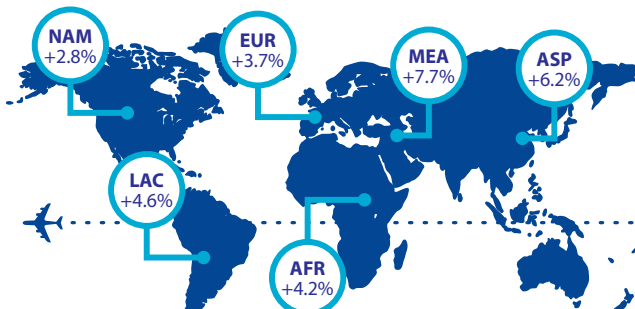
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(+2.6%)

Source: ACI Annual World Airport Traffic Report (WATR) 2015.

2016 World Airport Traffic Forecasts

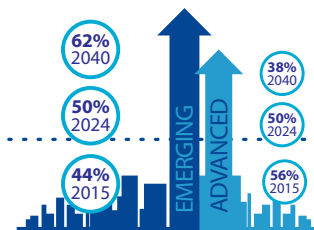
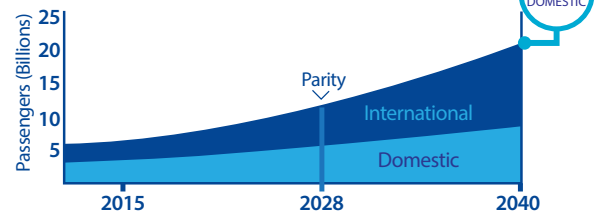
Passenger traffic growth 2015-2040 (Compounded Annual Growth rate)



Global forecast CAGR: 4.9%

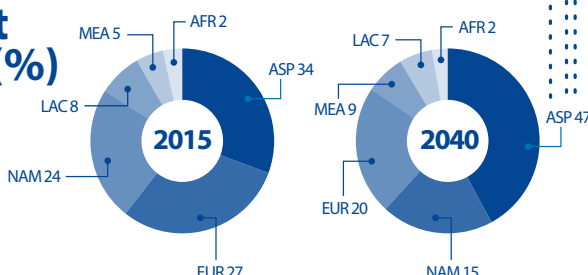
Passenger traffic to double to over **14 billion** by 2029

International passenger traffic will surpass domestic traffic after 2028



Future growth in air passenger traffic will originate from emerging markets

Market Share (%) by region



Long - term cargo and movement growth (CAGR 2015-2040)

Total Air Cargo

2.3%



Total Aircraft Movements

2.5%

Source: ACI World Airport Traffic Forecasts (WATF) 2016-2040

Global Economy

According to the World Economic Outlook of the IMF, the global economy gained momentum in the second half of 2016 with advanced economies registering a stronger than expected pick-up, while slackened economic activity persisted in emerging market and developing economies. Advanced economies, continued their efforts to stimulate demand, emerging market and developing economies exhibited diverse growth and exchange rate outcomes depending on Balance of Payment positions, fiscal situations, and investment activities in each country, despite being affected in general by tighter conditions in global financial markets. World output expanded by 3.1% in 2016 compared to 3.4% in 2015. Drop-in economic activities in developing and emerging economies was mainly a result of low commodity prices which were quite visible across a number of sectors including minerals, energy, agriculture and re-balancing of economic operations. Global economy is expected to grow by 3.5% and 3.6% in 2017 and 2018 respectively, although it is expected to encounter numerous challenges.

Sri Lankan Economy

According to the Central Bank of Sri Lanka in 2016, Sri Lankan economy grew by 4.4 % in real terms, amidst numerous global and domestic challenges compared to 4.8 % during 2015. The contribution rendered by the main three sectors, Agriculture, Industries and Services remained almost the same in 2016 as in 2015. Services sector contributed with 56.5 % compared to 56.6 % in 2015.

Economic growth in 2016 was primarily driven by the expansion in investment expenditure during the year. The performance of the Sri Lankan economy in 2016 reconfirmed the necessity of addressing the deep rooted structural issues if the country is to progress steadily towards a higher growth trajectory.

Global Aviation Sector

Liberalization of the air transport industry has generated significant benefits to the traveling public with a wide-ranging choice of flights and destinations now available at competitive prices. Liberalization has also benefitted airports. Serving as gateways to centers of commerce, tourist destinations and local communities, airports along with their airline partners have welcomed higher levels of traffic. The resulting multiplier effect from liberalization on the air transport value chain and global economy is evident from increased tourism activity and cross-border investment and trade. Despite the widespread gains achieved as a result of liberalization,

geo-political threats and economic risk hang over the industry. In 2016, whether it was Brexit, the American presidential election or the Syrian Civil War, the specter of economic uncertainty has permeated the global economy and the aviation sector in particular. In terms of security, the industry has experienced direct terrorist attacks including those at Istanbul Atatürk and Brussels airports. Yet the industry is characterized by its ability to adapt and bounce back from adversity irrespective of the event or circumstance. This best describes air transport demand in 2016.

Looking beyond the horizon

Air transport is expected to double to over 14 billion by 2029 based on Airports Council International's (ACI) forecast annualized growth rate of 4.9%. Erring on the side of cautious optimism, there are several impediments that could potentially encumber growth prospects in air transport demand over the short- and medium-terms. Specifically, these relate to political unrest and ongoing threats to security; and protectionist policies that retreat from further economic integration and air transport liberalization. Finally, with ACI's global medium term passenger forecast showing 33% growth from 2016 to 2020, many national governments face a surge in air transport demand which is outstripping available airport infrastructure. Investment is needed to address this challenge over the long-term, and many governments have tapped the private sector for the necessary resources. Along with consistency in regulatory frameworks on the pricing of airport services, a move towards well-crafted economic incentives enables private equity to flow to the airport industry. This approach attracts investment and helps manage the overall level of risk of such a long-term, capital intensive outlay. Similarly, a key area that ACI will continue to address is in the optimum management of scarce capacity at airports. In particular, a move towards enhanced efficiency in the allocation of slots represents a key priority for the industry. ACI will continue to advocate that airport operators should be more involved in the process of modernizing the Worldwide Slot Guidelines.

AASL Journey towards shared Vision,
“Keeping Growth on Track”
with
“16Es”
in 2016

1. EFFICIENT - Keeping growth on track being "Efficient"

In modern Corporate World, everyone grumble about the short of time. There are seminars, workshops, trainings and lectures on "time management", but one really cannot manage time. It is finite and fixed. In this "paradox" as a State Entity what we can do is to "manage ourselves" in getting the best out of the limited time given within the Political, Economic, Social, Technological, environmental, ethical and Legal (PESTEEL) environment we operate. The only way to do that is to be efficient in our operational tasks. That involves minimizing wastage, delays in processing and approving times, defects, deviations etc. Throughout the year 2016, AASL was "Efficient" and capable in managing its operations within the limited available resources.

2. EFFECTIVE - Keeping growth on track being "Effective"

In this "VUCA" (Volatile, Uncertain, Complex and Ambiguity) world being efficient is not sufficient. One can efficiently achieve a false objective. Effectiveness is results driven. As a state owned service provider, AASL deals with the desired outcome. There are instances where both Efficiency and Effectiveness are coinciding with each other. Since "Efficiency" should always go with "Effectiveness" let's discuss how AASL has increased its productivity through both aspects during the year 2016.

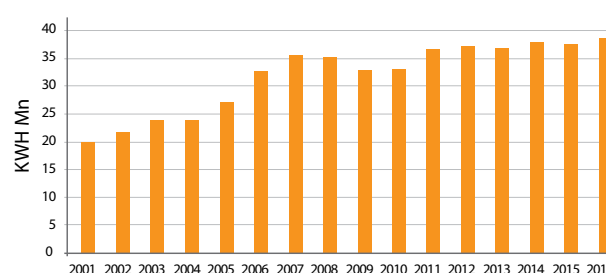
Solar power generation at BIA

Airports of all sizes are becoming increasingly environmentally aware and friendly. The proactive use of solar power is gaining popularity as it has an immense effect on the environment which helps to slowdown global warming. Further, it also provides energy reliability and energy security without depending on energy suppliers while saving money. Scripting a new chapter, BIA has started to utilize solar power. This is the pilot project on Grid Connected solar power generation plant at BIA with a capacity of 75 KWP at a total cost of LKR 14 Mn and a guaranteed life span of 25 years. Average monthly saving is LKR 200,000 with an investment payback period of 6 years.

At present average monthly power generation is 10,000 KWP. With the successful completion of the pilot project, AASL has now planned to extend the solar power generation in megawatts range for main passenger terminal building in phased out method. AASL expects to reduce the annual Energy bill which is now over LKR 1Bn per annum and to retard future increase of energy demand due to terminal expansion projects while reducing the CO₂ emission to the environment.

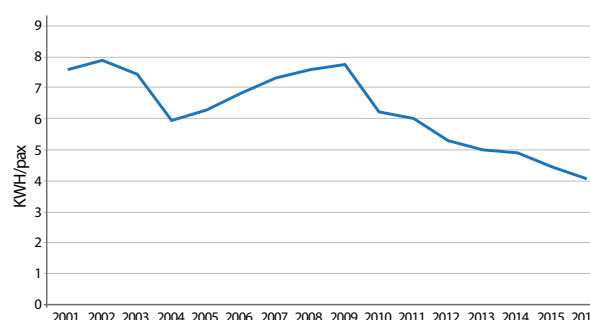


Energy Consumption (2001-2016)



Impressively, the lowest Electricity Consumption per passenger in the history of AASL was recorded in 2016 at 4.09KWH.

Electricity Consumption per Passenger (2001-2016)



Solar Power Generation Plant Statistics 2016

Month	Generation KWH	Yield (Rs.) (KWH x 20.70)
August	10,190	210,933
September	9,540	197,478
October	10,940	226,458
November	8,680	179,676
December	10,260	212,382



2



3

1 Implementation of solar power generation plant – BIA

2 PBNS at BIA

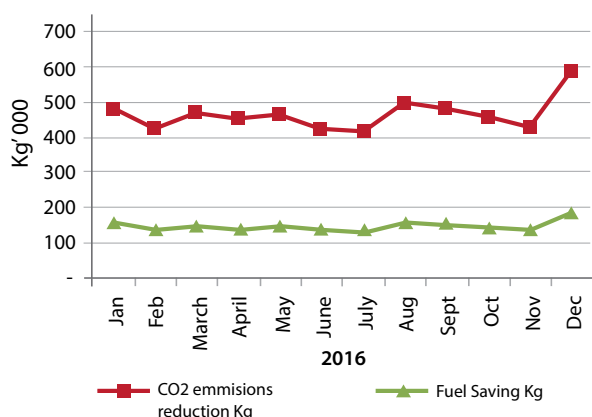
3 Refurbishment of washrooms in Transit at BIA

Performance Based Navigation System (PBNS)

PBNS was implemented in Air Traffic Control Tower at BIA in August 2016, which is a state of the art technological solution for the regulation of navigation systems. PBNS is based on Area Navigation method which permits aircraft operation on any desired flight path within the coverage of station-referenced navigation aids or within the limits of the capability of self-contained aids or a combination of the two. The PBN Manual (ICAO Doc. 9613) defines and standardizes this navigation capability. It contains a menu of navigation specifications and implementation guidance for States, aircraft operators and air navigation service providers. Due to implementation being slower than agreed under Assembly Resolution A37-11, PBN implementation of RNAV and RNP air traffic services routes and approach procedures is currently a top priority of ICAO.

Total fuel savings of 1,821,555 Kgs were achieved while reducing the CO₂ emission by 5,737,900 Kgs in 2016.

Fuel Savings and CO₂ reduction



Timely procurement of goods and services

During the year under review, total value of procurements increased by 90 % to LKR 5.2 Bn compared to 2015. In addition in the year 2016, eighteen tenders were completed in the Departure Transit area. This resulted increase of rental revenue of transit area to LKR 541 Mn compared to LKR 295 Mn in 2015 which is an increase of 83%. The entire procurement process was carried out by adhering to the Government Procurement Guidelines with transparency and accruing financial benefits to the company.

3. EMPATHIC - Keeping growth on track being "Empathic"

Empathy is "getting into others shoes and walking like them", which means, having the ability to look at a problem or an issue from the others point of view. AASL is highly concerned on passenger facilitation and customer care. AASL management is empathic when dealing with employee welfare, Training, Promotion, Union related matters. Empathy backed by Emotional Intelligence is considered as one of the most desirable characteristics of the inspirational business leadership in the current context.

Passenger facilitation to the international standards

To enhance sanitary facilities, refurbishment of washrooms in Transit at BIA was carried out and opened to the public on 19th October 2016. The budgeted cost of this project was LKR 13 Mn. The actual cost incurred for the project was LKR 8.7 Mn with a saving of LKR 4.3 Mn to the AASL as the overall project work was completed by AASL skilled human resources.



Project accomplished by joining hands with several work disciplines of AASL which includes Engineering, Architectural and Landscaping, Finance and Supplies. This was executed as a team work of AASL staff. The entire project was successful with the guidance and direction of the top management, where the work was carried out to the 'International Standards' and completed prior to the target date of completion.

Welfare and work life balance of employees

AASL was able to maintain varieties of welfare benefits such as Health Insurance Scheme, Personal Accident Insurance Scheme, Staff Transport Services, Holiday Bungalow Facility, Staff Quarters, Staff Loan Scheme, etc. During the year we have been able to reduce the turnaround time of the loan processing and remit the staff loan directly to the Bank account for the convenience of the employee.

Under the Company Medical Insurance Scheme provides Indoor medical facilities under three different schemes to all eligible employees at AASL. In the year 2016, 3592 employees were covered under the Medical Scheme.

Flood Relief from empathic AASL staff

The severe weather conditions, including strong winds and heavy rainfall occurred during mid 2016 caused flooding, storm damage and landslides in several provinces of the country. When deadly floods from the monsoon rains forced thousands of families from their homes in Sri Lanka in May 2016, many donor countries sent emergency relief aid to Sri Lanka. AASL staff, along with the other stakeholders in the airport took up the challenge to unload the relief from the aircrafts and made necessary arrangements for the relevant Agents to deliver the aid for urgent distribution. In addition, empathic AASL employees helped flood affected people in all possible ways and means they could.

1 *Holiday Bungalow Facility at Kataragama*

2 *Donation of water bottles by AASL for flood victims*

3 *Runway Halogen light fittings replaced with LED*

4 *Signing the loan agreement with JICA for phase II Stage 2 in the presence of Hon. Minister of Transport and Civil Aviation*

4. **ENERGETIC** - Keeping growth on track being "Energetic"

In order to achieve AASL's ultimate aspiration, "To be the most Efficient and Friendliest Premier Aviation Hub in the Asian Region", obviously to make it "Shared and Live Vision" rather "Hanging Vision" the AASL Staff across the board are required to be "corporate athletes" in maintaining vigorous mind-body balance. In the Corporate context, Energy flows out through self motivation and team work to carry out more challenging work and impossible tasks. AASL was extremely energetic throughout the year 2016.

Refurbishment of Departure walkways commenced and completed 30 % physical progress with a total expenditure of LKR 39 Mn during the year 2016. The total contract sum of this project was LKR 190 Mn and once completed, this will be a key improvement to address the increasing passenger demand in the terminal building. In addition, Expansion of Departure Checking area by way of putting up a new glass partitions for separation of Public Concourse including new office area for customs were completed at a total cost of LKR 21Mn. Construction of a lounge in the departure terminal which commenced in 2016 at a total cost of LKR 65 Mn was completed and opened on 10th January 2017.



3



4

One of the major projects at a total estimated cost of LKR 374 Mn for the Construction of New Immigration Hall & Electronic mall at Arrivals Passenger Terminal Building at BIA was awarded late 2016 and construction commenced in January 2017.

As a structural improvement, 32 CCTV camera viewing facilities out of total 292 cameras were provided for the Duty Managers' offices enabling easier and better monitoring of areas, specifically highly congested areas which require prompt attention and remedial actions.

Upgrading of Runway lighting system

In 2016, Solar powered LED runway lighting system was installed at Batticaloa airport. This project valued at LKR 30 Mn against conventional halogen light with wired solution which has an estimated cost over LKR 300 Mn. Therefore, all in this project brought heighten productivity pillars to AASL in terms of Cost savings as well as huge electricity savings.

This has also increased "operational efficiency" as well since the system is least vulnerable to lightning strikes. AASL also has taken an initiative to adopt the same solar powered LED runway lighting system for other domestic airports as well.

Further, replaced most of the street light fittings over 300 numbers installed on Canada friendship road with LED and phase-out almost all perimeter lights which are old energy inefficient types.

The runway power supply system was upgraded to CAT II, by introducing 350 KVA UPS/GENERATOR combination and brought the interruption to airport visual navigational aids to zero second. Hence no approach or landing interruption due to Ceylon Electricity Board constraints and aircraft can now approach and land without overshoot.

Installation of ADS-B Ground Stations

This project at a total cost of LKR 220 Mn aimed to enhance Safety in the Colombo FIR. Site preparation and installation has been carried out during the year 2016 enabling equipment testing and commissioning in 2017.

Staff Quarters at MRIA

In order to support 24/7 operations at the MRIA and to provide convenience to the employees, the above project was completed at a total cost of LKR 63 Mn in 2016.

Future Mega Projects in the pipeline

AASL employees were extremely energetic and dedicated during the year 2016 and as a result the following aviation infrastructure development projects moved forward in a high gear.

BIA Phase II Stage 2

One of the mega projects planned for the next 5 years is the proposed capacity expansion in terms of adding further 9 Mn passengers per annum by constructing the second terminal (T2) at BIA. This is the top priority and related structural environment has being prepared throughout the year 2016 for a smooth commencement of the project execution. This project is funded with Japan International Corporation Agency (JICA) ODA Loan and for the first time in the history of Sri Lanka a loan agreement (SL-P104) was signed between JICA and AASL on 28th March, 2012 for JPY 28,969 Mn to execute the above mentioned original plans. As the cost was escalated along with the design changes, a second concessionary loan agreement (SL-P114) for JPY 45,428 Mn was signed on 24th March 2016 between AASL and JICA.

This two storied terminal building (Terminal 2) will have approximate floor area of 180,000 m², where arrivals and departures are separated vertically, consisting two pier buildings, namely Pier 2 and Pier 3. This would be designed for the provision of barrier free access with many environmentally friendly initiatives. The new remote apron will consist of 23 aircraft parking stands, Ground Supporting Equipment (GSE) roads and three sub taxiways and the new terminal building will feature additional 96 check-in counters, eight baggage claim belts, seven baggage make-up carousels, 16 contact boarding gates with 28 passenger boarding bridges and six bus gates. The scope also includes capacity enhancement of the incinerator, water treatment plant and sewerage treatment plant.

The project would be developed based on the concept of an eco-airport with Japanese advanced technology and know-how. The concept includes rain water harvesting for the landscaping work and recycled water from the sewerage treatment plant for flushing of toilets, photovoltaic power generation, solar energy harvesting, LED lighting, energy efficient glazing, etc.

Japanese technology is to be used for constructing this landmark terminal building which will become the international gateway to Sri Lanka. In order to promote technology transfer and economic cooperation between Sri Lanka and Japan,

JICA's loan is provided under the Special Terms for Economic Partnership, with 0.2% p.a. interest and a 40-year repayment period which includes a 10 year grace period. The new passenger terminal building is planned to be opened in 2020.

Runway Overlay & Associated works at BIA

The most conducive dry weather patterns for the resurfacing work were considered based on the review of historical weather data at BIA maintained by the Meteorological Department of Sri Lanka. The contract for the "Overlaying Works" was awarded on 2nd September, 2016 to the Joint Venture of China National Aero Technology International Group (CATIC) and Shanghai New Era



Airport Design. This Joint Venture Company was credited under the Civil Aviation Authority of China. The contract was to overlay the runway and construction of associated works on a 'design and build' basis. The cost of the entire project estimated was US\$48 Mn excluding taxes and duties.

Runway of BIA is upgraded to modified Code 'F' compliance with Aerodrome Ground Lighting of the Runway and Taxiway system of BIA upgraded to CAT II as per ICAO, all of the new installation will be energy efficiency LED Light system, surface movement guidance system to the Runway and taxiway

systems, new airfield light control and monitoring system, all Runway markings as per ACI new addition, and capacity of Runway system will be enhanced to meet next 20 year growth.

Further, the runway width has been expanded by 15 meters, (7.5 meters from both side) enabling A380 aircrafts to land.

The Netherlands Airport Consultants (NACO) was the design and supervision consultant of the runway when the runway was constructed and commissioned under the Phase 1 Development Project of Colombo International Airport in 1986.



During early 2017, the runway was closed for operations from 8.30 a.m. to 4.30 p.m. considering comparatively low traffic volumes during the day time as well as to minimize passenger inconvenience.

5. ENTHUSIASTIC - Keeping growth on track being "Enthusiastic"

Motivated employees are industrious employees as per research findings. As such certain organisations have resorted to measure "laughs per hour". There are ground realities one cannot ignore. Either one has to find the work he/she loves to do, or love the work he/she has to do, which is a positive approach to work unconditionally. As Theodore Roosevelt said, *"do what you can, with what you have, wherever you are"*.

During the year 2016, AASL staff was enthusiastic in their official duties, innovations, in-house improvements, sports activities and many more. A Cricket Carnival was organized by the Sports, Welfare & Recreation Club (SWRC) of AASL, in grand scale in July 2016 with the participation of enthusiastic players across all divisions at BIA, RMA & MRIA. The AASL Weight Lifting Team participated in the National Weight Lifting games and won several medals including a Gold Medal. The Hockey Team became the 1st Runners-up in the Mercantile Hockey Tournament held in 2016. AASL was placed in the 3rd position among many organizations in the 33rd Mercantile Athletic Tournament in 2016 due to the great commitment and dedication of the players.

In the year 2016, there were important detections made by AASL Security staff, from passengers bringing up the total number of incidents to 1042 out of which 41 detections were prohibited/restricted items from transfer passengers which have been not detected by the other connecting Airports.

6. ENVISION - Keeping growth on track being "Envisioning"

"Dare to dream, dare to act, dare to fail, dare to succeed", so goes an old saying. Everything begins with envisioning. As Walt Disney said, *"if you can dream it, you can deliver it."* The need of the hour in expanding Aviation services is to be more growth-oriented in terms of working towards the set Vision.

AASL Management is extremely envisioning the future and therefore has identified the following "Dream projects" in order to make them realities in the future. Almost all the projects have already commenced their groundwork in order to achieve the set goals.

Project	Total Estimated Cost (Rs.Mn)
Construction of New Immigration Hall & Electronic mall at Arrivals Passenger Terminal Building BIA	374
Expansion to Departure Public Concourse & Garden shops at BIA	255
Relocation of Emigration area – Departure	400
Supply, installation and commissioning of Aeronautical HF Transmitters with antennas at HF transmitting station -Attidiya	320
Check-in area expansion at BIA	1,000
Supply, Installation & Commissioning of Air Traffic Management (ATM) System at BIA	320
Supply, Installation and Commissioning of Aeronautical Information Management (AIM) System	260
Upgrading of Communication Systems at BIA & RMA	420
New Navigational Services Building at BIA	200
Expansion to Control Tower Cabin- BIA	120
Modernization of Aero Mobile Centre (HF Communication)	100

Proposed Airport Hotels at BIA

Tenders were called for two 4-star Airport Hotels at BIA, for which 2.5 Ha of commercial Land area has been allocated in close proximity to the Airport. The project aims at further developing airport infrastructure at BIA which is necessary to provide essential type of comfort and luxury to air travellers and airline crew within the airport itself and to generate more revenue to AASL.

7. ENHANCE - Keeping growth on track being "Enhancing"

Once well known Transformational Leader, Mahathma Gandhi told *"Be the change you wish to see in the world"*. In fact "Change" is vital today's turbulent business paradox since the world is undergoing a tremendous upheaval and ethical turmoil. Therefore, to be "Dolphins rather than Dinosaurs" in the work place, AASL Staff needs to enhance the knowledge and skills in line with the "Change". Learning has become a part and parcel of challenging work towards achieving goals. Sharpening ourselves with cutting-edge knowledge is an absolute must in facing competition. As Socrates said, we learn from *"the womb to the tomb"*. AASL management during the year 2016, was not only

interested in enhancing physical infrastructure, but also was very keen on enhancing intellectual knowledge and skills of employees.

AASL continued its strategic value creation process through continuously enhancing intellectual capabilities of the staff and also further enhancing "AASL human resources inventory" via attracting, selecting, motivating, developing and retaining the best human resources to the organization. AASL is continuously enhancing the knowledge and skills staff by way of ongoing talent supply and investment on Human Capital Development by way of local and overseas training as detailed discussed under Human Resources Management (HRM) Review.

8. ENGAGE - Keeping growth on track being "Engaging"

Employee engagement has already become a buzz word in the business circles. It captures 3Hs ideal combination namely the essence of employees' Head, Hands and Heart involvement in work. It refers to employee's disposition, performance and psychological aspect. In brief, it captures affective (feeling), cognitive (thinking) and behavioral (acting) dimensions of an employee. More the engagement, more chances to "EXCEL".

The following Special events handled by the AASL staff provide evidences as to what extent they are capable enough to Engage in important tasks.

- a) Handled 12,331 numbers of VIP Movements and 50 Nos. VVIP Movements including Heads of States during the year 2016.
- b) DGCA 53rd Conference
- c) 69th Regional Committee meeting for World Health Organization

Fostering Employee Engagement

AASL orientation and induction training programme for new recruits, 'Be the Change We Wish To See' programme to garner the engagement of the senior employees are some of the examples of employee Engagement which is detailed in the HR review.

Fire cover has been provided for refueling of 12 passenger aircrafts and engaged in 10 fuel spillages. Further the AASL Firemen have responded to 15 Aircraft emergencies and provided Fire Ambulance Services for 302 passengers.

Firemen attached to RMA, responded to outside domestic fire at Soysa Pura Housing Scheme- Moratuwa on 07th March 2016 and ambulance service has been provided for 12 passengers during the year.

Firemen attached to MRIA, has provided fire cover for refueling of 22 passenger aircrafts and fire Ambulance Services for 1 passenger.

9. EXPLORE - Keeping growth on track being "Exploring"

This is essentially about being creative, in thinking "out of the box." It reminds what our veteran writer Kumaratunga Munidasa said long time ago. "*A nation without innovation will not prosper, but will lie lamenting, being unable to beg*". Innovation has paved the way for many organisations to succeed in becoming globally competitive. As told by Samsung CEO "*Innovation should happen 24/7*".

During the year under review AASL staff across all divisions explored possibilities to perform tasks in a way that generate "Unique Value Proposition (UVP)" to its airport operations. Following **In-house developments** are some examples which provide solid evidence for that.

a.) Lounge Management System

Enable AASL staff at the reception desk to perform their tasks more efficiently by scanning and processing the information in Boarding Passes of passengers. It also has much functionality to manage the operations of the Lounge as well as to obtain required Management Information.

b.) Budget Management System

Facilitate preparation, allocation and monitoring of Capital & Operational Budgets of AASL.

c.) Incinerator Management System

Perform the calculation of charges for the usage of Incinerator.

d.) Feedback System (Washroom)

Passengers can submit their feedback by scanning QR cords which are available in wash rooms, security points and passenger Facilitation Counters. This allows the supervisors to monitor and generate statistical reports.

e.) **Staff Attendance System**

Managers can generate required attendance reports for monitoring and control.

f.) **Airport Guest Satisfaction Survey System (AGSS)**

AGSS Mobile Application (Android) captures passenger feedback at BIA. This Application displays questions which passengers can submit their responses and the feedback is used in decision making in respect of improving passenger facilitation, comfort and safety.

g.) **Coach Park System**

Enables to issue entry permit tickets to the coach park and provides required statistics.

h.) **Garlanding/Paging board System**

Enable the issuance of tickets for garlanding & paging boards at arrival taxi counters and report generation.

i.) **Left Luggage System & Bond Baggage System**

Ease the process of handling passenger's baggage. Operator can collect and issue the baggage more efficiently and allows report generation.

j.) **Health Insurance Scheme**

Designed to handle Employees' Health Insurance Scheme. Employee enrollment, indoor/outdoor claims, critical illness claims, scheme management, hospital letters and reporting are main features of this application.

k.) **Flight Information Management System (FIDS)**

Manage and display current flight information of Colombo airport for the convenience of passengers and other stakeholders.

Exploring new revenue opportunities

New Shops and Restaurants at the Departure/Transit

New shops and restaurants were introduced at the Departure/Transit area to cater to departing passengers of all walks of life considering emerging demographic patterns of the fast increasing affluent middle class populations in countries like India and China in particular.

Concession Layout Changes:

The shops in the Departure/ Transit area have now been clustered to bring together similar type of concessionaires according to an ambience new shopping layout which is more attractive to passengers and beneficial to the concessionaires.

1 *AASL welcomed Mr. Ban ki-moon, UN Secretary General*

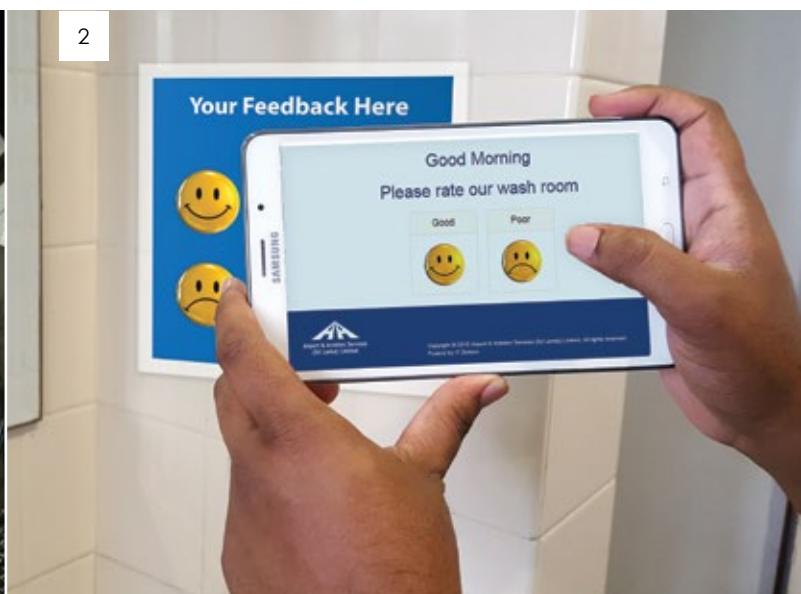
2 *Wash room feedback App*

3 *Newly opened Tea shop in Transit*

4 *Sewerage treatment plant – waste water recycle facility*



1



2

New Initiatives

Sewa Pranama 2016

For the first time in AASL history, a programme was arranged to recognize the contribution made by the retired employees during the year 2016. Details are discussed under HRM.

10. EMPOWER - Keeping growth on track being "Empowering"

As Lao Tsu said a long time ago, "*great leaders are leader breeders.*" Such a transformation can only be possible through empowerment. It involves delegation and assigning tasks to others to handle whilst being accountable. On the other hand, it involves development. In terms of "Empowerment", AASL recorded a remarkable improvement in an impressive gear under the AASL senior management.

State Corporate Intent (SCI)

One of the critical milestones in "the arena of empowering" is the proposed Statement of Corporate Intent between Government of Sri Lanka and AASL for the period 2017-2019. The groundwork for the above was initiated and in progress during the year 2016 with an aim to recognize the need for adequate and reasonable managerial and operational autonomy to facilitate achievements by the board and management of AASL. This empowering mechanism will enhance transparency in the management of public resources and accountability for results.

Subsequently, on 15th March 2017, Secretary to the Ministry of Finance and Secretary to the Ministry of Transport and Civil Aviation and AASL Chairman signed the above tripartite agreement.

11. ENDURE - Keeping growth on track being "Enduring"

This is all about continuation. Sustainability has become a critical factor in the midst of business failures. Chaotic weather patterns across the globe are a grim reminder that eco-friendly practices of work need lot more attention. What matters is not only Profits and People, but the Planet as well. In this pillar, AASL continued its momentum in Corporate Social Responsibility and sustainability during 2016 as well.

Corporate Social Responsibility (CSR)

AASL, understanding the value of Community Development, engaged in CSR activities by providing support to the general public who were affected by floods and landslides during the month of May 2016, by providing drinking water, dry rations, donation of school items for 574 students at Pamunugama Maha Vidyalaya, Bopitiya and essential items for 62 families affected by landslides at Aranayake.

Environmental concern friendly atmosphere and green air concept.

In the Sewerage Treatment Plant at BIA, waste water recycle facility has been proposed for the supply of water for Toilet Flushing and Landscaping facilities. This proposed system is designed to save water in the scarcity area and to decrease the diversion of water from sensitive eco systems while preventing pollution.

Several automated sewer underground pump pits have been proposed for New Car Park & VIP Area to prevent sewage overflowing.

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



3



4



CSR Projects - MRIA

Orukengala Raja Maha Viharaya is only few miles away to the MRIA. It is a very rural and ruined temple in the vicinity of second international airport in Sri Lanka. With least facilities and utmost difficulties it helps the entire Mattala underprivileged Villagers to lighten their life path. Developing temple in to some standards was one of the key CSR programmes of AASL, giving shoulders to enlighten the surrounds life. Followings are successfully completed.

- Upgraded the Existing “BUDU MADURA” with the painting.
- Initiating to built “SATHARA MAHA DEVALAYA” and Stupa.
 - Repairing and reconstructed the access road of the temple with the street lights.
 - Completed the “Dharma Shalawa” including Electrical System, fans and the plastering of walls.

Another CSR programme of Blood Donation Campaign at MRIA was conducted on 17th March 2016 and the details are included in the HRM.

12. EMBRACE - Keeping growth on track being “Embracing”

In a rapidly changing well-connected world, AASL needs to embrace “best” practices and perhaps the “next” practices. Specially being a state entity who considers quality, friendliness, corporate governance, efficiency, safety, security and social responsibility as “Corporate Values”, embracing is utmost important in order to reflect “walk the talk” management style.

AASL complied with TSA Screening

The US government passed a law that requires Transportation Security Administration (TSA) to inspect every piece of cargo travelling on a plane. The TSA’s Certified Cargo Screening Programme makes it possible for businesses shipping cargo to pre-inspect each piece, rather than having the pieces screened at the airport, which causes delays and could damage the goods. Businesses needing to ship cargo via air can become certified themselves or utilize the services of TSA-certified screening facilities and avoid piece-by-piece screening at the airport.

Total of 995 Aviation security personnel of AASL have obtained their qualifications through Civil Aviation Training Centre of AASL, which fulfills ICAO training requirements. Fifty Aviation security trainees were recruited in December 2016 and on successful completion of training they have been deployed in On the Job Training.

Commissioning of the new advanced CCTV system in November 2016 was the most important surveillance tool that was introduced in to the security system.

In 2016, a model for Aviation Security (AVSEC) training process was developed, identifying all critical issues with protocols to achieve AVSEC mission. The following training programmes were conducted to develop, knowledge, skills and competency of AASL Security staff.

- Awareness training programme for Patrol Leaders and Security Officers.
- Explosive Vapor Detector Training session for Instructors.
- Explosive & weapon identified workshop for all AVSEC personnel.
- Practical Training for AVSEC staff regarding passenger and baggage screening.
- Dangerous Goods Regulation Training for AVSEC Personnel.



- 1 *MRIA Blood Donation campaign celebrating 3rd anniversary of MRJA on 18th March 2016*
- 2 *AASL complied with Transportation Security Administration (TSA) Screening at BIA*
- 3 *Implementation of Biometric Attendance System*

- Continued Professional Development Course for AVSEC Supervisors.
- Safety Awareness Programme for AVSEC Personnel.
- Training Programme on Making Meeting Productive and Effective for AVSEC Personnel, towards a productive & environmental for AVSEC Personnel.
- Training Programme on Lesson Planning for AVSEC Instructors programme for AVSEC Personnel.
- Aviation Security Management Training programme for AVSEC Personnel.
- Quality Work Output Through Building Positive Attitude For Management Assistants.
- Customer Care Is Everybody's Business for AVSEC Personnel.

In addition to training of our own staff, many Awareness Training Programmes were held for the benefit of other entities that are directly and indirectly engaged in Aviation Security.

- Awareness Training Programmes for Sri Lankan Catering Staff.
- Awareness Training Programmes for all Duty Free Shop staff.
- Awareness Training Programmes for newly enlisted staff of AASL.

Further to above training courses, following are some of our achievements in the area of knowledge advancement.

- 03 Security Marshals and 05 Deputy Security Marshals completed the AVSEC Manager Certification exam conducted by Civil Aviation Authority of Sri Lanka (CAASL).
- 75 AVSEC personnel were certified as screeners.

- 525 AVSEC personnel were re-certified by CAASL as screeners.

Biometric Attendance Record System

AASL previously maintained a manual system to record employees' attendance and in year 2016, automated Biometric Attendance Record System was successfully implemented. This is also compatible with Enterprise Resource Planning. The Management appreciates the support given by Trade Unions, Employee Associations, Heads of Divisions and all other staff for the smooth transition of the systems. AASL expects to further improve the productivity and effectiveness of employees through this change.

13. ENRICH - Keeping growth on track being "Enriching"

This is a broad term capturing the physical, mental, emotional, social and spiritual facets of life. We need enrichment in a balanced manner on all above fronts. Experiences and exposures play a vital role in "enriching life". During the year under review AASL management enriched their staff with the aim of increasing "Human Capital Inventory" rather than increasing "physical inventories" in the AASL's Balance Sheet.

Overseas Training

Development of Human Capital is a key priority of an organization. The value of the Human Capital depends on the job specific competencies and Technical competencies of its employees. Considering the importance of Human Capital Development, AASL followed a formal Training & Development procedure by a process of Training needs analysis.

Based on the Training Need Analysis, the Company designed sound Training & Development programmes both locally and overseas as discussed in detail under HRM Review.

Managing the Performance

The new performance management system, popularly known as the '180° Appraisal System' launched by AASL HR for non-executive grades has been implemented successfully during the year as discussed in detailed under HRM Review.

14. ENGROSS - Keeping growth on track being "Engrossing"

It refers to getting involved totally, with complete participation. It differs from engagement to the extent where you need to be holistic and be willing to capture the fullness of a situation. Half-hearted, half-baked approaches with shabbily completing tasks are the quite opposites. Engrossed engagement is the path to "EXCEL".

Engrossing is obviously important for almost all divisions in AASL, if they are inspired to achieve the ultimate aspiration, "The Shared Vision", which is "To be the most efficient and friendliest premier aviation hub in the Asian Region". However, in particularly for Security and Fire staff, it is vital to practice "engrossing" as routine practice in order to maintain the momentum in high standard.

- a) ICAO standards and recommended practices were maintained by the Fire & Rescue Services at BIA, MRIA & RMA through-out the year.
- b) A Full Scale Emergency Exercises were conducted satisfactorily at BIA with all Internal & External agencies on 24th November 2016.

Sinhala and Hindu New Year Celebrations at BIA

When the sun moves from the House of Pisces to the House of Aries in the celestial sphere;

AASL staff begin celebrating their New Year with complete participation. To make that more colourful even foreign passengers joined hand with our employees, to enjoy the Sri Lankan hospitality.

Full scale emergency exercise

As the sole emergency medical care provider in BIA, It is imperative that medical unit participates in emergency exercises conducted at regular intervals. Full scale emergency exercise was conducted on 24th November 2016 to test the preparedness of each participating stakeholder including the medical unit.

Medical unit was responsible in arranging casualty collecting centre and survivor reception centre. These are the key locations where casualties are brought down by rescuers for emergency medical treatment and transfer to hospitals for specialized care. These two important locations were manned by medical unit staff and panel of Medical Officers attached to AASL medical unit.

In addition to the medical unit staff, participating Government hospitals were alerted and representatives from affiliated hospitals also took part in the exercise. In terms of participation, response time and adherence to the Standard Operating Procedures (SOP) as per the BIA emergency plan, emergency exercise was carried out with an overwhelming success.



Keeping growth on track being “Engrossing” with new airlines

Himalaya Airlines

Himalaya Airlines took to the skies on 12th April 2016, operating its first commercial flight from Kathmandu to Colombo. The flight intends to help promote tourism between Nepal and Sri Lanka and enhance people-to-people contact between the two countries. This new flight from Kathmandu to Colombo will be a great encouragement for Sri Lanka to increase the number of tourists from Nepal and visiting tourists to Sri Lanka through Nepal.

KLM Royal Dutch Airlines

KLM Royal Dutch Airlines resumed direct flights from Amsterdam to Colombo from 1st of November 2016 after 20 years. KLM suspended service to the Sri Lankan capital (then served via Abu Dhabi) in 1997 as the war escalated. KLM's brand new Boeing 787 Dreamliner operates between BIA and Amsterdam Schiphol Airport connecting its 294 passengers into KLM's global network.

MEGA Maldives Airlines

MEGA Maldives Airlines launches new services between Male and BIA on 3rd November 2016. The flights are well timed to fall across the Maldives and Sri Lankan weekend, allowing more affordable fares on these especially busy travel days.

Ukraine International Airlines (UIA)

Ukraine International Airlines, the National Carrier of Ukraine commenced flights to BIA from Kiev, using a modern Boeing 767-300ER aircraft. The inaugural flight operated on 05th November 2016. UIA is one of the few carriers, giving direct access to and from Europe to Sri Lanka. With the number of tourists from Ukraine and East Europe increasing significantly, this flight is expected to strengthen the relationship between these destinations.

Turkish Airlines

Turkish Airlines celebrated the addition of cargo capacity from Colombo, to its global route map with the airline's inaugural Cargo flight, which arrived at BIA on 9th of November 2016.

- 1 *New Year Celebration at BIA joining hands with Passengers*
- 2 *BIA Emergency Exercise*
- 3 *Himalaya Airline*
- 4 *KLM Airline first flight to BIA*



15. EMANCIPATE - Keeping growth on track being “Emancipating”

This is the subtlest aspect of all. It deals with practicing the Corporate Values. It is not just achieving short-term gains but something much deeper, grounded on solid principles. Ethics is difficult to define in a precise way. In a general sense, ethics is the code of moral principles and values that governs the behavior of a Corporate with respect to what is right or what is wrong. “Do unto others as you would have them do unto you”, says the golden rule of ethics.

AASL consider passengers, visitors, staff, aircrew, aircrafts and all the facilities in the aerodrome as the most important assets to be protected. AASL ensures proper protection effectively deploying AVSEC staff and Security Screening equipment. AASL always look forward to achieve and maintain the expected ICAO standards in Aviation Security through well trained AVSEC staff, processes, procedures and technology.

Core category Duty free shops

AASL, being more ethical and also following the government procurement guidelines, invited international tenders on core-category duty free shop operations at BIA for the first time in the recent history. As the core category concessionaires are one of the highest revenue generating commercial activity at BIA, larger shop space in Departure Transit Area was assigned during the year.

Safety measures of a corporate value

BIA operating on 24/7 basis, faces a multitude of risk that threatens its operational and financial performance. Risk is associated with every takeoff and landing, every refueling, every engine run-up, every time a vehicle or a person at the aircraft maneuvering area, etc. This is the nature in the field of Aviation. Though it is the nature, there cannot be excuses repeated for errors and violation. Therefore, everything possible to be implemented to “Mitigate and maintain risk of harm to persons or property damage, at or below an acceptable level, through a continuing process of Hazard Identification and Risk management”. It is the objective of the Safety Management System at BIA.

Accident/Incident rate at BIA is well within the tolerable region. There had been no major Safety issues even with increased passenger and aircraft movements. This achievement is as a result of continuous monitoring of all operations, adherence to procedures, regular inspections, timely corrective/preventive actions and regular awareness programmes. High Safety Performance Standards at BIA has built confidence with airline operators and other stakeholders.

The Non-Punitive Safety Reporting Culture fully endorsed by the Chairman and involvement and dedication of the top Management is the very reason for all employees’ build confidence on the Safety Management System. The Chairman and the Senior Management having well understood and respecting the following Safety Philosophy, address each safety issue with the very positive attitude of PREVENT not PUNISH.

- The elimination of accidents (and serious incidents) is unachievable.
- Failures will occur, in spite of the most accomplished prevention efforts.
- No human endeavour or human-made system can be free from risk and error.
- Controlled risk and error is acceptable in an inherently safe system.

Further to internal audits/inspections/surveys, CAASL carryout independent audits/inspections/surveys to ensure the continuation of high safety performance standards.

The safety management unit oversees the effective implementation of safety management system of AASL and ensure continue compliance with regulatory safety requirements at all airports. The safety management unit performs closely monitoring of safety performances of operational divisions within the aerodromes and conduct regular Audit on these divisions.

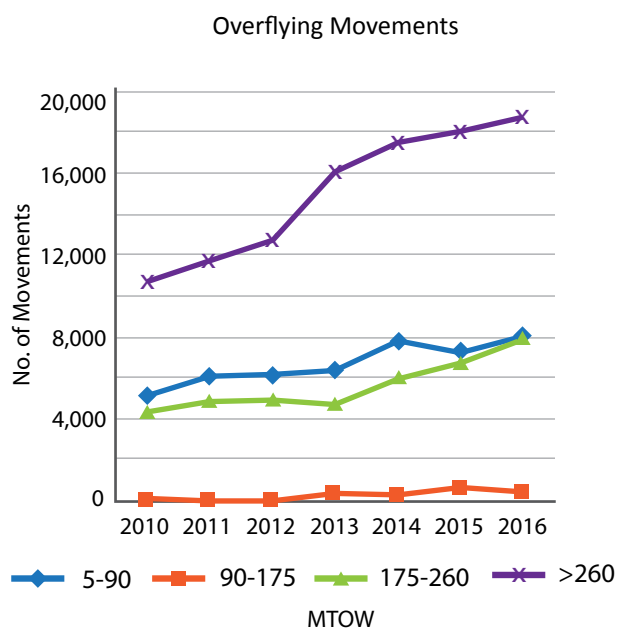


16. EXCEL - Keeping growth on track being "Excelling"

Excellence is all about being exceptionally good. Traditional belief was an organization cannot become "Excel" in medium or short term. But "Digital Natives" created "Disruptive Technologies" driven business models such as airbnb (<https://www.airbnb.com>), uber (<http://www.uber.com>) have defeated that phenomenon. State Entities such as AASL, can "Excel" through exceptional achievements in a consistent manner. For this, employees have to reflect and reinforce "Excellence" in all what they do.

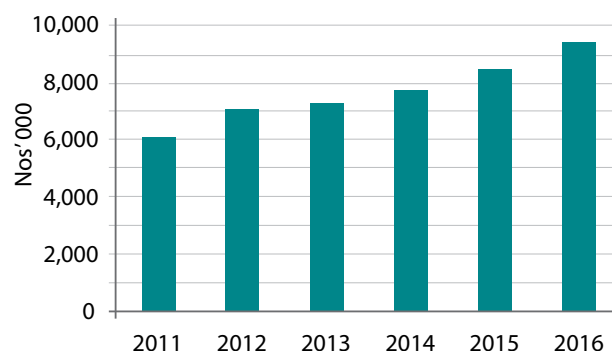
"Excellence is an art won by training and habituation. We do not act rightly because we have virtue or excellence, but we rather have those because we have acted rightly. We are what we repeatedly do. Excellence, then, is not an act but a habit", so said Aristotle long time ago, which has much relevance for today and tomorrow as well. Obviously, during the year 2016, AASL has "Excelled" in terms of its financial and operational achievements.

- 35,118 Overflying Movements with 7% Growth



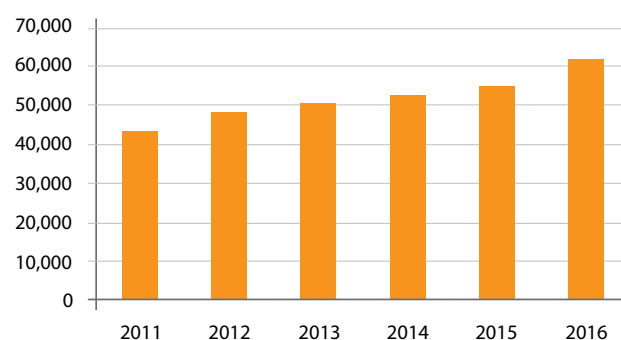
- 9,466,248 Passengers with 11% Growth

Passenger Movements BIA



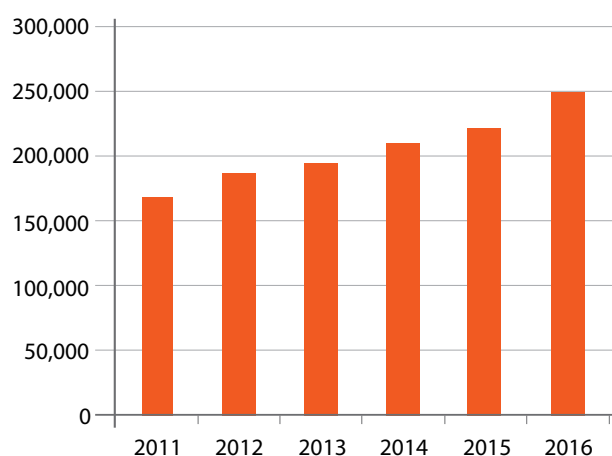
- 61,637 Aircraft Movements with 10 % Growth

Commercial Aircraft Movements BIA



- 248,347 MT Cargo with 14% Growth

Air Cargo Movements BIA



Accolades Won by AASL During 2016

AASL Honoured at Asia's Best Employer Brand Awards

AASL is a government owned company with statutory powers which manages and develops civil airports in Sri Lanka, become excel by winning the "Asia's Best Employer Brand 2016" award for the second consecutive year in 2016. AASL holds the status as one of the most preferred employers in Sri Lanka. Asia's Best Employer Brand award recognizes organizations exhibiting outstanding performance in the work place across Asia. AASL was honoured from among more than 40 countries across Asia, who have achieved excellence in Building the Employer Brand as an Employer of Choice and has a distinct identity that is visible through the HR practices, policies & strategies.

The event of The Asia Best Employer Brand Awards – 7th Edition was held in Singapore on 4th August, 2016 and was hosted by Employer Branding Institute; World HRD Congress & Starts of the Industry Group, with a CHRO Asia as a Strategic Partner and endorsed by the Asian Confederation of Businesses.

The award was conferred after carefully researched the Best Employers who:

- Create a culture of Contribution and Innovation at Work.
- Believe in Consistent improvement in HR Policy by measuring organizational health and inculcating values that help to achieve the vision.
- Being a Social Employer and Developing future leaders.

The award was accepted on behalf of AASL by Vice Chairman, on the invitation of Dr. R.L Bhatia of the World HRD Congress at a glittering Ceremony held in Pan Pacific, Marina Square, Singapore.

AASL believes in attracting the best talents, develop and retain them to achieve service excellence. To maintain a contended and engaged workforce, AASL has invested on training and development initiatives and introduced unparalleled incentive and benefit packages.

AASL is an ethical employer in every respect and has been a catalyst in the national economic growth. Asia Best Employer Brand Award is a shining recognition AASL receives for the Companies' excellent track record whilst being a compassionate employer.





Proudly Awarded to



Airport & Aviation Services (Sri Lanka) Ltd.

(Sri Lanka)

Airport and Aviation Services (Sri Lanka) Limited (AASL) is mandated by the government of Sri Lanka to develop, operate and manage all the International and domestic airports in Sri Lanka. Established in 1983, the Company is responsible for providing Air Traffic and air navigation services, aviation security, fire fighting and rescue services and airport passenger services. AASL believes that one key element to achieve service excellence is to attract the best talent, develop and retain them. To maintain a contented workforce for many productive years, AASL has invested on training and development initiatives and introduced unparalleled incentive and benefit packages. Workforce of AASL represents the courage, progressive thinking and hospitality that is inherent to Sri Lankan nation.

4th August, 2016 | Pan Pacific, Marina Square, Singapore

A handwritten signature in black ink.

Dr. R. L. Bhatia

Founder, World CSR Day &
World Sustainability



Hosted by



Endorsed by



Media Partner





61,637

**Aircraft Movements with
10 % Growth**



“We are making our sky
more and more fashionable
with aircrafts”

Financial Review

“We achieved a double digit growth in the FY 2016, recording the highest passenger and aircraft movements in the history which strengthened our financial position whilst **maximizing our stakeholder wealth**”

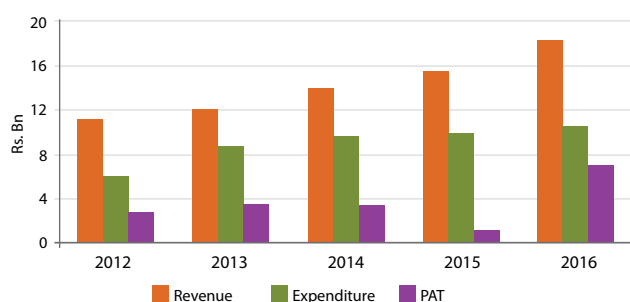
Financial Performance Overview

AASL reported a total Revenue of Rs.18.3 Bn for the year ended December 31, 2016 with a significant double digit growth of 17% year on year (YOY) which was primarily based upon continuous growth on Passenger traffic, Aircraft movements and Cargo volume. Overall Growth in passenger traffic for the year under review was increased by 11%, reaching 9.5 Mn, while aircraft movements boost up by 10% to 61,637 from 56,156 and Cargo Volume by 14% to 248,347 MT from 218,402 MT in the previous year.

The Company's operating expenses up by 5% to Rs. 10.7 Bn in the year under review relative to the year 2015. Finance cost in respect of loan interest and exchange loss decreased by 37% due to lesser proportionate devaluation of LKR against US\$ during the year when compared to the year 2015. Finance income of Rs. 1.9 Bn recorded a growth of 81% in comparison to Rs. 1 Bn in 2015.

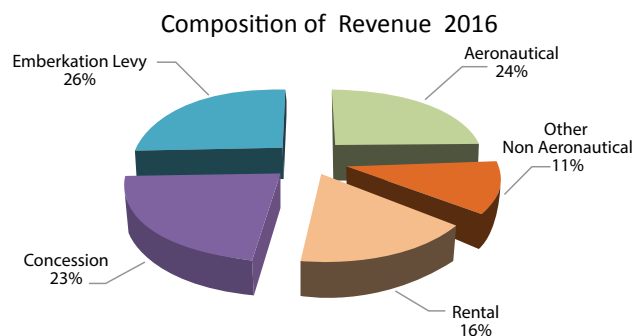
The Company hit a Profit before tax (PBT) of Rs.6.9 Bn in 2016 after absorbing the MRIA operating loss of Rs.2.3 Bn. PBT is 191% higher than Rs.2.4 Bn recorded in 2015. Profit after tax (PAT) also stands at Rs.6.9 Bn as provision for taxation carried a positive figure of Rs. 11 Mn due to reversal of deferred tax provision on MRIA assets compared to tax provision of Rs. 1.6 Bn in 2015. 2016 PAT is 747% higher than that of Rs.0.8 Bn recorded in 2015.

Performance - 2012- 2016



Revenue

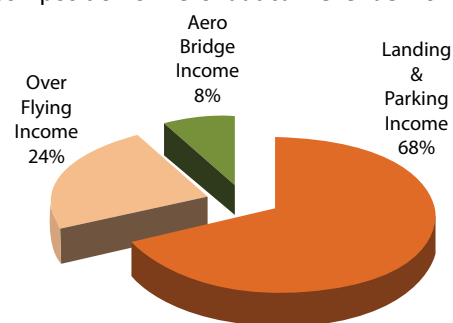
Revenue grew by 17% to reach Rs. 18.3 Bn from Rs. 15.7 Bn recorded in 2015. This was mainly due to increase of Aeronautical Revenue by 17 % from Rs.3.7 Bn to Rs.4.4 Bn and Non-Aeronautical Revenue (including Rental & Concession & Embarkation) increased by 19% from Rs. 12 Bn to Rs. 14 Bn.



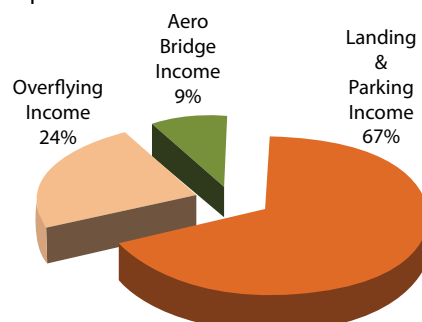
Aeronautical Revenue

Aeronautical revenue mainly generated in the airside operation of the airport comprises of Landing, Parking, Overflying and Aerobridge income. Aeronautical Revenue for the year accounts for 24% of total revenue with a growth of 17% compared to 2015. Aircraft Landing and Parking Income is the major contributor to Aeronautical income and accounts for 68%. International Aircraft Landing and Parking Income grew tremendously by 19 % due to growth in aircraft movements from 56,156 to 61,637 and Maximum Take-off Weight (MTOW's) from 4.3 (MT Mn) to 4.7 (MT Mn) by 10% and 9.4% respectively. Further Overflying income represents 24% of Aeronautical Revenue and exceeds to Rs. 1 Bn from Rs. 0.9 Bn due to upward trend in overflying movements within the Colombo Flight Information Region (FIR), in terms of movements 35,118 has been recorded in 2016 with a 7% increase from 32,694 in 2015. Aerobridge income increased from Rs.324 Mn to Rs. 362 Mn in the current year while recording a growth of 12%.

Composition of Aeronautical Revenue 2016

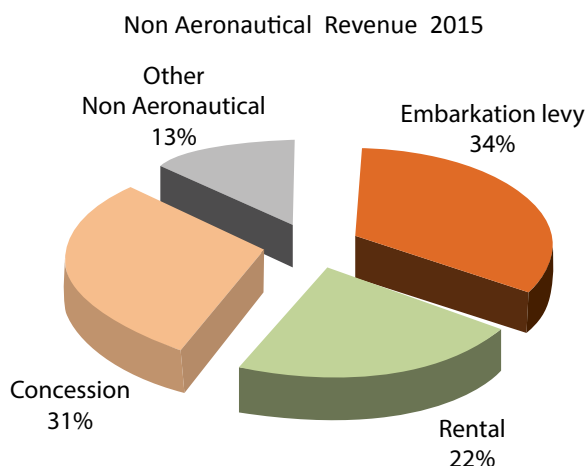
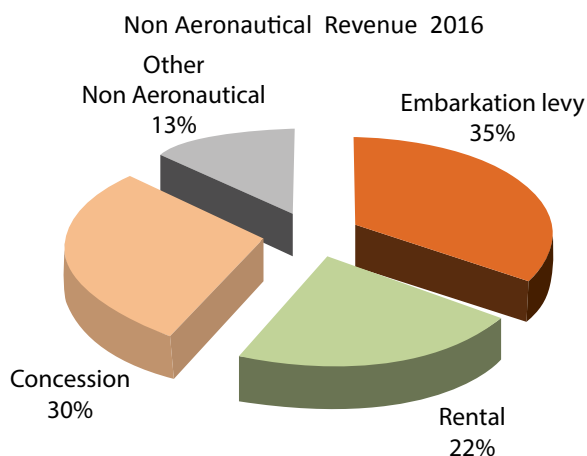


Composition of Aeronautical Revenue 2015



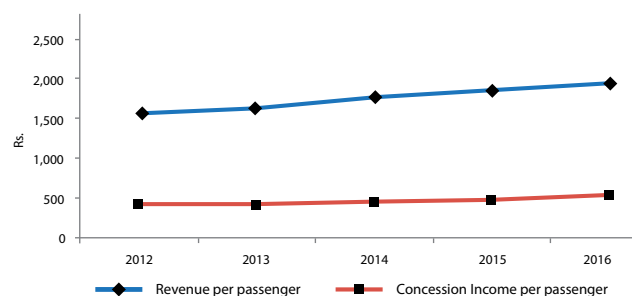
Non Aeronautical Revenue

Non-Aeronautical revenue comprises of Embarkation, Rental, Concession, Lounges income, etc. Non Aeronautical revenue was strongly boosted by increase in Embarkation Levy income by 19% to Rs. 4.7Bn from Rs 3.9Bn recorded in 2015. This was mainly due to the change in US\$ conversion rate that charged on Embarkation Levy per departing passenger, increased from Rs. 130 to Rs. 140 due to devaluation of Local Currency against US\$. The new services and refreshed offerings to attract visitors and shoppers due to the increase in Concession Income derived from core category duty free concessionaires representing more than 80% caused the growth in Concession income by 18% reached at Rs. 4.1 Bn from Rs. 3.5Bn. Rental income exceeds Rs.3 Bn depicting an increase of 21% compared to the previous year. Thumping increase was due to introduction of competitive tendering which led to float the value rather than charging at a flat rate based on floor area practiced previously.



Total Revenue per Passenger depicted an upward trend throughout the last five years due to simultaneous growth in Revenue and Passenger movements.

Total Revenue per Passenger

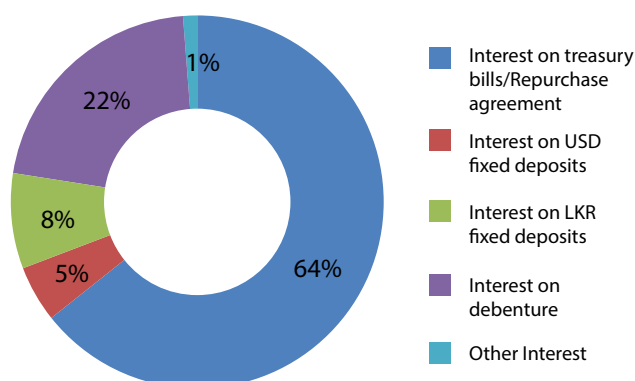


AASL also enjoyed a strong favorable retail performance during the financial year. This could be further elaborated by Concession Income per Passenger which stood at Rs.527 as opposed to Rs.469 in the preceding year showcasing a 12% growth percentile. The impressive growth was achieved by robust passenger flow, higher spending among passengers and enhanced retail strategies and customer relationships maintained by AASL.

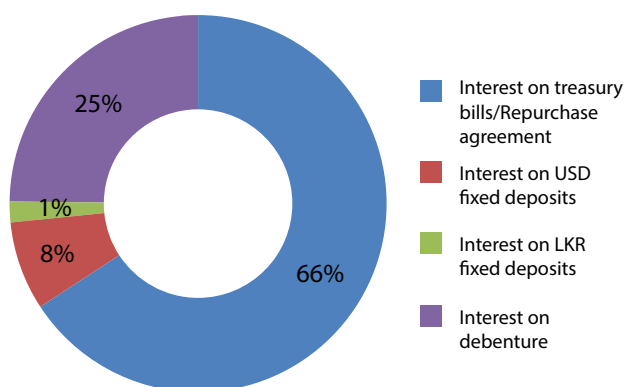
Finance Income

Finance income was boosted by 81% to reach Rs. 1.9 Bn from Rs. 1 Bn recorded in FY 2015. This was due to increase in interest rates in Government Securities and prudent investment strategies adopted by AASL in the year under consideration as well. Accordingly AASL identified the possible opportunities and invested in various long term and short term financial instruments such as Debentures, Government Securities and Fixed Deposits.

Composition of Finance Income - 2016



Composition of Finance Income - 2015



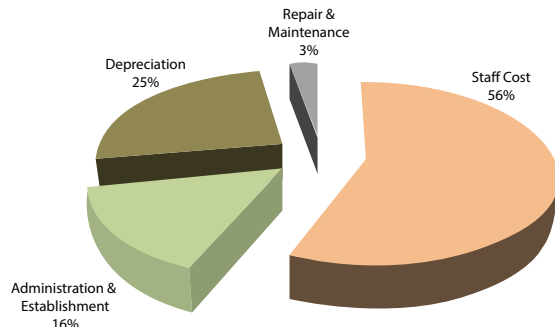
Operating Expenses

The Company was able to keep the operating expenses under control with the marginal increase of 5% from Rs.10.1 Bn in 2015 compared to increase in operational volume during the year. Staff Cost contributing 56% of operational expenditure recorded an upward trend of 6%. Continuous improvement of skill levels of work force whilst increase in employee benefits such as medical, transport and gratuity provision has pushed the Staff cost from Rs.5.7 Bn in 2015 to Rs. 6 Bn in 2016.

Depreciation, Administration and Establishment Expenses accounts for 25% and 16% of Operating Expenses respectively. Administration and Establishment expenses were increased by 8 % to Rs. 1.7 Bn from Rs. 1.6 Bn in previous year. Electricity Expenses increased by Rs. 103 Mn relative to previous year posting 11% shoot up due to increased unit consumption. Janitorial Expenses posted an increase of Rs.26 Mn which is 20% over previous year. This was due to revision in charges as AASL strives to provide a clean and pleasant experience to all our passengers and airline operators.

Repairs and Maintenance expenses escalated by 21% to Rs. 301 Mn from Rs. 249 Mn as company invested heavily on Repairing Communication Equipment, Navigational Equipment, Apron and Runway to provide a safe and secure uninterrupted service to all airport users.

Operational Expenses 2016



Net Finance Cost

The finance cost derived from the long term foreign loans obtained for the airport developments has resulted a drop of 37% from Rs. 4.2 Bn to Rs. 2.7 Bn during the year under review due to reduction in loan balances and decline on Exchange Loss on loan conversion from Rs.3.5 Bn to Rs.2 Bn in 2016. Further reduction in net finance cost by 76% due to 81% increase in Finance income as stated above.

EBITDA/Profit after Tax

Company showcased a strong financial performance for the year ended December 31, 2016 reporting Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) of Rs. 10 Bn, which was 26% increase against the previous year. AASL posted a staggering Profit after Tax (PAT) of Rs. 6.9 Bn signaling the landmark year in AASL history. The reversal of income tax to Rs. 11 Mn in the reporting year in comparison to income tax charge Rs. 1.6 Bn in preceding year reflected a 101% drop and decline of Net Finance Cost pushed PAT favourable percentile.

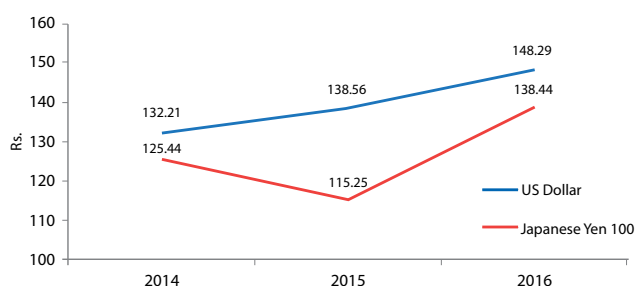
Exchange Rates

The Sri Lankan Rupee (SLR) remained broadly unstable against US Dollar throughout the FY 2016 and depreciated against Japanese Yen in the 1st quarter of the FY 2016 substantially and thereafter appreciated subsequently. However, the SLR recorded a depreciation of 7% against the US Dollar when comparing with the previous year. The annual average exchange rate of the Rupee against Japanese Yen increased by 20%.

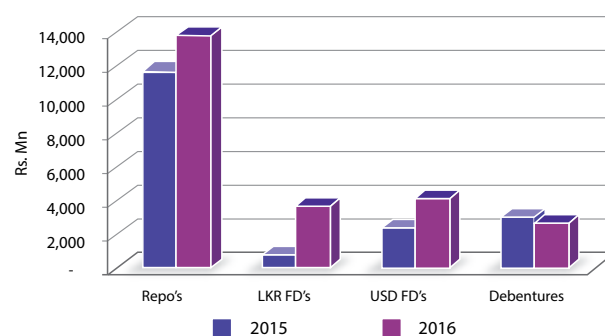
Overall, the Rupee depreciated against the US dollar by 4% to Rs. 148.35 (Buying Rate) as of end 2016. The annual average exchange rate (Buying) also depreciated to Rs. 144.83 in 2016 from Rs. 134.83 in 2015.

AASL increased investments in US Dollar Fixed Deposits by 61% to USD 27.7Mn from USD 17.2Mn, due to increased interest rates on USD deposits compared to LKR Fixed Deposits and mitigate the exchange rate risk.

Average Exchange Rates (Selling)



Investments



Total Assets

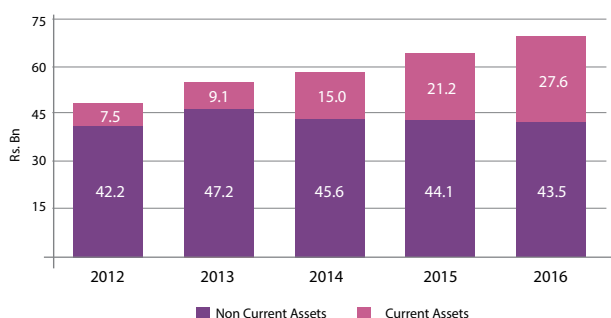
The Company's Total Assets Base as at 31 December 2016 was Rs.71 Bn against Rs. 65 Bn in year 2015 reporting a 9% increase. Long Term Investments reported a drop of 13% due to reinvestment of Rs.1.6 Bn compared to maturity of Debentures amounting to Rs. 2 Bn during the year.

The favorable shift was due to the growth in Short Term Investments by Rs. 6.6 Bn and Cash and Cash equivalents by Rs. 577 Mn. Total Non-Current Assets value depicted a drop from Rs.44.07 Bn to Rs. 43.4 Bn marking a decline of 1.38% against last year mainly due to reduction of Debenture Investment by Rs. 400Mn. The Current Assets Base depicted an increase by 30% from Rs.21 Bn in year 2015 to Rs.28 Bn in year 2016 due to investments in Short Term Government Securities and Cash and Cash Equivalents as stated above.

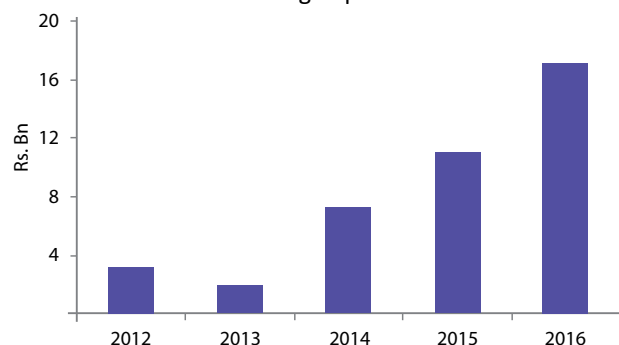
Working Capital

Working Capital reflects short term capital of a business which is used in its routine operations. It's a measure of short term financial health. Hence, this represents how current liabilities could be met out of current assets. The Working Capital for the year under review was Rs. 17 Bn representing a 55% shift from previous year. As mentioned under 'Total Assets' increase in Short Term Investments had an impact on Working Capital too.

Total Assets



Working Capital

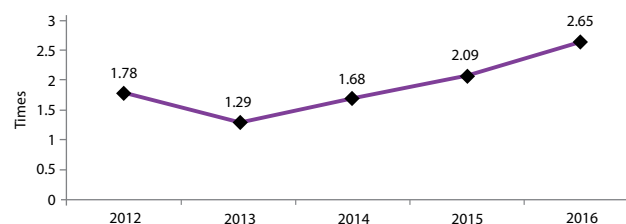


The Current Ratio is a liquidity measure which shows the Company's ability to meet short term obligations out of short term assets. This signifies the financial health of the Company. In essence AASL reported a constant growth since 2013 in Current Ratio indicating more liquidity in Company operations.

Investments

The company has recorded a continuous improvement of it's investment portfolio in Debentures, USD fixed deposits, LKR fixed deposits and Re-Purchase agreements. The total investment as at 31st December 2016 was Rs.21.5 Bn with an increase of 44% as against Rs.14.9 Bn recorded in 2015, due to increased operating cash flows of Rs. 10.6 Bn compared to Rs 7.3 Bn recorded in previous year. The carrying value of the investments are shown below.

Current Ratio

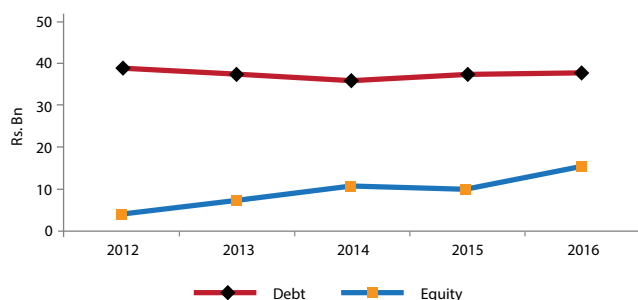


Capital Structure & Debt

This comprises of Rs.20 Mn Share Capital, Rs. 1 Bn Reserves and Rs. 15.4Bn Retained Earnings. Reserves of Rs.1 Bn consist of assets transferred from Airport Authority to AASL upon incorporation and provision for Lightning and Damages to Property Plant and Equipment. Retained Earnings increased to Rs.15 Bn from Rs.10 Bn in 2015 recording a growth of 54%.

Total Debt was Rs.38 Bn as at Balance sheet date with a 0.1% marginal decline than 2015. This was primarily due to the instability of US\$ against local currency throughout the year. Debt Equity Ratio showcases the financial leverage and measures the relative Debt component against Shareholders Equity. Apparently all Debts of AASL are obtained through General Treasury and secured by sovereign guarantee.

Capital Structure



Cash Flow

Cash generated from the operating activities stood at Rs. 12Bn in 2016 compared with Rs. 8 Bn in the previous year due to favorable shift of PBT by 191%.

Net cash used in investment activities was Rs. 128 Mn during 2016, as against Rs. 66 Mn received in previous year. The company invested a total of Rs. 2.4 Bn in acquisition of Property Plant and Equipment and productivity improvement related investments. Net Investments in Debentures decreased by Rs. 400 Mn and Interest income increased by Rs.827 Mn in the current year as opposed to last year.

Net cash used in Financing Activities have shot up due to increase in loan repayment and dividend payment by 68% and 202% respectively.

As a whole Company's Cash and Cash equivalents as at 31st December 2016 were Rs. 23 Bn, recording an increase of 46% over last year.

Value Addition

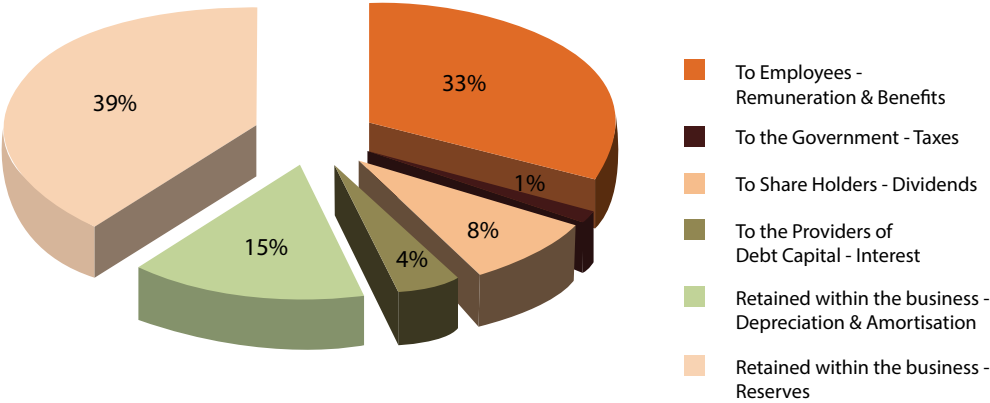
AASL's total value addition for the year ended 31st December 2016 was Rs. 18.3Bn comparative to year 2015 which stood at Rs. 15Bn indicating a appreciation of value addition by 21%. This is due to increase in Revenue growth of 17% compared to the Expenditure growth of 5% in the year under review.

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 re investment in operations by way of depreciation and reserves.

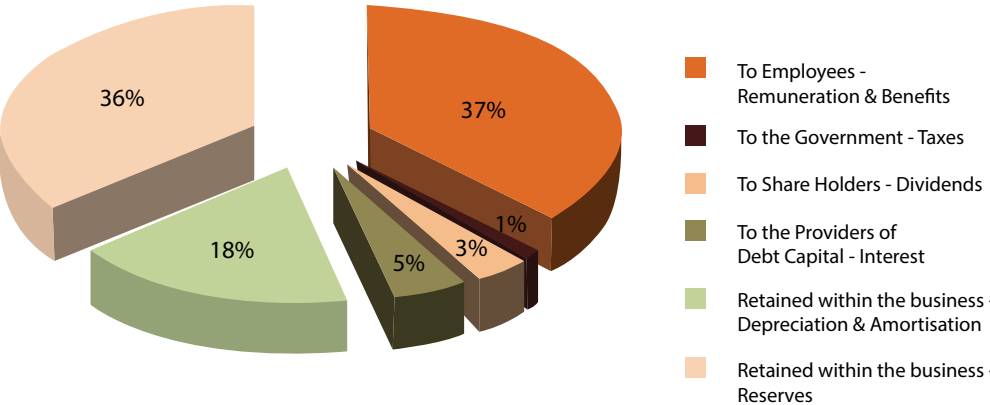
Statement of Value Addition

	2016	2015			
	Rs.000	Rs.000			
Revenue	18,027,257	15,218,760			
Other Income	315,543	479,508			
Finance Income	1,894,215	1,046,516			
Gain arising on changes in Actuarial assumption	4,026	124,515			
	20,241,041	16,869,299			
Administration, Establishment & Marketing Expenses	(1,978,447)	(1,808,049)			
Value Addition	18,262,594	15,061,250			
			%		%
Distribution of Value Added					
To Employees	Remuneration & Benefits	6,012,540	33%	5,657,999	37%
To the Government	Taxes	211,572	1%	115,659	1%
To Shareholders	Dividends	1,500,000	8%	497,000	3%
To the Providers of Debt Capital	Interest	705,413	4%	717,067	5%
Retained within the business	Depreciation & Amortization	2,664,687	15%	2,658,306	18%
Retained within the business	Reserves	7,168,382	39%	5,415,219	36%
	18,262,594	100%		15,061,250	100%

Distribution of Value Added 2016



Distribution of Value Added 2015





“Our greatest value is our passengers and we are well focused on their comfort and satisfaction through facilitation”



9,466,248

**Passengers with
11% Growth**

Human Resource **Management**

“We incessantly invest in our people as we work together to **strive for a culture of excellence**”

AASL believes that competent and committed employees are the key asset that provides foundation for the growth and success of our Organisation. Therefore the Human Resources (HR) strategy of AASL is designed to focus on attracting, selecting, motivating, developing and retaining the best talent for the betterment of the Organisation.

Acquiring Best Talent

AASL is one of the most preferred employers among the public sector organisations in the country and this reputation helps us to attract the best talent in the market among large numbers of qualified candidates. We adopt a stringent selection process to acquire the best talent especially in the recruitment of technical, professional, operational and managerial cadres. During the year 2016, 48 new recruits joined the AASL family while 13 of our staff were internally selected to fill vacancies. 165 staff members were promoted during the year based on their competency and performance.

Category	Staff Strength as of 31/12/2016	Staff Strength as of 31/12/2015
Executives	257	259
Supervisors/Technical Officers	300	296
Clerical & Allied	682	690
Skilled & Semi-skilled employees	1,983	2,022
Minor & Unskilled employees	588	602
Casual & Trainees	-	3
TOTAL	3,810	3,872

Reinforcement of our talent

AASL as the sole Airport and Air Navigation Services Provider in the country providing vital services to the Aviation Industry is responsible to ensure that it has competent and skilled staff to provide the services entrusted to it, fulfilling International standards. In this context, development of human capital has always been a key priority of AASL. Considering the importance of HR development, AASL prepares its Training forecast annually, based on a systematic training need analysis that takes place in the last quarter of every year.

During the year 2016, AASL provided overseas training opportunities to 131 staff members belonging to various disciplines. They participated in 72 training programmes that took place in 23 countries and brought home valuable knowledge and exposure. Almost all staff members received local training and in-house training provided by the Company. AASL was able to achieve one of the key training objectives set for 2016, completing on average 11.7 hrs training per employee during the year.

1 AASL Officers at ACI Conference - Panama

2 Training on Financial Procedures for Fire Officers





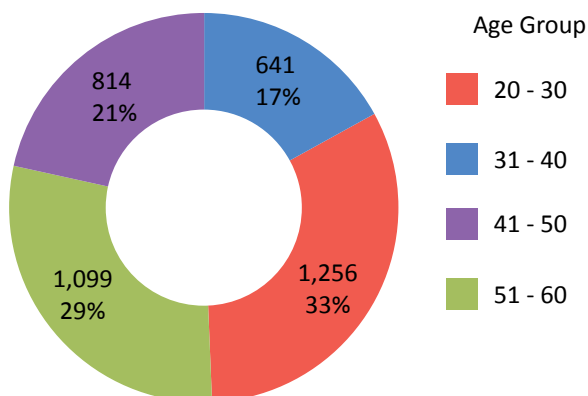
1



2

Age Analysis of Employees as at 31/12/2016

Total number of employees of 3,810 have been categorised into 4 age groups.



Managing the Performance

The new performance management system for non-executive grades has been implemented successfully during the year. Awareness provided to the staff, constant dialogue with employee associations and trade unions with the support of the management largely contributed to the success. Popularly known as the '180° Appraisal System', has enabled the employees to enter into a partnership with the management through one-to-one dialogue at appraisal interviews and setting individual targets to achieve divisional objectives. The Performance Management System launched for Executive and Managerial grades, gradually settled during the year encouraging AASL to proceed with further developments to the system.

Employee Gratuity Benefits

Since 2014 the computation of Gratuity is based on the Actuarial Valuation done by a professional independent actuary, in order to comply with the International Financial Reporting Standards for Employee Benefits.

The Gratuity Provision as at 31/12/2016 based on Actuarial Valuation is Rs. 2.6 Bn. AASL has created an investment portfolio comprising long term debentures to match the gratuity liability in order to ensure the provision of terminal benefits to the employees at the time of their retirement and termination of employment. The assumptions used for the computation are disclosed in Note No.22 to the financial statements.

Fostering Employee Engagement

AASL orientation and Induction training programme is the first among many initiatives that AASL takes in creating employee engagement. This is on average a three day programme which includes a familiarisation tour within the Airport. The programme is a welcome tribute to new recruits where they start to feel the pulse of the organisation.

To garner the engagement of the senior employees, AASL initiated "BE the Change We Wish To See" programme which consisted of two stages. During the first classroom lecture, employees learn about the current Airport Development Projects and future developments. The second stage is a full day learning tour around the airport receiving sufficient briefings on Airport Operations. This was a highly praised initiative which would be extended to a large segment of employees in the coming year.



1 1st batch of Airport familiarization visit

2 Retired employees who attended "Sewa Pranama" 2016

3 Vice Chairman is receiving "Asia Best Employer Brand Awards 2016" at the ceremony held in Singapore

4 Donation of school books to the students who were affected by floods, by the AASL Chairman

For the first time in the history, AASL launched a Service Appreciation programme under the theme "Sewa Pranama 2016" to honour 62 employees retiring after long years of exemplary service. Chairman of AASL addressed the gathering and bestowed upon the retiring employees the gratitude of the Company for their unwavering contribution.

Caring for the well-being of our employees

2016 was yet another year full of vibrant examples of AASL showing its caring nature towards its employees. Many employee caring programmes were in place for number of years at AASL. They range from Health facility scheme, Staff transport, Staff loan scheme, Holiday Bungalow facilities, Staff quarters and contributory death donation schemes. All the systems were made user friendly and efficient during the year to reduce the turnaround time. Opening of the Kataragama Pilgrims Rest for the use of employees for a concessionary rate is yet another instance.

Giving due regards to the family members, especially the children of our staff is an important element that influence employee engagement. Therefore, AASL conducted programmes for the Children who would sit for the G.C.E (O/L) and (A/L), on 'Tackling Exam Pressure' for the first time in 2016.

When natural disasters such as floods and landslides that took place in 2016, affected our employees, the Management took prompt action to provide necessary relief and assistance. Employees as well as trade unions extended their helping hands in collecting and distributing water bottles, dry rations and other basic requirements to those affected employees and general public. This humanitarian gesture was extended to 574 students at a nearby school and 62 families at Aranayake as well.

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.

The total training hours delivered by CATC for the year 2016 is 46,596 trainee hours. 32,592 hours represents the training given to the company employees while the rest represents commercial training. This included 11 short duration training programmes for 236 company employees aimed at developing their soft skills.

Breakdown of training conducted is as follows:

Areas	Number of Trainee Hours
Soft skill Development	2,160
Training For new recruits	8,700
Programmes leading to career Development	21,246
Instructional Training	354
Refresher Training	132
Training for external parties	14,004
Total	46,596

Staff Counseling

With the aim of increasing overall productivity across AASL, a Counseling Unit was formed in 2008 and is still functioning successfully with the support of qualified and experienced Consultants. Special emphasis is placed on Emotional Stability, Conflict Resolution, Stress Management, Change Management etc.

The Professional counseling related to job/performance related issues is also part of the counseling service. Poor performers are referred to Counselors in two ways, either on the employee's own initiative or on the direct intervention of the Supervisors.

Other Activities

New Year Celebrations of 2016 was ceremonially conducted by the staff of AASL with the blessings of all religious dignitaries. Representatives from other agencies at BIA participated at this event.

"Vesak Bhakthi Gee" organized by Buddhist Association of AASL was held at the BIA Terminal Building on 25th May 2016. Chairman, Vice Chairman, Executive Director and all Heads of Division were present at the occasion. Observation of "Sil" programmes were organized by the Buddhist Association of AASL on 18th June 2016 at the "Bodhirathanarama Temple" at 18th Mile Post, Katunayake and on 26th November 2016 at the "Kelaniya Raja Maha Viharaya" in Kelaniya.

Christmas was celebrated at the Old PVG Area at BIA on 16th December 2016 with an evening of prayers, carols and entertainment. This was organized by the Christian Association of AASL with the participation of family members.

Privilege of attending Madu Shrine every year is open to all employees of AASL along with their families. This annual pilgrimage to Madu Shrine was organized by the Christian Association of AASL, from 23rd to 25th of September 2016. About 600 participants including family members attended this event.



Bakmaha Ulela- 2016, organised by the Welfare Society at the Colombo Airport, Ratmalana was held on grand scale at the airport premises on 30th April 2016. This event was attended by the employees and their families, giving pride of place to sports events handed down by our ancestors. Many sports events were organised at this Bakmaha Ulela, including traditional events such as breaking of the clay pot blindfolded, placing the eye on the elephant blindfolded, traditional “Jana Gayana” contests, pillow-fighting, tug of war and many other fun events. The main focus of this occasion was to enhance the inter relationship among employees and other connected agencies, while giving them the opportunity to relax and enjoy themselves.

Decision was taken by the Board of AASL to obtain the service of Sri Lanka Institute of Development Administration (SLIDA) as an independent agent to review the salary structure and the existing recruitment and promotion schemes of the Company and to submit their proposal addressing the issues in below key areas.

- (a) Examine the existing salary structure of AASL and submit recommendations to rectify anomalies (if any) in the placement of employees in the salary structure in relation to market rates, supply and demand of labor etc.
- (b) Examine the existing Schemes of Recruitment and Promotions and submit recommendations for any changes in relation to both the career prospects of employees and improving productivity of the organization

Muslim Association of AASL organized an event on 14th July 2016, in connection with the Ramadan Festival. This inaugural event was held with the participation of the Chairman, Vice Chairman, Executive Director, Heads of Division, Employees, Representatives of Airlines and other Agencies. Members of the Muslim Association expect to join hands with other religious associations to foster togetherness and promote team work.



- 1 “Vesak Bhakthi Gee” organized by Buddhist Association of AASL
- 2 “Christmas Carols” organized by the Christian Association of AASL
- 3 “Bakmaha Ulela” organized by the Welfare Society at the Colombo Airport, Ratmalana

Corporate Governance

“Compliance with regulatory framework, higher standards of corporate governance, transparency and commitment are the **keys to our success to achieve top performance**”

AASL is committed to meeting high standards of Corporate Governance. AASL Corporate Governance Principles reflect its strong belief in protecting and enhancing shareholder value in a sustainable way. AASL firmly believes that the professionalism, integrity and commitment of its Board members and employees, supported by a sound system of policies, practices and internal controls are prime concerns that will enable us to preserve long-term value and returns for its shareholders.

Overview

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

This report outlines the Company's corporate governance processes and activities which took place during the financial year 2016 with reference to the Code of Best Practice of 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.

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.

Board of Directors

The core responsibility of the directors is to exercise their judgement to act in what they reasonably believe to be the best interests of the Company and for the creation of long-term value and return for shareholders.

The Board is responsible for the Company's overall performance objectives, financial plans and annual budgets, major investments and funding proposals,

financial performance reviews, risk management and corporate governance practices.

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

Our Approach and Commitment

AASL is fully owned by the government 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 under the Category "A" Commercial Public Enterprises. This governance framework is underpinned by five (05) core principles.

1. Leadership and Direction
2. Transparency and Integrity
3. Accountability to the Government as its key shareholder
4. Recognising the legitimate interests of stakeholders
5. Timely and balanced disclosure Principle

Principle 1: 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 responsible for providing leadership to the Board, is also appointed by the Minister of Transport and Civil Aviation.

The Board of Directors executes a statutory responsibility in the stewardship of the company on behalf of the Government and its stakeholders. Their principle 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. 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 is provided regarding Board proceedings.

In addition, the Company Secretary circulates the notices of Board Meetings, Minutes of meetings, 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 Company Secretary.

All the Divisions 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.

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.

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.



The Role of the Audit and Management Committee (AMC) in Corporate Governance aspects

The Board is assisted by the Audit and Management Committee (AMC) which has been set up according to the Treasury Circular No PF/PE 3 of 19/11/1999. This committee is made up of Non-Executive Directors delegated with specific responsibilities cited in the Terms of Reference (TOR) which defines its scope of authority. This includes determination of the responsibilities of the Internal Audit Unit and reviewing of the Annual Audit Plans, monitoring and evaluating internal control systems for all activities of the entity and assessing performance at regular intervals for cost effectiveness and to eliminate wasteful expenditure.

Others include liaising with External Auditors and reporting on Management Letters issued by the Auditor General and External Auditors, asserting compliance with statutes, regulations, rules and circulars, reviewing financial statements to ensure conformity with Sri Lanka Financial Reporting Standards (SLFRS / LKAS) and assessing implementation of recommendations and directives of the COPE.

The Audit and Management Committee (AMC) at AASL comprises of three Non-Executive Directors, Superintendent of Audit from Auditor Generals' Department and the Head of Internal Audit and Quality Assurance (H/IA & QA). Head of IA & QA acted as the convener. The three Non-Executive Directors who have been appointed by the Board namely; Mr Anomal De Soysa (Chairman of AMC), Mr. S. R Attygalla and Mr. N.P.L Fernando, served in this committee during the year under review.

The Board receives a report of the AMCs proceedings and deliberations, in which it has no authority to make decisions on matters reserved specifically for the Board and recommendations are highlighted for approval by the Board of Directors. The Chairman of this committee, reports the outcome of the committee meetings to the Board and the relevant decisions are incorporated into the minutes of the Board of Directors' meetings.

The AMC held 04 meetings during the financial year 2016.

The activities conducted by the AMC are set out under principle 2: Transparency, Integrity and Risk Management.

Principle 2: Transparency, Integrity and Risk Management

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 full transparency when acquiring goods and services.

Internal Audit

AMC is assisted by the AASL Internal Audit and Quality Assurance (IA & QA) Division. The Head of IA & QA acts as convener to the AMC and reports 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 guidelines issued by Department of Public Finance.



Principle 3: Accountability to the Government as the Key Stakeholder

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

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.

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 as 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.

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 is Chaired by an opposition Member of Parliament in order to maintain the objectivity in the entire process. AASL was summoned twice by the Committee in the year 2016 to monitor the progress of Airport Development Projects and Action Plan of the year.

Ministry of Finance / General Treasury

The Ministry of Finance or the General Treasury 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 of Finance. 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.

Ministry of Transport and Civil Aviation

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

Principle 4: 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 airports (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.

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.

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, documents are made available to the directors for effective decision making at the meetings.

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.

Principle 5: 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 has established policies and procedures to 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 an aim to help them to understand the business, risk profile, financial condition, operating performance and trends of the company. Many periodic and adhoc reports and analyzed information are provided as a practice and on demand. The employees are updated with true position of company operations and financial performance. The Company intranet serves the purpose of information dissemination enhancement to employees.

Risk Management

"If you risk nothing, then you will risk everything. The biggest risk is therefore, not taking any risk which is the only guaranteed strategy for failure. Thus at AASL, we are exposed to risk in everything we do. That's why **"Risk Management"** is on the stage....."

Risk management at a glance

The ICAO defines risk management as follows:

“The identification, analysis and elimination (and or mitigation to an acceptable or tolerable level) of the subsequent risk, that threaten the viability of an organization.” (ICAO Doc 9859).

As a recent and modern development, in the context of the aviation sector, the word “Risk” is being replaced by “Hazard” and is treated as being synonymous. Risk Management, as it is understood today, largely emerged during the early 1990s, but the term “risk management” was used long before 1990.

Importance of Risk Management in the context of the aviation regulatory framework

Several significant provisions of the Chicago Convention aim to harmonize and extend the provisions relating to safety management by aircraft operators and aviation service providers. These changes introduce a framework for the implementation and maintenance of a safety management system (SMS) by the operators or service providers.

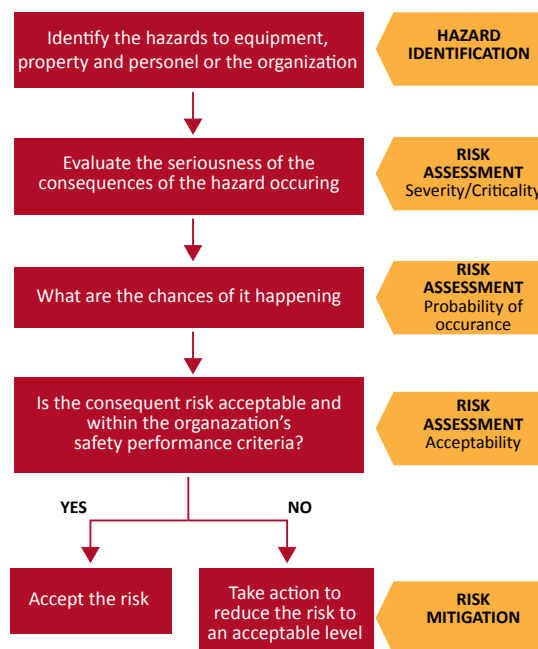
“Safety risk management (SRM)- a formal process within the SMS composed of describing the system, identifying the hazards, assessing the risk, analyzing the risk, and controlling the risk. The SRM process is embedded in the processes used to provide the product or service; it is not a separate or distinct process.” (FAA AC120-92, Introduction to SMS for Air Operators).

Specific ICAO Provisions

Consistent with the ICAO provisions, the European Regulation 1035/2011- Common Requirements for the Provision of Air Navigation Services and EUROCONTROL ESARR 3 identify risk assessment and mitigation as an essential component of the Safety Achievement domain of the SMS. Accordingly, Risk management consists of three essential elements:

- 1. Hazard identification** - Identification of undesired or adverse events that can lead to the occurrence of a hazard and the analysis of mechanisms by which these events may occur and cause harm. Both reactive and proactive methods and techniques should be used for hazard identification.
- 2. Risk assessment** - Identified hazards are assessed in terms of criticality of their harmful effect and ranked in order of their risk-bearing potential. They are assessed often by experienced personnel, or by utilizing more formal techniques and through analytical expertise. The severity of consequences and the likelihood (frequency) of occurrence of hazards are determined. If the risk is considered acceptable, operation continues without any intervention, if it is not acceptable, risk mitigation process is engaged.
- 3. Risk mitigation** - If the risk is considered to be unacceptable, then control measures are taken to fortify and increase the level of defenses against that risk or to avoid or remove the risk, if this is economically feasible.

The flow chart below depicts the Risk Management process:



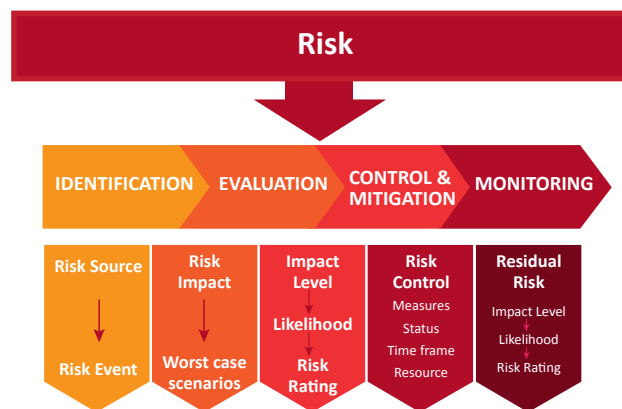
Risk Management process (Source - ICAO Doc 9859 - Safety & Risk Management Manual)

Risk Management Mechanism at Airport and Aviation Services (Sri Lanka) Ltd

As the statutory service provider of the Government of Sri Lanka which manages three airports namely BIA, MRIA and RMA and develops airports in the country; being the operator of two international airports, the business of AASL encompasses a diverse range of risk 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 Board is responsible for the effectiveness of the AASL's system of internal control and Risk Management. At the corporate level, risk which may hinder AASL from achieving its long term objectives are analyzed within the context of its Corporate Plan. Risk relating to AASL's short and medium term objectives need to be identified and addressed annually.

Risk Management Framework being developed at AASL

AASL's internal controls are designed to manage and mitigate risk, rather than eliminate risk. Risk assessment and management is a critical focus for all levels at the AASL: specifically in the purview of the Board, the Audit and Management Committee (AMC) and the Senior and middle Management. Our quantitative risk profile is assessed through a bottom-up analytical approach covering all operating and supporting functions. Given the myriad of potential risk that may affect the operations of the airport, all operating departments are required to implement a thorough risk identification mechanism to review the risk and business continuity management processes (BCP) pertaining to operational areas that are critical in sustaining the continuous operation of the airports.



Key elements of AASL's future integrated and multi-layered risk and business continuity management plan includes the establishment of an Operational Risk Register to track and document identified risk, the development and continuous updating of preventive and responsive procedures, and the testing and drilling of action plans and procedures to ensure their effectiveness.

The Board bears overall responsibility for ensuring that AASL has effective risk management and control systems are in place. AMC is assisting in fulfilling this responsibility.

Our risk, potential impact on the company and risk control & mitigation strategies are detailed below.

Operational Risk

01	<p>Risk Identification - Safety, Security and Health Risk</p> <p>Safety</p> <p>Safety is fundamental to the operation of AASL. The maintenance and operation of airport facilities involve identifying risk that can be reduced, mitigated and transferred but not eliminated completely. Recognizing that minimizing occupational health and safety incidents on timely manner is one of the key elements to the sustainability of AASL.</p> <p>For example, Accidents and incidents due to Bird strikes may result in fatal injuries and damages to aircrafts. Consequently, the airlines may step out from flying.</p> <p>Security</p> <p>Airport security continued to face challenges arising from increasing volumes of passenger traffic and the evolving nature of the threats to civil aviation.</p> <p>Risk 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.</p> <p>Health</p> <p>During the year under review, AASL did not face any serious challenges in terms of health risk. However being an international airport service provider AASL continuously maintain and upgrade its Risk control & monitoring Mechanisms for health risk.</p> <p>Risk Evaluation (Potential Impact on AASL)</p> <p>In the global as well as Asia-Pacific context all these three types of major risk variables are in ever increasing trend. The potential impact on AASL can be ranked as “High” before applying any risk mitigation or monitoring techniques.</p> <p>Risk control & Mitigation</p> <p>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, aircraft and passenger injuries at the airport, remains a key performance indicator of AASL. 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 identifying risk already faced but also to identify the potential conditions that lead to various risk specially in the airfield. For example bird population trends have been identified as a leading factor for accidents and incidents (due to Bird strikes).</p> <p>In order to avoid this risk, measures are taken primarily at aerodrome, such as avifauna assessment and management. In addition, the bird hazard control unit which under safety division 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 MRJA.</p>
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	<p>Risk control & Mitigation (Contd.)</p> <p>AASL has formulated a Safety Management plan which is reviewed and updated where and when required. The airport security personnel of AASL work collaboratively with the BIA's in-house supervisory resources namely; Department of Immigration and Emigration, Air Force and Police in keeping these occurrences to a minimum.</p> <p>Enhanced initiatives and effective equipment and facilities are in place and will continue to be employed to ensure that highest security standards are maintained.</p> <p>To address possible health risk, AASL has continued the Stepped Response Plan for major public health issues. Further full scale annual emergency exercises are being held by the Medical unit with its panel of Medical officers. Further AASL joins hands with CAPSCA (Collaborative Arrangement for the Prevention of Spread of Communicable Disease Through Air Travel) when a need arises.</p> <p>In order to deal with these risk AASL has 3 unique divisions namely Safety, Security and Medical divisions headed by experienced and educated professionals in the field.</p>
02	<p>Risk Identification - High dependency on the national carrier- Sri Lankan Airlines.</p> <p>Sri Lankan Airlines is the largest customer of AASL with around 50% passenger volume of the BIA.</p> <p>Risk Evaluation (Potential Impact on AASL)</p> <p>Exposing AASL to a high level of structural risk in terms of the market and customer base. Potential impact on AASL can be ranked as "High"</p> <p>Risk control & Mitigation</p> <p>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.</p>
03	<p>Risk Identification - Market development risk for the second international airport, MRIA</p> <p>Due to the factors such as not having a solid client base, passenger base or cargo base at MRIA, the anticipated year of breakeven & the payback period of the project would be longer.</p> <p>Risk Evaluation (Potential Impact on AASL)</p> <p>Since MRIA is currently dependent on AASL cash flows, any delay in achieving break-even at MRIA will have an adverse impact on AASL's cash flows as well as profitability.</p> <p>Further, depending on the prevailing situation this could be categorized as "High risk".</p> <p>Risk control & Mitigation</p> <p>Marketing efforts are focused on identifying and expanding the market potential for MRIA. Scenario analysis traffic forecasts, route forecasts and catchment area analysis are carried out periodically.</p> <p>Promotional activities are undertaken by the marketing division collectively with the relevant bodies collectively in the tourism and aviation cluster.</p> <p>EOI has been called for Commercial Investment at MRIA.</p>

04 Risk Identification - Legal, Regulatory and Reputational Risk

Violation of law, non-compliances

Violation of law, non-compliance with regulatory requirements, Non-compliance to environmental standards and breach of contracts, even though unintentionally, will bring about legal consequences impacting on AASL, including damage to reputation, disruption to business or operations, and pecuniary loss associated with enforcement actions and lawsuits.

Under reputation risk perceptions and misconceptions of stakeholders may ruin the reputation and will generate an adverse publicity ultimately resulting in Customer dissatisfaction, decline in the brand value of the company, loss of competitive advantage and adverse impact on sustainable business management

Risk Evaluation (Potential Impact on AASL)

Whilst some of the legal risk are stand-alone, many of them dovetail with operational, financial, reputational, political, tax and regulatory risk. Therefore in a worst case scenario, potential impact on AASL can be ranked as "high". At present it is "low".

However at AASL we do understand that the effective management of legal and regulatory risk will help the Management to avoid taking unnecessary and imprudent risk in the business, operation and development of AASL.

Risk control & Mitigation

AASL has been taking a proactive and forward-looking approach to monitor changes in government policy and legislation. Judgments, rulings, regulatory actions and complaints are also reviewed to identify potential areas of risk that may apply to the AASL. Policies, procedures and appropriate action steps to address the changes are developed in a timely manner to guide the Management to operate legally and within AASL's acceptable risk level. Continuous education is provided to the Management to adapt to these changes. Adequate risk mitigation measures are in place and are constantly reviewed for enhancement. AASL will continue to monitor and manage legal and regulatory risk vigilantly going forward. Some of the practical mitigation techniques that are in place to address direct/indirect legal & regulatory risk are as follows.

The Airport Operators Liability Insurance Policy was introduced to cover accidents within the terminal buildings and the adjacent areas.

The Public Liability Insurance Policy was made mandatory in the Agreements of Airline Operators, Duty Free Shops and other concessionaires, to cover the legal risk associated with deaths/damages to third parties within their contracted areas.

The "Contractors' All Risk" Insurance Policy which all contractors should submit at the time of entering into contracts with AASL is yet another cover for risk associated with construction contracts within airports. All our contracts contain a provision to explore the possibility of an amicable settlement prior to litigation or arbitration. This clause was introduced to encourage the mitigation of the high cost of legal risk. Public sentiment and socio economic dynamics are closely monitored to manage and pre-empt possible reputational risk that may have implications on the corporate image of AASL. Meanwhile, continuous engagement with key stakeholders is carried out to enhance understanding of and gauge views about AASL's short, medium and long-term developments. The realization of reputational risk and mitigation of them are not confined to a specific division, instead considered as a prime function across all the divisions, while there is a particular section formed under the marketing division to liaise with the media to handle the adverse publicity.

05 Risk Identification - Information Technology related risk

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 e-commerce. Possible risk may be unauthorized access to confidential data, policy violations.

Rapid expansion of devices

Rapid expansion of number of devices, and functionalities (e.g., 15+ million iPads in current circulation). M-Commerce introduces new risk such as Loss / release of critical AASL data, Security issues 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. The effectiveness and security of information technology infrastructure and systems are critical to ensure the reliable and safe operations of AASL. Some of the critical IT related risk in addition to the risk 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.

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 want to achieve its ultimate aspiration of to be the “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)

Ultimately IT related risk 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

Currently IT Policy has been drafted and approved by the HODs , Executive Director, Vice Chairman and Chairman. It will be presented at the next Board Meeting for Approval of the Board of Directors.

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

Risk control & Mitigation (Contd.)

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 operational 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 risk 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 risk 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 PCs and all incomers specially in server rooms and telephone exchange.

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 detecting 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 by Virtualizing the server pool available at Primary Datacenter and EDGE Datacenter. Also, scheduled backups are maintained so that in the event of a total hardware failure, they can be used to restore the systems with minimal data loss.

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

06 Risk Identification - Non availability of ERP System

Non availability of 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 risk already discussed. Because, at present even small scale organizations use comprehensive ERP solutions in their Finance and Supplies 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. Therefore, it has been decided to implement a system in an module deployment. Currently Finance Supply Chain Management and IT Divisions are collaboratively working on introducing an integrated system which will cover the functionality of Finance and Supply Chain Management Division. The procurement is planed such that once all modules are deployed, a fully-fledged Enterprise Resource Planning System will be available at AASL.

07	<p>Risk Identification - Risk associated with Aircraft incidents/accidents</p> <p>There may be a possible risk due to unforeseen reasons.</p> <p>Risk Evaluation</p> <p>Presently, risk factor in Colombo Flight Information Region (FIR) is low.</p> <p>Risk control & Mitigation</p> <p>Regulation, Education and Training supports to mitigate the above 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.</p>
08	<p>Risk Identification - Frauds, Breakdown of internal controls (IC), processes and procedures</p> <p>Internal Controls facilitate risk management and help AASL to understand the level of risk. As internal controls are executed by the human beings, there is a risk for Frauds and failure of internal controls.</p> <p>Risk Evaluation</p> <p>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”.</p> <p>Risk control & Mitigation</p> <p>A stringent system of IC is in operation such as standardized financial procedures and ISO System audits (compliance audits). Periodic reviews and implementation of effective internal controls by the IA & QA Division are supplemented by regular management audits carried out by internal teams within the Organization.</p>
09	<p>Risk Identification - Loss or damages to AASL assets</p> <p>This may be due to either natural disasters, hazards or spiteful actions taken by affiliated parties such as passengers, staff, unions etc.</p> <p>Risk Evaluation</p> <p>Cost overruns & reduction of profit will have a direct impact for AASL’s financials. However, as per the historic experience the impact of this type of risk may be “low or moderate”.</p> <p>Risk control & Mitigation - Loss or damages to AASL assets</p> <p>In addition to the appropriate safety and fire protection measures, emergency plans are rehearsed on a regular basis. Mitigation of risk through insurance cover is a mandatory practice.</p>
10	<p>Risk Identification - Various Risk associated with Tender board procedure in procurement / Supply Chain Process</p> <p>Risk Evaluation</p> <p>Due to the time consuming procurement procedure adopted as per the national procurement guidelines, the opportunity will be lost to purchase good quality goods/services at reasonable price, and time frame for completion of a tender is too long and the bidders may not be interested in supplying. This is a risk affecting AASL’s business. However, these risk can’t be measured in a simple manner and also emerge due to the statutory framework in which AASL operates. Therefore, they can be categorized as “low or moderate impact”.</p>

	<p>Risk control & Mitigation</p> <p>The suppliers' capacity to do business with AASL is evaluated through vigilant checks carried out by the appointed TECs by cross checking the quoted references as well as verification from independent references obtained through market research. We test their systems, processes, sourcing and the impact to and from the environment to ensure a continuous supply. We place equal importance on timely delivery, compatibility, sustainability and financial credentials of suppliers. While our expectations are clearly laid down in the tender documents, we include clauses and conditions to promote greater transparency.</p> <p>The contract agreements are the key to controlling the risk associated with outsourcing, continuous supply, and timely delivery and after sales service.</p> <p>Once the potential suppliers have been qualified and been awarded contracts to participate in our inbound and outbound logistics chain, the risk of non-performance by the suppliers are mitigated through standard conditions introduced through performance bonds and bid bonds.</p>
11	<p>Risk Identification - Interruption in utility services</p> <p>As an international airport AASL obtains various utility services and these supplies are critical to AASL operations. Any interruption in these services will directly and adversely affect AASL's operations.</p> <p>Risk Evaluation</p> <p>Since adequate mitigation measures have already been implemented and in place potential impact is "Low"</p> <p>Risk control & Mitigation</p> <p>Improvement of the ground water harvesting system through additional bore wells in order to reduce the overdependence on the main national water supply system to ensure an uninterrupted supply of water to BIA. A sufficient number of generators with the required capacity have been deployed as a back-up plan in case of electricity failure.</p>
12	<p>Risk Identification - Risk of staff turnover/brain drain</p> <p>BIA expansion plans has been earmarked as one of the key elements in the medium to long term to meet the existing traffic demand. An insufficient supply of talented work force to support airport development will adversely affect the growth. Experience and knowledge in airport operation is particularly important in the light of the impending development projects at AASL.</p> <p>Risk Evaluation</p> <p>High staff turnover rates can negatively affect AASL in many ways. With the constant need to hire and train new employees, it is easy to veer from true vision and mission of AASL. By retaining employees, AASL can provide a higher caliber workforce that positively affects the bottom line. AASL can lower staff turnover rates by providing adequate training, rewarding employees for a job well done and creating a company culture of trust. Employee turnover has a direct impact on AASL's revenue and profitability. Aspects contributing to this include hiring expenses, training labor, lost sales and productivity. Obviously, the revenue impact can be much higher depending on the Division, employee's position and remuneration.</p> <p>However, at present AASL's staff turnover ratio is below 4% and the risk impact seems moderate.</p>

Risk control & Mitigation

AASL remuneration structure provides special allowances for professional, academic and technical qualifications, in order to retain the portion of professional cadre.
Foreign employment and exposure opportunities are granted on no-pay terms and combined with bonded contracts.

A people development and succession planning framework has been drawn up, in addition to internal training programmes, to better prepare for the future manpower requirements of AASL.

13 Risk Identification - Non optimization of aeronautical Revenue

(a.) Risk of managing and operating air traffic within Colombo FIR in par with ongoing, ever changing technology and procedures are applicable regionally and globally.

Any risk of inadequacy will lead to potential losing boundaries in Colombo FIR (in the size of 1,717,148.2 km²) resulting loss of Over flying revenue for AASL.

For an example if AASL maintains a level of safety below the acceptable standards ICAO will decide to delegate portions of air space to adjacent countries.

(b.) Risk of high elasticity of demand for Rate changes (High Price sensitivity)

Though certain charge rates for airlines have not been revised / increased for years, AASL faces the risk of losing revenue even for a slight increase of rates due to High Price sensitivity from airlines' point of view, prompting them to seek alternative flight routes / shortcuts avoiding Colombo FIR.

E.g. any increase to overflying charges will pave the way for flights between Hongkong and Johannesburg on L894 & L774 who transit the Colombo FIR in less than 20 minutes to re-route bypassing Colombo FIR altogether.

(c.) Following should be considered as other possible risk factors.

- 1) Non availability of State of the art Air Traffic Management (ATM) system in par with the region.
- 2) Non Compliances with ICAO Guidelines.

Risk Evaluation

However, at present AASL is very keen on continuous process improvement in terms of equipments, procedures and human resources for the provision of up to date Air navigational services and AASL's proactive role towards protecting Colombo FIR and the risk impact seems to be low.

Risk control & Mitigation

Adequate risk prevention mechanism tools such as advanced technology and procedures and expertise in HR are properly in place and knowledge flow being regularly updated.

	<p>By the introduction of direct air routes to reduce air miles and Performance Based Navigation (PBN) can Mitigate the risk of airlines opting to avoid Colombo FIR.</p> <p>As a control strategy to maintain the risk to a minimum, rates will not be increased in rate sensitive routes where there is a high elasticity of demand for rate changes</p> <p>AASL has managed to rectify the issues at the ATM systems to an acceptable level of Standard.</p> <ul style="list-style-type: none"> a) Infrastructure development to comply with future ATM needs. b) Adherence to a continuous training and development plan. c) Continuous monitoring and updating of procedures. d) Benchmarking with other countries for better rankings in Universal Safety Oversight Audit Program (USOAP). e) Revision of letter of agreements (LOAs) with the adjoining countries as necessary. f) Monitoring the recruitment and training processes. g) Latest amendments to the ICAO SARPS are circulated among the ATCs through ATC instructions. Transcripts are evaluated and corrective measures are taken h) VHF Transcripts are randomly obtained for evaluation for corrective measures.
14	<p>Risk Identification - Search and Rescue (SAR) capabilities within Colombo Search and Rescue Region (SRR)/ FIR.</p> <p>In aeronautical perspective the relevant state is responsible for the searching, locating, assisting to survive and rescuing the survivors of an aircraft incident within the respective SRR as an obligation to the agreements in the annual convention of international civil aviation organization (ICAO). Inability to bear this responsibility will be a serious breach of such agreements with ICAO as a signatory state to the convention.</p> <p>Even though the possibility of such eventualities are remote in current evolution, if they do occur, it could be a catastrophic situation which cannot be taken lightly.</p> <p>Note: Especially in the event of calamitous situations such as Tsunami, Earthquakes, War, etc. these capabilities play a vital role and state must be prepared at all times to face such events.</p> <p>The main risk is, airlines may avoid patronizing Colombo Search and Rescue Region (SRR)/ Flight Information Region (FIR) due to declaration as an unsafe airspace by the relevant agencies of ICAO and IATA etc. with the consequent loss of revenue to the AASL</p> <p>Importantly if we do not meet such obligations to the satisfactions of the aggrieved states whose citizens are affected, there can even be diplomatic repercussions which can be detrimental for the state.</p> <p>Risk Evaluation</p> <p>Since at present being a proactive ANS Provider in the region AASL is eagerly coordinating in terms of search and rescue capabilities via its Rescue Coordination Centre (RCC) located in Rathmalana. The possible risk factor is low.</p>

Risk control & Mitigation

AASL as the sole service provider has designated aeronautical rescue coordination center (ARCC) and is in the process of developing infrastructure as well as required human resources to activate the facility.

In proactive terms, AASL has SAR working arrangements established with two of our neighboring countries (Australia & Maldives) and presently working closely with India and Indonesia to establish the same.

Importantly, Sri Lanka has been included in SAR Capability Partnership Programme – Indian Ocean, sponsored by the Australian Maritime Safety Authority, Australia and closely working to enhance our SAR capability through this vital project.

Also AASL is Proactively involved in ICAO Asia Pacific Search and rescue Task Force.

Financial Risk

01 Risk Identification - Credit Risk /Default Risk

This refers to the risk that a debtor will default on any type of debt by failing to make required payments. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs.

Risk Evaluation

Since this risk carries a direct relationship in respect of the cashflow of AASL, 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, and duration and settlement procedures.

The liquidity risk arising out of default payment is mitigated by charging a default interest at a rate over and above the lending rate offered by Government securities.

02 Risk Identification - Foreign exchange risk

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 2015, AASL profitability was adversely affected by Rs.3.5 Bn exchange loss.

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

Year 2010 to 2016, the LKR/USD Exchange rate has increased by 35% from 110.95 to 149.80

	<p>Risk Evaluation</p> <p>Adverse impact on profitability and liquidity on translation of foreign currency transactions to base reporting currency.</p> <p>However these risk 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.</p> <p>Risk control & Mitigation</p> <p>Internal hedging through matching technique (Equating assets and liabilities in foreign currencies wherever possible)</p>
03	<p>Risk Identification - Interest rate risk (on short, medium and long term investments)</p> <p>Risk Evaluation</p> <p>Opportunity cost on the cash flows invested and decreased returns on investments resulting reduced contribution to the Profit Before Tax (PBT).</p> <p>Potential risk impact can be rated as "low or moderate"</p> <p>Risk control & Mitigation</p> <p>In order to minimize interest rate risk and improve yields AASL has adopted the following mechanism.</p> <p>Invest in long term debentures at a higher rate.</p> <p>Invest in daily overnight Treasury bills.</p> <p>Invest under various terms of maturity such as daily, specific number of days, monthly, quarterly, bi-annually and annually.</p> <p>Invest in different products such as treasury bills, LKR Fixed Deposits, US\$ Fixed Deposits etc.</p> <p>Maintaining a daily interest earning Fund Management account into which daily surplus cash transferred if specifically not invested.</p>
04	<p>Risk Identification - High level of gearing ratio</p> <p>Consistent with others in the industry, AASL monitors capital on the basis of the gearing ratio. Currently AASL's gearing ratio is 48%.</p> <p>Risk Evaluation</p> <p>Since the loans wholly consists of loans obtained with the consent of General Treasury for the development of BIA and MRIA under the sovereign guarantee the potential impact on AASL can be ranked as "low". However high interest cost will have a negative impact on profitability.</p> <p>Risk control & Mitigation</p> <p>No risk associated with the debts since it is covered under the Government Sovereign Guarantee.</p>



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Financial **Reports & Calendar**

FINANCIAL REPORTS

Report of the Auditor General	85
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
Explanatory Notes to the Report of the Auditor General	126

FINANCIAL CALENDAR

Final Dividends for 2015 was paid on
July 26, 2016

Interim Dividends for 2016 and 2017
was paid on **October 21, 2016**

Annual Report and Accounts for 2016
signed on **June 09, 2017**

Thirty fourth Annual General Meeting
to be held on **June 30, 2017**

INDEPENDENT AUDITOR'S REPORT



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கணக்காய்வாளர் தலைமை அபிப்பதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



Report of the Auditor General on the Financial Statements of the Airport and Aviation Services (Sri Lanka) Limited for the year ended 31 December 2016

1.1 The audit of financial statements of the Airport and Aviation Services (Sri Lanka) Limited ("the Company") for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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. My comments and observations which I consider should be published with the Annual Report of the Company appear in this report.

1.2 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.

1.3 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 risk 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.



1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, 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 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 Report on Other Legal and Regulatory Requirements

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 :

I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.

The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

2.2 Comments on Financial Statements

2.2.1 Compliance with Sri Lanka Accounting Standards.

The following observations are made.

- (a) LKAS 16 – Property, Plant and Equipment: Fully depreciated non-current assets costing Rs.16,061 Mn are being used by the Company without reviewing the useful life of them in terms of Section 51 of the Standard.
- (b) LKAS 36- Impairment of Assets: There was a downturn in the operations of Mattala Rajapaksa International Airport (MRIA) since its commencement and presently flight movements are limited to one international airline. However, an impairment assessment relating to the assets valued at Rs.25,123 Mn belonging the MRIA had not been carried out even in the year under review.

2.3 Accounts Receivable and Payable

Receivable balances which exceeding the credit periods aggregating Rs.1,027 Mn were outstanding for more than one year as at the end of the year under review. Details are given below.

Description	Amount Rs. Mn	Maximum Credit Period
Landing , Parking and Over Flying Charges	693	59 days
Aero Bridge Charges	134	30 days
Rental	200	03 days
Total	1,027	

2.4 Non – compliance with Laws, Rules, Regulations and Management Decisions etc.

The following Instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non- compliance
a) Section 6 of the Companies Act, No. 07 of 2007	The Company required to publish its name in public documents by adding the suffix “(Private) Limited” or the abbreviation “(Pvt) Ltd”, after re-registration under the new Companies Act. However, the Company still remains in the same name in its publications without suffix “(Private)/(Pvt)”.
b) Section 14 of the Civil Aviation Act, No.14 of 2010 and the Examination Report issued by the Civil Aviation Authority of Sri Lanka in the year 2015.	A Master Plan on establishment or expansion of aerodromes had neither been prepared nor approval obtained from the Civil Aviation Authority of Sri Lanka up to 31 March 2017.
c) International Civil Aviation Organization (ICAO) Standards and the Examination Report issued by Civil Aviation Authority of Sri Lanka in the year 2015	<p>A Head of Security Services had not been appointed permanently.</p> <p>As per National Civil Aviation Security Programme, a specialized security programme had not been implemented although the technical advices given by the Civil Aviation Authority of Sri Lanka.</p>
d) The letter of Deputy Secretary to the Treasury No: PE/COMC/33/02 dated 28 April 2006	<p>Land and buildings and other movable and immovable assets owned by the Government had not been valued and brought to accounts.</p> <p>Shares to the Government of Sri Lanka for the net assets those transferred had not been issued.</p>
<p>e) Public Enterprises Circular No. PED/12 of 02 June 2003 on Public Enterprises Guidelines for Good Governance</p> <p>(i) Paragraph 7.4.5</p> <p>(ii) Paragraph 9.2 (d)</p> <p>(iii) Paragraph 9.3.1 (i)</p>	<p>Annual Boards of Survey and Special Boards of Survey had not been appointed to carry out the verification of assets.</p> <p>The Organization Chart and the Approved Cadre of the Company had not been registered with the Department of Public Enterprises, General Treasury.</p> <p>The Scheme of Recruitments and Promotions (SOR) of the Company had not been approved by the Ministry concerned with the concurrence of the General Treasury.</p>

3. Financial Review

3.1 Financial Results

According to the financial statements presented for audit the operations of the Company had resulted in a pre-tax net profit of Rs.6,909 Mn as compared with the corresponding pre-tax net profit of Rs.2,378 Mn for the preceding year, thus indicating an improvement of Rs.4,531 Mn in the financial result of the year under review. The reasons for the improvement are mainly due to the increase of revenue by Rs.2,808 Mn and decrease of finance cost by Rs.1,570 Mn during the year under review.

3.2 Value Addition

The value addition of the Company had increased gradually from the year 2012 to 2014. Although there was a deterioration in the preceding year, in the year under review the value addition had increased by Rs.5,813 Mn or 50 % as compared with the preceding year.

3.3 Analytical Financial Review

3.3.1 Significant Accounting Ratios

According to the information made available some of the important accounting ratios of the Company for the year under review and preceding four years are given below.

	2016	2015	2014	2013	2012
Current Assets Ratio (Number of times)	2.65	2.09	1.68	1.29	1.78
Quick Assets Ratio (Number of times)	2.60	2.06	1.65	1.23	1.72
Net Profit Ratio (%)	38	15	40	39	35
Earnings per Share (Rs.)	34,598	4,084	17,058	17,768	13,688
Return on Net Assets (%)	42	7	32	48	65
Revenue per Passenger (Rs.)	1,938	1,846	1,785	1,652	1,570

The following observations are made in this connection.

- Increase of short term bank deposits and investments in treasury bills under repurchase agreements by 140 % and 17 % respectively were the main reasons attributed for the increase in current ratio and quick assets ratio.
- The net profit ratio had increased by 23 % during the year under review due to increase in revenue by 18 % and decrease in finance cost by 37 %. As a result the earnings per share had also been increased by 745 %.



4. Operating Review

4.1 Performance

- (a) The physical performance of the Company as compared with the Key Performance Indicators (KPI) which mentioned in the Corporate Plan of the Company is given below.

Key Performance Indicator	Actual Achievements				
	2016	2015	2014	2013	2012
Number of International Flight Movements	61,637	56,156	54,960	51,972	48,416
Number of Total Passenger Movements	9,466,248	8,505,740	7,780,724	7,330,421	7,079,920
Number of Transit Passengers	1,285,756	1,227,451	1,273,037	1,370,266	1,296,495
Transit Passengers to Total Passengers Ratio	1:7.4	1:6.9	1:6.1	1:5.3	1:5.5
Cargo Movements (Metric Tons)	248,347	220,422	209,607	194,020	186,618
Total Cost per Flight Handled (Rs.'000)	216	256	171	177	164

The following observations are made in this connection.

- (i) Annual Targets on Key Performance Indicators (KPI's) had not been set out by the Company. Therefore, it was unable to compare the actual performance with the expected targets in audit.
 - (ii) The target of 10 Mn passenger movements and transit passengers to total passengers ratio of 1:7 to be expected to achieve in the year 2018 had already been achieved in the year under review. Hence, it was observed that the Company had set inefficient targets in its Corporate Plan.
- (b) Performance of the Mattala Rajapaksa International Airport (MRIA) built under a foreign loan of US\$190 Mn as a separate unit is summarized and shown below.

Key Performance Indicator	2016	2015	2014
Number of Passengers	6,207	6,291	40,386
Action on International Aircraft (Number)	1,317	1,044	2,890
Action on loading of Air Cargo (Metric Tons)	Nil	19	221.9

The following observations are made in this connection.

- (i) Annual Targets on Key Performance Indicators (KPI's) had not been set out. Therefore, it was unable to compare the actual performance with the expected targets.
- (ii) Due to weak performance of the MRJA, the contracts for running the duty free shops have been terminated. Hence, the rental income had been decreased by Rs.18 Mn in the year under review.
- (iii) Assessment of damage caused to the Cargo Building valued at Rs.891 Mn due to paddy storage in the year 2015 had not been carried out even up to 31 March 2017.



(iv) Financial performance of the MRIA had also been deteriorated as follows.

	Rs. Mn		
Description	2016	2015	2014
Total Income	49	71	136
Total Operating Expenditure	2,339	2,289	2,228
Operational Loss	2,290	2,218	2,092
Finance Expenditure	701	882	637

4.2 Management Weaknesses

The following observations are made.

- (a) Adjustments valued at Rs.227 Mn had been made through 53 journal entries after submission of the draft financial statements to audit. Therefore, the possibility of prevailing further such deficiencies in the accounts could not be ruled out in audit.
- (b) The contract for implementation of an Enterprise Resource Planning (ERP) System had been awarded to a private company on 29 June 2012 for an amount of Rs.248.6 Mn to complete within a period of 08 months. The Company had paid a sum of Rs.27 Mn to the contractor and the contract period had also been extended in four instances up to 31 October 2016. Even though the period exceeding 04 years had elapsed since the award of the contract, the contractor had failed to complete the contract even up to 31 October 2016. Therefore, the performance bond of Rs.24.86 Mn had been claimed on 03 January 2017. However, the contractor had filed a case against the recovery of performance bond by the Company. Nevertheless, the Company had not taken any legal action against the contractor in this regard.
- (c) A land had been purchased from a private party by spending a sum of Rs.7 Mn in the year 2012 for the purpose of constructing a circuit bungalow. Subsequently, Divisional Secretariat, Katharagama had informed that this land is belonging to the Government. Nevertheless, the Company had failed to recover Rs.7 Mn paid to the private party. Further, the Company had filed a case against the private party in this connection.

4.3 Transactions of Contentious Nature

The Company had paid a compensation of Rs.2.5 Mn in the year 2012 to an employee who had resigned voluntarily from the service in the year 2011.

4.4 Human Resources Management

The following observations are made.

- (a) As per the Finance Circular No.124 of 24 October 1997 of the Ministry of Finance and Planning, covering up duties of a vacant post should be limited to a period of 03 months. However, four Deputy Divisional Heads had been appointed for cover up duties in the vacant posts in Heads of Divisions for a period ranging 01 to 05 years.
- (b) Staff cost per employee per annum had increased from the year 2012 to the year under review from Rs.1,020,000 to Rs.1,577,000 without the approval from Department of Management Services, General Treasury.

5. Systems and Controls

Deficiencies observed in the systems and controls of the Company were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

Control Area	Observations
(a) Human Resources Management	Cadre and Scheme of Recruitment and Promotions had not approved.
(b) Accounting	There was no an aggregated comprehensive accounting system in the Company.
(c) Receivables and Payables	Long outstanding balances remained in the accounts without being recovered / settled.
(d) Asset Management	Board of Survey not performed Non availability of assets coding and properly updated assets register.



H.M. Gamini Wijesinghe

Auditor General

19 June 2017

අංක 306/72, පොල්දඬු පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்துளவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka



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Audited
Financial Statements

STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31	Note	2016 Rs.	2015 Rs.
Revenue	5	18,027,257,179	15,218,760,071
Other Income	6	315,543,437	479,508,417
		18,342,800,616	15,698,268,488
Administration Establishment and Marketing Expenses	7	(10,655,673,712)	(10,124,353,778)
Operating Profit		7,687,126,903	5,573,914,710
Finance Income	8	1,894,214,701	1,046,515,607
Finance Cost	8	(2,672,747,250)	(4,242,304,944)
Finance (Cost)/ Income - Net		(778,532,549)	(3,195,789,337)
Profit before Income Tax		6,908,594,354	2,378,125,373
Income Tax Expenses	9	11,149,716	(1,561,269,802)
Profit for the Year		6,919,744,070	816,855,571
Basic Earning Per Share	10	34,598	4,084
Other Comprehensive Income			
Gain/(loss) arising from changes in assumptions on computing Retirement Benefit Obligation	22	5,591,439	172,937,123
Deferred Tax on Actuarial Gain/(Loss)	13	(1,565,603)	(48,422,394)
Other Comprehensive Income		4,025,836	124,514,729
Total Comprehensive Income for the Year		6,923,769,906	941,370,300

The note on pages 97 to 125 form an integral part of these financial statements.

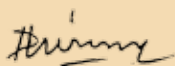
Independent Auditors Report on Page 85 to 91.



Statement of Financial Position

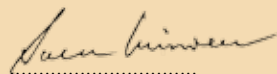
As at December 31	Note	2016 Rs.	2015 Rs.
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	11	36,313,463,742	38,381,811,973
Capital Work in Progress		3,604,758,634	1,797,848,789
Intangible Assets	12	12,830,190	17,427,437
Deferred Tax Assets	13	797,895,349	745,194,174
Investment in Debentures	14	2,650,000,000	3,050,000,000
Loans to Company Officers	16.1	92,448,969	87,102,228
		43,471,396,885	44,079,384,601
Current Assets			
Inventories	15	473,538,561	349,373,378
Trade and Other Receivables	16	3,453,666,250	4,548,446,775
Income Tax Receivable	17	970,271,595	758,699,782
Treasury Bills/Repurchase agreements and short term bank deposits	18	21,520,929,076	14,939,671,494
Cash and Cash Equivalents	18	1,187,019,995	609,972,967
		27,605,425,476	21,206,164,395
Total Assets		71,076,822,361	65,285,548,996
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	19	20,000,200	20,000,200
Reserves	20	1,019,226,769	1,008,226,769
Retained Earnings		15,396,983,807	9,984,213,901
		16,436,210,776	11,012,440,870
Non-Current Liabilities			
Borrowings	21	35,068,548,732	35,135,336,416
Retirement Benefit Obligation	22	2,576,178,455	2,395,344,715
Deferred Tax Liabilities	13	5,321,588,674	5,278,471,611
Deferred Government Grant	23	1,244,099,064	1,331,704,822
		44,210,414,925	44,140,857,563
Current Liabilities			
Trade and Other Payables	24	7,819,396,018	7,537,941,778
Borrowings	21	2,610,800,642	2,594,308,784
		10,430,196,660	10,132,250,562
Total Liabilities		54,640,611,585	54,273,108,126
Total Equity and Liabilities		71,076,822,361	65,285,548,996

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

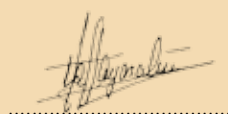


Head of Finance

The 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 09th June 2017.



Chairman



Executive Director

Signed on behalf of the Board on June 09, 2017

The notes on pages 97 to 125 form an integral part of these financial statements.

Independent Auditors Report on Page 85 to 91.

Statement of Changes in Equity

	Note	Stated Capital	Other Reserves	Retained Earnings	Total
		Rs.	Rs.	Rs.	Rs.
Balance as at January 01, 2015		20,000,200	1,004,726,769	9,543,343,602	10,568,070,571
Profit for the year		Nil	Nil	816,855,571	816,855,571
Other Comprehensive Income					
Actuarial gain on post employment benefit obligations		Nil	Nil	172,937,123	172,937,123
Deferred Tax on Actuarial Gain		Nil	Nil	(48,422,394)	(48,422,394)
Other Comprehensive Income net of Tax		Nil	Nil	124,514,729	124,514,729
Total Comprehensive Income		Nil	Nil	941,370,300	941,370,300
Dividend paid	26	Nil	Nil	(497,000,000)	(497,000,000)
Transfer to Reserve Account		Nil	3,500,000	(3,500,000)	Nil
Balance as at December 31, 2015		20,000,200	1,008,226,769	9,984,213,901	11,012,440,870
Balance as at January 1, 2016		20,000,200	1,008,226,769	9,984,213,901	11,012,440,870
Profit for the year		Nil	Nil	6,919,744,070	6,919,744,070
Other Comprehensive Income					
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)
Other Comprehensive Income, net of Tax		Nil	Nil	4,025,836	4,025,836
Total Comprehensive Income		Nil	Nil	6,923,769,906	6,923,769,906
Dividend Paid	26	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

The notes on pages 97 to 125 form an integral part of these financial statements.

Independent auditor's report- pages 85 and 91.



Statement of Cash Flows

Year ended December 31	Note	2016 Rs.	2015 Rs.
Cash Flows from Operating Activities			
Profit Before Income Tax Expenses		6,908,594,354	2,378,125,373
Adjustment for :			
Depreciation	11	2,652,137,717	2,647,777,594
Amortization of Intangible Assets	12	12,549,232	10,527,658
Exchange (Gain)/Loss	21	1,777,079,530	3,189,855,520
Income from Investment	8	(1,874,898,049)	(1,047,704,225)
(Profit)/Loss on Sales of Property, Plant and Equipment		(1,363,891)	(13,873,095)
Written off	11	-	6,365,790
Amortization of Deferred Government Grants	23	(87,605,758)	(104,961,427)
Finance Cost	8	705,413,235	717,067,024
Provision for Retirement Benefit Plan	22	404,904,826	387,961,248
Operating Profit before Working Capital Changes		10,496,811,196	8,171,141,460
(Increase)/ Decrease in Inventories		(124,165,183)	(84,122,733)
(Increase)/ Decrease in Trade and Other Receivables		1,094,780,525	(742,600,168)
Increase /(Decrease) in Trade and Other Payables		281,454,240	818,590,226
Cash Generated from Operations		11,748,880,779	8,163,008,785
Defined Benefit Plan Costs Paid	22	(218,479,647)	(75,630,644)
Interest Paid	8	(705,413,235)	(717,067,024)
Income Tax Paid	17	(211,571,814)	(115,658,760)
Net Cash Generated from Operating Activities		10,613,416,084	7,254,652,357
Cash Flows from Investing Activities			
Acquisition of Property, Plant and Equipment	11	(2,391,642,012)	(616,999,225)
Acquisition of Intangible Assets	12	(7,951,985)	(17,500)
Investment in Debentures	14	(1,600,000,000)	(800,000,000)
Proceeds from Sale of Property, Plant and Equipment		2,306,572	13,873,077
Redemption of Debentures		2,000,000,000	300,000,000
Interest Received	8	1,874,898,049	1,047,704,225
Staff Loan Granted		(112,968,905)	(104,016,595)
Staff Loan Receipt		107,622,164	93,488,348
Net Cash used in Investing Activities		(127,736,117)	(65,967,670)
Cash Flows from Financing Activities			
Dividend Paid	26	(1,500,000,000)	(497,000,000)
Loan Receipt	21	763,697,010	160,785,686
Loan Repayment	21	(2,591,072,366)	(1,540,649,646)
Net Cash used in Financing Activities		(3,327,375,357)	(1,876,863,961)
Net Increase in Cash and Cash Equivalents		7,158,304,610	5,311,820,726
Cash and Cash Equivalents at the Beginning of the Year	18	15,549,644,460	10,237,823,733
Cash and Cash Equivalents at the end of the Year	18	22,707,949,070	15,549,644,460

The notes on pages 97 to 125 form an integral part of these financial statements.

Independent Auditors Report on Page 85 to 91.

Notes to the Financial Statements

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 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 9th June 2017

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 & 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 Fund.

Notes to the Financial Statements (Contd)

2.1.1 Amalgamation (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, Statements of Comprehensive Income, Changes in Equity and Cash flows, together with accounting policies and notes, ("Financial Statements") of the Company as at 31 December 2016 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.

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:

Short Term Investments classified as Available-for-sale financial instruments- 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'.

Notes to the Financial Statements

2.1.8 Use of Judgments and Estimates

In preparing the Financial Statements of the Company in conformity with SLFRSs the 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. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustments in the year ended December 31, 2016 is set out below.

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 a going concern basis.

2.1.10 Fair Value of Financial Instruments

The Company had no financial instruments measured 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 (Contd.)

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 Other Comprehensive Income (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



Notes to the Financial Statements (Contd)

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 January 1, 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. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the 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 annual periods beginning on or after January 1, 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-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting. SLFRS 16 is effective for annual reporting periods beginning on or after January 01, 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 income statement, 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 income statement, 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.

Notes to the Financial Statements

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.

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 tax 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 December 31, 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.

Notes to the Financial Statements (Contd)

2.7 Property, Plant and Equipment

All property, plant and equipment is 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 labor 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 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 Income Statement 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.

Notes to the Financial Statements

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 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 risk 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.

Notes to the Financial Statements (Contd)

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 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 amortization 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.

Notes to the Financial Statements

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 categorised 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.

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.

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 risk 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.

Notes to the Financial Statements (Contd)

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 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.

2.17 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 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.

Notes to the Financial Statements

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.

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 on an accrual basis in accordance with the substance of the relevant agreement and recognised on an accrual basis.

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.

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

Notes to the Financial Statements (Contd)

- g) **Aerobridge Income**
- 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 in equivalent LKR at Rs.140/- 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 recognised 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 risk: 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 States 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

Sensitivity of the Exchange Rate of USD against LKR

	2016 Increase/ Decrease in Profit (LKR)	2015 Increase/ Decrease in Profit (LKR)
10 % appreciation/ depreciation (2016- 10%) of the USD	(90,680,460)	(235,302,690)
15 % appreciation/ depreciation (2016- 15%) of the USD	(136,020,690)	(352,954,035)
20 % appreciation/ depreciation (2016- 20%) of the USD	(181,360,920)	(470,605,381)

Sensitivity of the Exchange Rate of Euro against LKR

	2016 Increase/ Decrease in Profit (LKR)	2015 Increase/ Decrease in Profit (LKR)
10 % appreciation/ depreciation (2016- 10%) of the Euro	(972,499)	1,132,926
15 % appreciation/ depreciation (2016- 15%) of the Euro	(1,458,748)	1,699,389
20 % appreciation/ depreciation (2016- 20%) of the Euro	(1,944,997)	2,265,852

Sensitivity of the Exchange Rate of Japanese Yen against LKR

	2016 Increase/ Decrease in Profit (LKR)	2015 Increase/ Decrease in Profit (LKR)
10 % appreciation/ depreciation (2016- 10%) of the Yen	(86,054,995)	82,549,936
15 % appreciation/ depreciation (2016- 15%) of the Yen	(129,082,492)	123,824,903
20 % appreciation/ depreciation (2016- 20%) of the Yen	(172,109,989)	165,099,871

(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 risk 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. Further details set out in note 26.

Notes to the Financial Statements (Contd)

(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 internal Statement of Financial Position ratio targets and, if applicable external regulatory or legal requirements. Ex: 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 31st December, 2016 and 31st December, 2015 were as follows:

	2016 Rs.	2015 Rs.
Total Borrowings (Note 21)	37,679,349,374	37,729,645,200
Less: Cash and Cash Equivalents (Note 18)	(22,707,949,070)	(15,549,644,460)
Net Debt	14,971,400,304	22,180,000,740
Total Equity	16,436,210,776	11,012,440,870
Total Capital	31,407,611,080	33,192,441,610
Gearing Ratio	48%	67%

The above loan wholly consist of loans obtained through General Treasury at the market rate for the development of Bandaranaike International Airport and Mattala Rajapaksa International Airport under sovereign guarantee. The fair value of borrowing equals their carrying amount as the impact of discontinuing is not significant.

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:

Notes to the Financial Statements (Contd)

(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 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 22.

(b) Provisions

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.

5. Revenue	2016 Rs.	2015 Rs.
Aeronautical	4,378,530,773	3,737,262,112
Non-Aeronautical	13,648,726,406	11,481,497,959
	18,027,257,179	15,218,760,071
Aeronautical Revenue		
Landing & parking income	2,966,442,300	2,497,635,025
Over flying income	1,036,388,088	904,646,520
Aerobridge income	362,422,220	323,587,157
Domestic Landing & parking income	13,278,165	11,393,410
	4,378,530,773	3,737,262,112
Non-Aeronautical Revenue		
Embarkation levy	4,702,319,798	3,936,659,028
Concession	4,149,163,443	3,510,046,152
Rental	3,030,668,988	2,498,812,543
Other non-aeronautical income	607,530,919	516,438,486
Entry permits	447,446,823	422,333,759
Franchise fee on Ground Handling- SLA	372,721,248	298,976,680
Franchise fee- SLCS	246,709,673	212,723,235
Parking fees- vehicles	58,652,169	50,660,514
Domestic ground handling- RMA/BIA	11,308,691	9,826,194
Miscellaneous revenue	15,513,814	11,183,207
Training Centre Income	6,690,841	13,838,163
	13,648,726,406	11,481,497,959
Total Aeronautical and Non-Aeronautical Revenue	18,027,257,179	15,218,760,071

6. Other income

	2016 Rs.	2015 Rs.
Amortization of government grant	87,605,758	104,961,427
Operating profit from fuel filling station (Note 6.1)	9,635,332	9,032,921
Net foreign exchange gain/ (loss) on transactions/ translations	218,302,347	365,514,069
	315,543,437	479,508,417

6.1 Operating profit from fuel filling station

	2016 Rs.	2015 Rs.
Sales	1,157,123,732	1,082,502,038
Less: Cost of Sales	(1,127,104,956)	(1,055,233,870)
Gross Profit	30,018,776	27,268,168
Less : Personnel and Administration Expenses	(20,432,520)	(18,249,647)
Sundry Income	49,076	14,400
Operating Profit	9,635,332	9,032,921

7. Administration, Establishment & Marketing Expenses

	2016 Rs.	2015 Rs.
Directors' emoluments	8,975,378	12,774,722
Staff cost	5,048,103,459	4,746,898,814
Defined contribution plan costs	550,555,879	510,364,297
Defined benefit plan costs	404,904,824	387,961,242
Auditor's remuneration	750,000	940,753
Depreciation (Note 11)	2,652,137,717	2,647,777,594
Amortization (Note 12)	12,549,232	10,527,658
Debtors impairment reversal	234,550,031	301,141,372
Repair and maintenance	300,529,211	249,295,713
Electricity expenses	806,184,476	703,910,068
Legal fees	1,878,746	1,733,796
Donations	2,843,650	10,350
Other expenses	631,711,109	551,017,400
	10,655,673,712	10,124,353,778

Notes to the Financial Statements (Contd)

8. Net Finance Cost /(Income)

	2016 Rs.	2015 Rs.
8.1 Finance Cost		
Loan Interest	705,413,235	717,067,024
Exchange (gain) / loss on loan conversion	1,777,079,530	3,189,855,520
Exchange (gain) / loss on creditors conversion	190,254,485	335,382,400
	2,672,747,250	4,242,304,944
8.2 Finance Income		
Interest on Treasury Bills/Bonds under repurchase agreements	(1,217,685,359)	(690,001,765)
Interest on USD Fixed Deposits	(93,989,860)	(81,334,059)
Interest on Rupee Fixed Deposits	(155,492,839)	(17,778,812)
Interest on Debenture	(407,729,990)	(258,589,589)
Interest on Staff Loans	(35,984,006)	(6,639,428)
IFRS interest on staff loan	16,667,354	7,828,046
	(1,894,214,701)	(1,046,515,607)
Net Finance Cost / (Income)	778,532,549	3,195,789,337

9. Income Tax Expense

The major components of income tax expense for the year ended December 31, are as follows :

	2016 Rs.	2015 Rs.
Current Income Tax		
Current Tax Charge	Nil	Nil
Income tax	Nil	Nil
Deferred Income Tax		
Charge / (Reversal) in respect of deferred taxation (13)	(11,149,716)	1,561,269,802
Total tax expense	(11,149,716)	1,561,269,802
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 :		
	2016 Rs.	2015 Rs.
Profit Before Tax	6,908,594,354	2,378,125,373
Tax calculated at the effective tax rate of 28% (2015- 28%)	1,934,406,419	665,875,104
Profit not subject to tax	(852,892,866)	(570,900,914)
Expenses not deductible for tax	1,124,526,972	969,688,407
Income not subject to tax	(295,331,082)	(294,038,843)
Expenses deductible for tax	(2,050,891,551)	(332,461,035)
Tax losses for which no deferred income tax asset was recognised	129,032,393	1,123,107,083
Total Tax Expense	(11,149,716)	1,561,269,802

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.

	2016	2015
Net profit attributable to shareholders- Rs	6,919,744,070	816,855,571
Weighted average number of ordinary shares in issue	200,002	200,002
Basic earnings per share- Rs	34,598	4,084

11. Property, Plant and Equipment

- (i) Land and building includes land amounting to Rs.940,412,498 as at December 31, 2016 (2015- 940,412,498) which is located at Katunayake.
- (ii) The construction of second International Airport at Mattala 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.
- (iii) Part of the buildings of the Katunayake airport are constructed on Government land.
- (iv) Property, plant and equipment includes fully depreciated assets amounting to Rs.16,061,032,446 (2015- Rs 7,702,192,684).

Notes to the Financial Statements (Contd)

11. Property, Plant and Equipment (Contd.)

	Land & Bulidings	Plant and Machinery	Motor vehicle
	Rs.	Rs.	Rs.
As at 1st January 2015			
Cost	17,488,037,883	4,647,659,662	1,185,113,043
Accumulated depreciation	(3,018,075,862)	(3,283,715,548)	(760,432,801)
Closing net book amount	14,469,962,021	1,363,944,114	424,680,241
Year ended 31st December 2015			
Opening net book amount	14,469,962,021	1,363,944,114	424,680,241
Additions	44,298,028	18,286,123	84,623,234
Adjustments- cost	Nil	Nil	Nil
- Accumulated depreciation	(810)	39,236	48,925
Written off- cost	(12,988,248)	(261,016)	-
- Accumulated depreciation	7,227,012	260,967	Nil
Disposals- cost	-	(16,842,250)	(24,356,579)
- Accumulated depreciation	-	16,842,249	24,356,562
Depreciation charge (Note 7)	(330,909,441)	(341,579,536)	(93,846,084)
Demolishing of PVG	511,099	Nil	Nil
Closing net book amount	14,178,099,662	1,040,689,886	415,506,299
As at 31st December 2015			
Cost	17,519,347,663	4,648,842,519	1,245,379,698
Accumulated depreciation	(3,341,248,001)	(3,608,152,633)	(829,873,398)
Closing net book amount	14,178,099,662	1,040,689,886	415,506,299
As at 1st January 2016			
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
Disposals- cost	-	(3,470,709)	(2,755,000)
- Accumulated depreciation	-	3,461,207	2,754,998
Transfers- cost	-	-	-
- Accumulated depreciation	-	-	-
Depreciation charge (Note 7)	(336,053,177)	(327,324,335)	(101,026,521)
Closing net book amount	14,094,024,321	870,467,686	418,316,991
As at 31st December 2016			
Cost	17,771,325,499	4,802,483,448	1,346,461,912
Accumulated depreciation	(3,677,301,178)	(3,932,015,761)	(928,144,921)
Closing net book amount	14,094,024,321	870,467,686	418,316,991

Furniture, Fittings & Office Equipments	Communication & Navigation Equipment	Other Equipment	Airport Infrastrucrture	Capital Work In Progress	Total
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1,036,774,165	7,716,874,346	968,502,506	27,567,996,289	1,469,351,137	62,080,309,030
(850,212,110)	(5,051,642,330)	(747,436,518)	(6,151,988,922)	-	(19,863,504,091)
186,562,054	2,665,232,016	221,065,988	21,416,007,367	1,469,351,137	42,216,804,939
186,562,054	2,665,232,016	221,065,988	21,416,007,367	1,469,351,137	42,216,804,939
32,769,232	49,576,620	30,617,745	29,208,591	476,700,101	766,079,674
Nil	Nil	Nil	(878,000)	Nil	(878,000)
(5,799)	2,863	(278,013)	47,280	Nil	(146,317)
(6,799,289)	(7,162,778)	(3,312,043)	(5,165,556)	(148,202,449)	(183,891,378)
6,649,825	6,284,887	3,310,429	4,317,326	Nil	28,050,446
-	-	-	-	-	(41,198,829)
-	-	-	-	-	41,198,811
(47,625,883)	(618,057,663)	(43,682,645)	(1,172,076,342)	Nil	(2,647,777,594)
Nil	64,405	Nil	843,507	Nil	1,419,011
171,550,141	2,095,940,350	207,721,462	20,272,304,172	1,797,848,789	40,179,660,762
1,062,744,108	7,759,288,188	995,808,208	27,592,039,324	1,797,848,789	62,621,298,497
(891,193,967)	(5,663,347,838)	(788,086,746)	(7,319,735,152)	-	(22,441,637,735)
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
(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
-	(275,678)	-	(3,313,584)	(306,961,136)	(310,550,397)
-	-	-	-	-	-
(46,829,021)	(628,182,382)	(43,420,998)	(1,169,301,283)	Nil	(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	1,000,759,554	27,590,611,045	3,604,758,634	64,983,120,104
(924,535,911)	(6,289,021,273)	(825,775,909)	(8,488,102,774)	Nil	(25,064,897,728)
141,497,696	1,511,665,132	174,983,645	19,102,508,271	3,604,758,634	39,918,222,376

Notes to the Financial Statements (Contd)

12. Intangible Assets

	Software Rs.	Total Rs.
As at 1st January 2015		
Cost	42,098,839	42,098,839
Accumulated depreciation	(14,161,244)	(14,161,244)
Closing net book amount	27,937,595	27,937,595
Year ended 31st December 2015		
Opening net book amount	27,937,595	27,937,595
Additions	17,500	17,500
Amortisation during the year	(10,527,658)	(10,527,658)
Closing net book amount	17,427,437	17,427,437
As at 31st December 2015		
Cost	42,116,339	42,116,339
Accumulated depreciation	(24,688,902)	(24,688,902)
Closing Net Book Amount	17,427,437	17,427,437
As at 1st January 2016		
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)
Closing Net Book Amount	12,830,190	12,830,190
As at 31 December 2016		
Cost	50,068,323	50,068,323
Accumulated depreciation	(37,238,133)	(37,238,133)
Closing net book amount	12,830,190	12,830,190

The useful life of the software assets are estimated as 4 years

13. Deferred Income Tax

	Statement of Financial Position		Statement of Comprehensive Income	
	2016	2015	2016	2015
	Rs.	Rs.	Rs.	Rs.
Deferred Tax Liability on :				
Accelerated Tax Depreciation	5,321,588,674	5,278,471,611	43,117,063	1,647,762,946
	5,321,588,674	5,278,471,611	43,117,063	1,647,762,946
Deferred Tax Assets on :				
Defined Benefit Plan	721,329,966	670,696,520	(50,633,446)	(39,030,177)
Provision for inventory and debtors	27,682,582	24,655,424	(3,027,158)	-
Deferred Government Grants	48,882,802	49,842,229	959,428	959,427
	797,895,349	745,194,174	(52,701,176)	(38,070,750)
Deferred income tax charge	Nil	Nil	(52,701,176)	(38,070,750)
Other Comprehensive income				
Actuarial gain/(loss) on defined benefit plan			(1,565,603)	(48,422,394)
Deferred Income Tax Charge/ Credit (Note 9)			(11,149,716)	1,561,269,802

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;

	2016	2015
	Rs.	Rs.
Deferred Tax Asset	797,895,349	745,194,174
Deferred Tax Liability	(5,321,588,674)	(5,278,471,611)
Deferred tax asset (net)	(4,523,693,324)	(4,533,277,437)

14. Investment in Debentures

The carrying value of the investment, held to maturity equals the fair value.

	2016	2015
	Rs.	Rs.
Debentures at weighted average rates of interest		
6 month TB Rate + 0.75% & 1.25%	1,300,000,000	1,300,000,000
Debentures at fixed rate (11.75%- 13%)	1,350,000,000	1,750,000,000
	2,650,000,000	3,050,000,000

Date of issue and date of redemption of Debentures are as follows ;

Date of issue	Date of redemption	2016 Rs.	Date of issue	Date of redemption	2015 Rs.
25.10.2013	24.10.2018	250,000,000	08.12.2011	07.12.2016	1,500,000,000
08.10.2015	07.10.2023	800,000,000	08.12.2011	07.12.2016	500,000,000
25.10.2016	24.10.2021	750,000,000	25.10.2013	24.10.2018	250,000,000
25.10.2016	24.10.2023	50,000,000	08.10.2015	07.10.2023	800,000,000
16.03.2016	15.03.2021	300,000,000			
01.06.2016	31.05.2021	500,000,000			
		2,650,000,000			3,050,000,000

Notes to the Financial Statements (Contd)

15. Inventories

	2016 Rs.	2015 Rs.
General	39,649,181	44,412,292
Electronics	70,871,832	65,381,413
Engineering	167,692,222	167,002,302
Fuel	11,957,598	8,343,385
Fire equipment spare parts	18,744,707	20,474,650
Goods in transit	234,273,703	107,509,306
Stock- lounge	264,891	415,805
	543,454,133	413,539,154
Less : allowance for slow moving inventory	(69,915,573)	(64,165,776)
	473,538,561	349,373,378

The general inventory includes painting items, stationeries, staff uniform and other hardware items, etc.

16. Trade and Other Receivables

	2016 Rs.	2015 Rs.
Trade Debtors	4,063,061,702	5,134,901,643
Less: provision for doubtful debts	(1,200,301,143)	(965,753,991)
	2,862,760,558	4,169,147,652
Other Receivables	340,413,356	134,827,163
Advances and Prepayments	161,208,641	146,934,916
Less: Provision for Doubtful Debts	(1,476,881)	(1,476,881)
	500,145,116	280,285,198
Loans to company officers (16.1)	90,760,576	99,013,925
	3,453,666,250	4,548,446,775

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 2016 (2015: 15 %)

16.1 Loans to Company Officers

	2016 Rs.	2015 Rs.
Less than 1 year	90,760,576	99,013,925
More than 1 year	92,448,969	87,102,228
	183,209,545	186,116,153

All non- current receivables are due within five years from the end of the reporting period.

The fair values of trade receivables and staff loans are as follows:

Trade receivables	2,862,760,558	4,169,147,652
Loans to company officers	90,760,576	99,013,925
	2,953,521,134	4,268,161,577

As at 31 December 2016 trade receivables Rs. 2,384,766,602 (2015: Rs.2,554,372,277) were fully performing.

16. Trade and Other Receivables (Contd)

The creation and release of provision for impaired receivables have been included in 'administration expenses' in the statement of comprehensive income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovery.

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company does not hold any collateral as security.

17. Income Tax Receivable/ Payable

	2016 Rs.	2015 Rs.
Balance at the beginning of the year	758,699,782	643,041,022
Payments during the year	211,571,814	115,658,760
Balance at the end of the year	970,271,595	758,699,782

18. Cash and Cash Equivalents

	2016	2015
Short term bank deposits	7,800,984,383	3,249,136,297
Treasury bills/bonds under repurchase agreements	13,719,944,693	11,690,535,196
	21,520,929,076	14,939,671,494
Cash at bank	1,186,495,498	609,442,890
Cash in hand	524,497	530,077
	1,187,019,995	609,972,967
Total cash and cash equivalents for the purpose of cash flow statement	22,707,949,070	15,549,644,460

19. Stated Capital

	Number of Shares	2016	2015
Issued Share Capital	200,002	20,000,200	20,000,200
		20,000,200	20,000,200

All issued shares are fully paid

20. Reserves

	2016	2015
Net assets taken over from Airports Authority	892,726,769	892,726,769
Reserve for lightning damages to property, plant and equipment and inventory	126,500,000	115,500,000
	1,019,226,769	1,008,226,769

The Reserve consist 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. Borrowings

	2016	2015
Loans	Rs.	Rs.
Balance at the beginning of the Year	37,729,645,200	35,919,653,640
Loans obtained during the Year	763,697,010	160,785,686
	38,493,342,210	36,080,439,326
Loans settled during the Year	(2,591,072,366)	(1,540,649,646)
Exchange (gain)/loss on translation	1,777,079,530	3,189,855,520
Balance at the end of the Year	37,679,349,374	37,729,645,200
Current portion of borrowings	2,610,800,642	2,594,308,784
Non- current portion of borrowings	35,068,548,732	35,135,336,416
	37,679,349,374	37,729,645,200

Maturity analysis of the borrowings

	2016	2015
	Rs.	Rs.
No later than 1 year	2,610,800,642	2,594,308,784
Later than 1 year and no later than 5 years	12,635,631,163	10,377,235,136
Later than 5 years	22,432,917,569	24,758,101,280

The above wholly consists of loans denominated in foreign currency obtained through General Treasury for the development of Bandaranaike 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 :

	2016	2015
	(%)	(%)
United States Dollar (USD)		
Mattala Rajapakse International Airport	2.00	2.00
Japanese Yen		
Bandaranaike International Airport Development Project	2.75	2.75
Bandaranaike International Airport Development Project	1.80	1.80
Bandaranaike International Airport Development Project	0.75	0.75
Bandaranaike International Airport Development Project	0.20	0.20
Euro		
Modern RMA Air Traffic Control System- Tranche- 2	4.90	4.90
Modern RMA Air Traffic Control System- Tranche- 3	2.10	2.10

The carrying amounts of borrowings denominated in foreign currencies are as follows;
(values in foreign currencies)

	2016	2015
United States Dollar (USD)	170,990,396	183,410,566
Japanese Yen	8,843,302,821	8,824,240,377
Euro	815,732	921,174

22. Retirement Benefit Obligation

Movement in the liability recognized in the statement of Financial Position is as follows:

	2016 Rs.	2015 Rs.
As at beginning of the year	2,395,344,715	2,255,951,234
Current service cost	141,416,907	135,294,710
Interest cost	263,487,919	252,666,538
Payments made during the year	(218,479,647)	(75,630,644)
Gain/(Loss) arising from changes in assumptions used	(5,591,439)	(172,937,123)
As at end of the year	2,576,178,455	2,395,344,715

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:

	2016	2015
Discount rate	11%	11%
Rate of future salary increases	4% - 5%	4%- 5%
COLA increment rate	4%	4%
Rate of staff turnover	1%	1%
Retirement age	60 years	60 years

The liability for defined benefit obligations is not externally funded.

23. Deferred Government Grant

Treasury Grant	2016 Rs.	2015 Rs.
At the beginning of the year	1,331,704,822	1,436,666,248
Received during the year	Nil	Nil
Reversal of over amortization/(Amortization)	(87,605,758)	(104,961,427)
At the end of the year	1,244,099,064	1,331,704,822

23.1 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.

Notes to the Financial Statements (Contd)

24. Trade and Other Payables

	2016 Rs.	2015 Rs.
Trade payable	5,950,137,560	5,727,529,022
Refundable deposits	288,916,390	270,273,338
Other payables	1,580,342,068	1,540,139,418
	7,819,396,018	7,537,941,778

25. Financial Instruments by Category

(a) Financial Instruments

Financial Assets	2016 Rs.	2015 Rs.
Loans and Receivables		
Trade and other Receivables (Note 16)	3,362,905,674	4,449,432,850
Cash and Bank Balances (Note 18)	1,187,019,995	609,972,967
	4,549,925,669	5,059,405,817
Held to Maturity Financial Assets		
Investment in Debentures (Note 14)	2,650,000,000	3,050,000,000
Investments in Treasury Bills/bonds repurchase (Note 18)	13,719,944,693	11,690,535,196
Short term bank deposits (Note 18)	7,800,984,383	3,249,136,297
	24,170,929,076	17,989,671,494
Financial Liabilities		
Other financial liabilities		
Borrowings (Note 21)	37,679,349,374	37,729,645,200
Trade and other payables (excluding non financial liabilities) (Note 24)	7,819,396,018	7,537,941,778
	45,498,745,392	45,267,586,978

(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:

31st December 2016

	Neither past due nor impaired Rs.	Past due but not impaired Rs.	Individually impaired Rs.	Total Rs.
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	Nil	Nil	183,209,545
Total Financial Assets	2,175,334,388	869,158,834	1,201,778,024	4,246,271,246

31st December 2015

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
Trade Receivables (Note 16)	2,264,752,997	1,902,917,774	967,230,872	5,134,901,643
Loans to Company Officers	186,116,153	Nil	Nil	186,116,153
Total Financial Assets	2,450,869,150	1,902,917,774	967,230,872	5,321,017,796

Cash at Bank and Short-Term Bank Deposits

	2016 Rs.	2015 Rs.
AA+(Ika)	8,987,479,881	3,858,579,187
Total	8,987,479,881	3,858,579,187

26. Dividend

The dividends paid in 2016 amounting to Rs.1.5 Bn as shown in the Statement of Changes in Equity, represents the Final Dividend of Rs. 350 Mn paid in respect of the year ended 31 December 2015 and the interim dividend of Rs.500 Mn & Rs.650 Mn in respect of the years 2016 and 2017 respectively. Final dividend for the year 2016 is to be proposed at the Annual General Meeting.

27. 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 Mn 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)

28. Commitments

28.1 Capital Expenditure Commitments

	2016 Rs.	2015 Rs.
Contracted but not provided for	1,056,094,039	1,047,650,530
Authorized by the Board, but not contracted for	3,865,490,995	2,504,041,146
	4,921,585,034	3,551,691,676

28.2 Financial Commitments

There are no any other financial commitments other than those disclosed under borrowings (Note 21).

29. Transactions with Key Management Personnel

	2016 Rs.	2015 Rs.
Emoluments and Fees	8,975,378	12,774,722
	8,975,378	12,774,722

The Board of Directors have been considered as key management personnel of the Company.

30. 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.

Explanatory Notes to the Report of the Auditor General

Reference of the Auditor General Report		Management Response														
2.2.1	a) LKAS 16-Property, Plant and Equipment	Revaluation of assets will be carried out in future with the consultation of the Department of Valuation.														
	b) LKAS 36-Impairment of Assets	<p>Management is of the view that “MRIA Assets have not been impaired” and instead MRIA is yet in its growth life cycle like any such newly operated International Airport in the world.</p> <p>Further AASL has taken an initiative to call an Invitation for Expression Of Interest (EOI) on 29th June 2016, for investments and commercial operations at MRIA. Seven diverse proposals have been received for evaluation, which comprise of proposals for Fixed Based Operations, MRO facilities, Aircraft dismantling center, Airport development and operations with long term concession, Pilot Training, etc. Evaluation has been completed and RFP to be called.</p>														
2.3	Accounts Receivable and Payable	<p>Landing , Parking and Overflying Debtors</p> <p>96% of these dues relate to 04 customers and the balance 4% relate to over 1,000 customers. Out of the main 04 debtors, Rs.159 Mn (23%) has been recovered as at 30th April 2017.</p> <table><tr><th>Debtor</th><th>Dues (Rs.Mn)</th></tr><tr><td>Sri Lankan Airlines</td><td>561</td></tr><tr><td>Aero Lanka</td><td>37</td></tr><tr><td>Mihin Lanka</td><td>35</td></tr><tr><td>Lion Air</td><td>31</td></tr><tr><td>Others (4%)</td><td>28</td></tr><tr><td>Total</td><td>692</td></tr></table> <p>Negotiation meetings were held with Lion Air Chairman in respect of the settlement of long outstanding dues and default interest. At the last meeting held on 28th March 2016, Lion Air Chairman agreed to settle outstanding up to the date of liquidation of Lion Air and requested a waiver for the remaining balance. Proof of liquidation to be received from the Lion Air.</p> <p>Action will be taken to refer the dues of Aero Lanka to Attorney General to file action as the customer has failed to settle.</p> <p>Aero Bridge Debtors</p> <p>Dues of Sri Lankan Airlines is Rs.134 Mn and out of this, Rs.27 Mn has been recovered as at 30th April 2017. Unsettled balance of Rs.107 Mn comprises of Rs.106 Mn default interest charges which is under dispute and negotiations are under way for settlement.</p>	Debtor	Dues (Rs.Mn)	Sri Lankan Airlines	561	Aero Lanka	37	Mihin Lanka	35	Lion Air	31	Others (4%)	28	Total	692
Debtor	Dues (Rs.Mn)															
Sri Lankan Airlines	561															
Aero Lanka	37															
Mihin Lanka	35															
Lion Air	31															
Others (4%)	28															
Total	692															

Explanatory Notes to the Report of the Auditor General (Contd.)

		<p>Rental Debtors</p> <p>91% of these dues relate to 02 customers. Sri Lankan Airlines outstanding balance of Rs.128 Mn consists of Rs.115 Mn default interest. Rs.53 Mn relates to Kuma Stickers and the remaining balance of Rs.18 Mn relate to over 165 customers.</p> <p>Out of Rs.53Mn above, currently only Rs.45 Mn is outstanding and this is under dispute. Negotiations are in progress to settle the dispute by a committee appointed by the Board of Directors.</p> <p>In case of Sri Lankan Airlines, Rs.115.8 Mn relates to default interest which is under dispute and negotiations are underway. Action is being taken to recover the remaining balance of Rs.12.8 Mn</p> <p>In case of other dues, a total of Rs.8 Mn, which consists of unrecoverable small balances, has been referred to the Board for waive-off.</p> <p>Further actions have been taken to recover the outstanding amount.</p>
2.4	<p>a) Section 6 of the Companies Act No. 07 of 2007</p> <p>b) Section 14 of the Civil Aviation Act No.14 of 2010</p> <p>c) International Civil Aviation Organization (ICAO) Standards</p> <p>d) The letter of Deputy Secretary to the Treasury No: PE/COMC/33/02 dated 28 April 2006</p>	<p>Action will be taken to obtain the concurrence of the Attorney General's Departments on this.</p> <p>Development works of BIA follows the existing master plan prepared by Netherland Airport Consultants. All major constructions in the aerodrome were followed as per the said Master Plan and if any changes were referred to the Civil Aviation Authority for approval.</p> <p>Board of Directors of AASL has given their consent for the preparation of a new Master Plan for the next 20 years airport development in collaboration with Ministry of Mega Police and Western Development.</p> <p>i) There has been no permanent appointment in the year 2015 in the post of Deputy Head of Security Services. The Acting Head of Security Services has been made permanent. He is now acting in the post of Head of Security Services and he is authorized to exercise powers of Head of Security Services.</p> <p>ii) The security programme is being prepared as per the guidelines given by the CAASL and it will be submitted in the future.</p> <p>i) We are in the process of valuing the airport assets presently owned by the Government. The detailed Final Report is yet to be received from the Valuation Department.</p> <p>ii) As per the Cabinet Approval, AASL has taken over the liabilities relating to Airport Development previously served by the GOSL. According to new Civil Aviation Act No.14 of 2010, Airport land previously vested with DGCA, has now been transferred to the state. If the Immovable properties are not transferred to AASL, AASL is not in a position to issue shares to the Government as the value of net assets would be negative with the heavy liability.</p>

	<p>e) Public Enterprises Circular No.PED/12 dated on 02 June 2003</p> <p>i) Paragraph 7.4.5</p> <p>(ii) Paragraph 9.2 (d)</p> <p>(iii) Paragraph 9.3.1 (i)</p>	<p>Fixed assets excluding Land & Building totaling Rs.44 Bn (WDV Rs.22 Bn) located in BIA, RMA, MRIA & Nuwara Eliya consist number of items approximately 40,000. Average addition of assets per annum is around Rs.1 Bn.</p> <p>Due to the impracticability of conducting annual Board of Survey covering all assets, the Company policy is to carry out continuous asset verification according to the set programme, covering all locations with the availability of limited staff and other resources. Minimum number of full time staff required to carry out this process is 12, whereas at present only 5 staff is available who are partly engaged with other duties.</p> <p>However, as at 31st December 2016, we have completed the verification & coding of MRIA assets around 80% and 40% of BIA assets. Action has been taken to fill the vacancies to carry out the verification as per the set programme, in asset category wise.</p> <p>In addition to that Internal Audit Division has physically verified the 100% fixed assets at Piduruthalagala, Kandapola, and Kataragama during the year 2016. The verification reports were made available to the Auditors.</p> <p>Action will be taken to register the Organization Chart of AASL with the Department of Public Enterprises of General Treasury.</p> <p>Since AASL is registered under the Companies Act, the Scheme of Recruitment and Promotion and Cadre is approved by the Board.</p>
3.1	Financial Result	Noted and agreed.
3.2	Value Addition	Noted and agreed.
3.3.1	Significant Accounting Ratios	Noted and agreed.
4.1	<p>Performance</p> <p>a)</p>	<p>Targets are listed under the Corporate Objectives and the Management is regularly monitoring them.</p> <p>Further, on the recommendation of IMF, AASL has signed a Three year tripartite performance agreement (Statement of Corporate Intent) with Ministry of Finance and Ministry of Transport and Civil Aviation towards enhancing transparency in the management of public resources and accountability for better results.</p> <p>Main purpose of the above agreement is to recognize the need for adequate and reasonable managerial and operational autonomy to facilitate achievement by the Board and Management of AASL to function as a Commercial Public Enterprise and achieve the agreed and freely negotiated performance targets.</p>

Explanatory Notes to the Report of the Auditor General (Contd.)

	b)	<p>(i) Noted and Agreed. Action will be taken to prepare separate KPI's for MRIA.</p> <p>(ii) Noted and agreed. Income has been decreased in 2016 mainly due to termination of Duty Free Shop contract.</p> <p>(iii) Assessment of damage due to paddy storage in the Cargo Building at MRIA is being carried out and action will be taken accordingly.</p> <p>(iv) Noted and Agreed.</p>
4.2	Management Weaknesses	<p>a)</p> <p>Considering audit observation and findings on the draft accounts submitted on 28th February 2017, we have identified adjustments to the value of Rs. 227 Mn and adjusted in the accounts.</p> <p>Therefore we are of the opinion that there are no any material deficiencies in the accounts.</p> <p>b)</p> <p>Considering the directive of the COPE, decision of the Cabinet of Ministers dated 06th December 2016 and the instructions received from the Secretary, Ministry of Transport & Civil Aviation dated 23rd December 2016, AASL terminated the contract for the implementation of the ERP system on 27th December 2016 and recovered by en- cashing the performance Bond on 04th January 2017.</p> <p>Usable hardware such as Servers, Load Balances, Storage, etc of the contractor used during the ERP implementation stage is available with AASL and presently being used in IT operations instead of purchasing a new hardware. Value of the equipment at the time of delivery is Rs.33.5 Mn. Total loss of Rs.2.6 Mn after claiming the performance bond of Rs.24.86 Mn can be compensated by utilizing this equipment.</p> <p>The Contractor filed action against the company in December 2016 and AASL will be filing its answers to the plaint by October 2017 as per the court procedure.</p> <p>c)</p> <p>An Agreement to sell was signed with the private party based on the clearance received from Divisional Secretary, Kataragama that no legal impediment in transferring the land the private party held on a permit issued under the Land Development Ordinance. The private party was about to receive the deed for the land which was confirmed by Divisional Secretary, Kataragama as well. The Agreement was to transfer the deed from the private party to AASL. However, Land Commissioner suddenly stopped granting the deed to the private party and AASL was advised to obtain the land on a long term lease through the Divisional Secretary, Kataragama. Accordingly, AASL had no other option but to continue with the process as directed by the Land Commissioner. Accordingly, a 30-year lease was granted to AASL subject to relevant conditions by the Divisional Secretary, Kataragama.</p>

		<p>Since the private party was not successful in transferring the deed of the land to AASL as agreed in the "Agreement to Sell" executed at the beginning, AASL filed a case against the private party for the recovery of the payment made to him and also to recover cost of development made by AASL in the property concerned. Accordingly, a case is pending at the District Court, Gampaha. The next date of the case for the evidence of the Kataragama Divisional Secretary is on 8th August 2017.</p>
4.3	Transactions of contentious nature	<p>We wish to quote the board decision taken on 1st August 2011 and 18th September 2011.</p>
4.4	Human Resources Management	<p>a)</p> <p>There are no Acting Heads of Divisions in the Company now except Acting Head of Security Services which was appointed permanently.</p> <p>b)</p> <p>This is an annual cost per employee including all the staff related cost such as EPF, ETF, Transport, Medical, Gratuity provision, Training, Bonus & payment for un-utilized leave encashment. This indicates an increase of 6% over the previous year due to COL increase, annual salary increases and increase of gratuity provision & medical expenses etc...</p>
5.0	<p>a) Human Resources Management</p> <p>b) Accounting</p> <p>c) Receivables and Payables</p> <p>d) Asset Management</p>	<p>We have not been directed to adhere to the above requirement, since we are governed by the Companies Act.</p> <p>At present we have a partially integrated Accounting system in the Finance Division and planning to have a more sophisticated and fully integrated system.</p> <p>Part of long outstanding receivable Rs.191.8 Mn has been recovered as of 30th April 2017. Actions are being taken to recover the remaining balances.</p> <p>Actions have been initiated for the settlement of long outstanding payments to contractors/ suppliers.</p> <p>It is planned to carry out Board of Survey of assets during 2017 jointly with Finance and Internal Audit and Quality Assurance Division.</p>

NOTES

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CORPORATE INFORMATION

Company Registration Number	: PV 7931 (Companies Act No. 7 of 2007)
Date of Incorporation	: 23 rd 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



Airport & Aviation Services
(Sri Lanka) Limited