

# IN FOCUS



AIRPORT & AVIATION SERVICES (SRI LANKA) LIMITED

Annual Report 2014

## Vision

“To be the most Efficient and Friendliest Premier Aviation Hub in the Asian Region”

## Mission

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

## In Focus

Bandaranaike International Airport (BIA) is an emerging hub in the South Asian region, being the main international gateway of our precious island renowned for its tourism with a wide range of attractions on offer, truly blended with warm hospitality. BIA has also fulfilled its promises to clients on a service of high standards well supported by modern facilities. During the year 2014, improving BIA further to reach unparalleled heights while adopting various strategies to grow the volumes of Sri Lanka's second international gateway - Mattala Rajapaksa International Airport (MRIA) were our key focus in.

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# Financial Highlights

|   | 2014    | 2013    | +/- %* | 2013    | 2012    | +/- %* |
|---|---------|---------|--------|---------|---------|--------|
|   | Rs. Mn. | Rs. Mn. |        | Rs. Mn. | Rs. Mn. |        |
| Turnover                                      | 13,742  | 12,110  | 13%    | 12,110  | 11,114  | 9%     |
| Operating expenses before depreciation        | 6,797   | 7,473   | 9%     | 7,473   | 5,214   | -43%   |
| <b>EBITD</b>                                  | 6,945   | 4,637   | 50%    | 4,637   | 5,900   | -21%   |
| Depreciation of fixed assets                  | 2,625   | 1,746   | -50%   | 1,746   | 1,011   | -73%   |
| Net Finance costs / (Income)                  | (1,175) | (1,855) | -37%   | (1,855) | 1,030   | 280%   |
| Profit Before Taxation                        | 5,496   | 4,746   | 16%    | 4,746   | 3,859   | 23%    |
| Income Tax                                    | 2,211   | 1,192   | -85%   | 1,192   | 1,121   | -6%    |
| <b>Profit After Taxation</b>                  | 3,285   | 3,554   | -8%    | 3,554   | 2,738   | 30%    |
| Profit attributable to equity shareholders    | 3,285   | 3,554   | -8%    | 3,554   | 2,738   | 30%    |
| Dividends                                     | 500     | 500     | 0%     | 500     | -       | 100%   |
| Cash and Cash Equivalents as at 31st December | 10,238  | 4,031   | 154%   | 4,031   | 4,425   | -9%    |

\* Subject to rounding differences

+ = Favourable

- = Adverse

# Performance Highlights

|   |        | 2014      | 2013      | 2012      | 2011      |
|---|--------|-----------|-----------|-----------|-----------|
| <b>Financial Highlights</b>   |        |           |           |           |           |
| Total Revenue   | Rs.Mn. | 13,742    | 12,110    | 11,114    | 9,290     |
| Net Profit before tax   | Rs.Mn. | 5,496     | 4,746     | 3,859     | 2,140     |
| Shareholders Fund as at December 31 <sup>st</sup>                           | Rs.Mn. | 10,679    | 7,441     | 4,217     | 1,274     |
| Total Carrying Amount of Non-Current Assets as at December 31 <sup>st</sup> | Rs.Mn. | 44,441    | 47,193    | 42,044    | 25,647    |
| Total Current Asset as at December 31 <sup>st</sup>                         | Rs.Mn. | 14,952    | 9,079     | 7,488     | 10,625    |
| Total Current Liabilities as at December 31 <sup>st</sup>                   | Rs.Mn. | 7,660     | 7,058     | 4,181     | 4,011     |
| Total Capital Expenditure for the year                                      | Rs.Mn. | 1,234     | 6,378     | 17,449    | 9,165     |
| Cash & Cash Equivalents at the year end                                     | Rs.Mn. | 10,238    | 4,031     | 4,425     | 4,203     |
| <b>Operating Highlights</b>   |        |           |           |           |           |
| International Flight Movements  | Nos.   | 54,960    | 51,972    | 48,416    | 43,454    |
| Passenger Movements *   | Nos.   | 7,780,724 | 7,330,421 | 7,079,920 | 6,145,532 |
| Cargo Movements **  | M.T.   | 209,607   | 194,020   | 186,618   | 168,577   |
| Total no.of Employees as at December 31 <sup>st</sup>                       | Nos.   | 3,932     | 3,674     | 3,445     | 3,306     |
| <b>Highlights in Ratios</b>   |        |           |           |           |           |
| Return on Equity  | %      | 30.8      | 47.8      | 64.9      | 109       |
| Net Profit Before Tax to total Revenue                                      | %      | 40        | 39        | 35        | 23        |
| Net Profit Before Tax to Share holders Fund                                 | %      | 51        | 64        | 92        | 168       |
| Total Revenue to Total Assets   | Times  | 0.23      | 0.22      | 0.22      | 0.26      |
| Total Assets per Employee   | Rs'000 | 15,105    | 15,316    | 14,378    | 10,972    |
| Total Staff Cost per Employee- Per Annum                                    | Rs'000 | 1,203     | 1,182     | 1,020     | 942       |
| Total Cost per Flight Handled   | Rs'000 | 171       | 177       | 146       | 176       |
| Revenue per Passenger   | Rs.    | 1,766     | 1,652     | 1,570     | 1,512     |
| Profit after Tax per Passenger  | Rs.    | 422       | 485       | 387       | 226       |
| Aircraft Movement per Employee  | Nos.   | 14        | 14        | 14        | 13        |
| Passengers per Aircraft   | Nos.   | 142       | 141       | 146       | 141       |
| Passengers per Employee   | Nos.   | 1,979     | 1,995     | 2,055     | 1,859     |
| Return on Net Assets  | %      | 35        | 50        | 65        | 109       |
| Return on Total Assets  | %      | 6         | 7         | 6         | 4         |
| Profitability Ratio   | %      | 24        | 29        | 25        | 15        |
| Energy Productivity Index   | Times  | 12.1      | 11.0      | 9.8       | 9.8       |
| Capital Productivity Index  | Times  | 0.24      | 0.20      | 0.19      | 0.22      |
| Earning Per Share   | Rs.    | 16,426    | 17,768    | 13,688    | 6,943     |
| Current Ratio   | Times  | 1.95      | 1.29      | 1.79      | 2.65      |
| Total Income to Total Expenditure   | Times  | 1.67      | 1.64      | 1.53      | 1.30      |

\* Passenger movements include arrival, departure, transfer and transit passengers. Domestic passengers are excluded.

\*\* Cargo movements include export, import and transhipment domestic cargo. Air mails are excluded.

# CHAIRMAN'S Review



*“Due diligence, care and proper management of assets belonging to others, specially to the general public, is the ultimate test of integrity.”*

## **Sustainable Growth Momentum**

As we move into an extremely challenging era in the business history of the company it is a pleasure to reflect upon the performance of the year under review of Airport And Aviation Services (Sri Lanka) Limited (AASL).

First and foremost, it is pertinent to recall that the public duty devolving on the company is the successful provision of airport and aviation services. Facilitating the arriving and departing passengers is our core business. In that context it must be noted that the passenger arrivals, our primary performance indicator, continued to grow in conformity with the trend that was consistently exhibited for the past several years. We experienced an all-time best air traffic statistics record for both Bandaranaike International Airport (BIA) and Mattala Rajapakse International Airport (MRIA) by maintaining our growth momentum which commenced during the post conflict period. The Management Discussion & Analysis Review in this report will provide a discussion on our performance, supported by other Reviews.

## **Second Terminal at BIA**

BIA already operating over its design capacity of 6 Mn annual passenger movements managed to face the daunting challenge of handling the excess demand without any significant loss of service quality, thanks to

the dedication, foresight and initiative of our staff. More than anything else, it highlighted the need for the long overdue expansions to the passenger handling capacity of BIA. The second phase of the second stage of the BIA development project was finally launched on 7th September 2014 effectively commencing the series of actions required to address this need. This is undoubtedly the most critical step that the company has taken during the year under review. We were honoured to have the presence of the Japanese Prime Minister His Excellency Shinzō Abe for the ceremonious launching of the project.

Under this stage of the project, the annual passenger handling capacity of BIA will be increased to 15 Mn by early 2019. This would immediately ease the pressing capacity problem and would enable us to provide the passengers with the true guest experience we wish them to have. The main physical additions would be another finger pier located to the West of the existing pier and a two tier passenger terminal with physically separated arrivals and departures. This terminal will also have a rapid exit to the Colombo- Katunayake Expressway.

I take this opportunity to express my sincere appreciation of the confidence displayed towards our company by the Japan International Cooperation Agency (JICA) in agreeing to lend directly to our company and I believe that this confidence was earned

through our effective execution and prudent fund management of the previous projects funded by them.

## MRIA

The company continued the vigorous promotion campaign to attract more airlines to the MRIA which was commissioned in 2013. While the efforts admittedly did not realize an outcome as encouraging as we would like to have had at ground level, the operation of the 2nd International Airport continued to have a positive impact on the overflying air traffic within the Colombo Flight Information Region (FIR) coming within our service responsibility. This is mainly due to this airport's availability as an additional emergency diversion option for overflying traffic. In addition, this availability made it possible for flights arriving at BIA to carry less additional fuel in anticipation of emergency diversion. The national carrier having the largest share of operations at BIA was the major beneficiary while all other operating airlines would have had a proportionate benefit.

## Emerging as an accredited trainer

In June 2014, our Training arm – the Civil Aviation Training Centre (CATC) was admitted as a full member of the TRAINAIR PLUS programme of the International Civil Aviation Organization (ICAO). With that our company

became a formally accredited aviation training provider of the ICAO and at the time of reporting, there are only 41 aviation training institutions worldwide enjoying ICAO accreditation of this level or above.

## Financial Performance

Focusing on the financial performance of the year under review, the most significant is the revenue of Rs. 13.7 Bn earned. It is a 13% increase over that of the previous year. Nearly four thirds of this revenue comprises the 'non-aeronautical revenue' component. This is significant because the non-aeronautical component of the total revenue being higher than the aeronautical component is widely regarded as a positive performance indicator of modern commercial airports. Hence, BIA now exhibits this indication.

The earnings as fees paid by landing & parking aircraft accounts for 65% of the total aeronautical revenue segment while the earnings from the embarkation levy paid by departing passengers which represents the highest share in the non-aeronautical revenue segment, accounts for 35%. This highlights the significant contribution of the ground operations at BIA towards the company coffers.

The company recorded a profit of Rs. 5.5 Bn before tax and a profit of Rs. 3.3 Bn after tax. The income tax paid to the state together with the declared dividends of Rs. 0.5 Bn establishes the company amongst the forerunners of

state organizations with sound financial performance. Thus the company continues to be a dependable revenue earner for the state which remains one of our foremost strengths.

The challenge of making the ambitious investments of the past pay back as envisaged, looms above us. This is most significant due to the fact that the company will be shouldering the repayment of the loans obtained for the construction of the MRIA from this year onwards and would also bear the cost of depreciation of the assets connected with that airport. These have the potential of drastically altering the revenue pattern the company has become accustomed to during the past several years. With prudent financial management, strategy and foresight ably backed by the good governance policies of the state, I am confident that these challenges could be successfully confronted.

## Our promises

We will continue to invest in people – our own work force and the communities we operate in. We will invest in processes that will help us innovate solutions to empower the nation and deliver greater value to our customers. And we will ensure that our efforts in resource management will minimize our environmental footprint.

## Appreciation and Gratitude

I take this opportunity to express my appreciation of the preceding Board of Directors who have provided the company the necessary direction to have a successful financial year during 2014. I express my confidence and optimism towards the members of the present board on whose support and backing I would rely in order to steer the company along the path of success. I congratulate the Senior Management of the company comprising the heads of the divisions of the company who keep the multitude

of specialized trades focused on a single mission; without whose dedication, strategic outlook, leadership, expertise, experience and professionalism the company would not have been able to record the successes during the year under review. I would also take this opportunity to thank all the employees of the company who are our biggest asset for their professionalism, loyalty and hard work. I look forward to having their continued commitment.

In conclusion I express my sincere thanks to the honourable Minister of Aviation for the confidence placed in me and the Board of Directors by entrusting the custody of this company to us and look forward to reporting on a successful year of 2015.



G.H. Ananda Wimalasena

Chairman  
23<sup>rd</sup> June 2015

## Total Revenue

Rs. 13.7 Bn. by ↑ 13%

## Total Equity

Rs. 10.7 Bn. by ↑ 45%

## PBT

Rs. 5.5 Bn. by ↑ 16%

## Total Assets

Rs. 59.4 Bn. by ↑ 5%



**Left to Right**

S R Attygalle - Director

D J G S Edirisinghe - Director

R Ketawalage - Director

Ruvini Dias Bandaranayake - Executive Directress

**Left to Right**

G H Ananda Wimalasena - Chairman

H M S L Wijeratne - Vice Chairman

S K Cyril - Director

L W A De Soysa - Director

M C G Mahipala - Company Secretary

# Senior Management Team



D P Karunaratne  
Chief Executive Officer - MRIA



H S Hettiarachchi  
Head of Airport Management



U J Lokuarachchi  
Head of Information Technology



L Dahanayake  
Head of Finance



W Wimalshanthi  
Head of Electronics &  
Air Navigation Engineering



H A A K M Seneviratne  
Head of Civil Aviation Training



G Withanage  
Head of Civil Engineering  
(Planning & Design)



W C Tissera  
Head of Air Navigation Services



W G Cyril  
Head of Internal Audit &  
Quality Assurance



M C G Mahipala  
Head of Human Resources &  
Company Secretary



A D N R De Alwis Gunasekara  
Head of Fire & Rescue Services



K H C Kumarasinghe  
Head of Security Services



S M R Rafeek  
Head of Projects



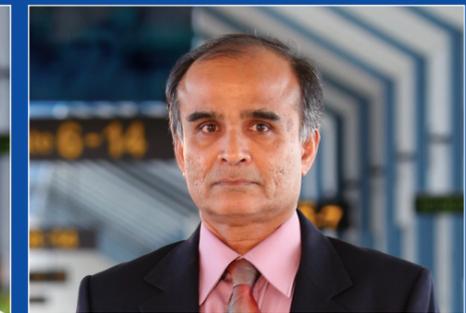
W M G Karunaratne  
Head of Commercial & Properties



Dr. S D A S Nishantha  
Company Medical Officer



M Ratnasinghe  
Head of Legal



J M A U Jayamanne  
Acting Head of Electrical Engineering



J M De Croos Rubin  
Acting Head of Architecture,  
Landscaping and Interior Design



R W Wijesinghe  
Acting Head of  
Mechanical Engineering



S M D Wijesooriya  
Acting Head of Safety



U S Jagoda  
Acting Head of Civil Engineering  
(Maintenance)



H P L Sirimanne  
Acting Head of Supply Chain  
Management



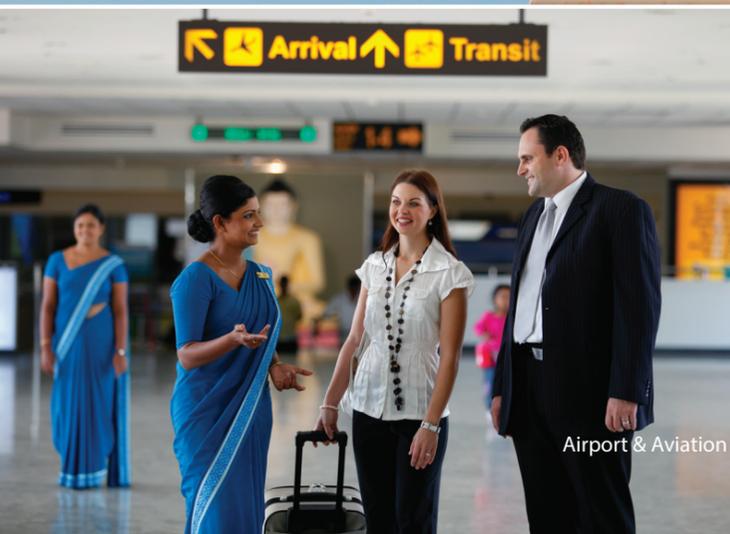
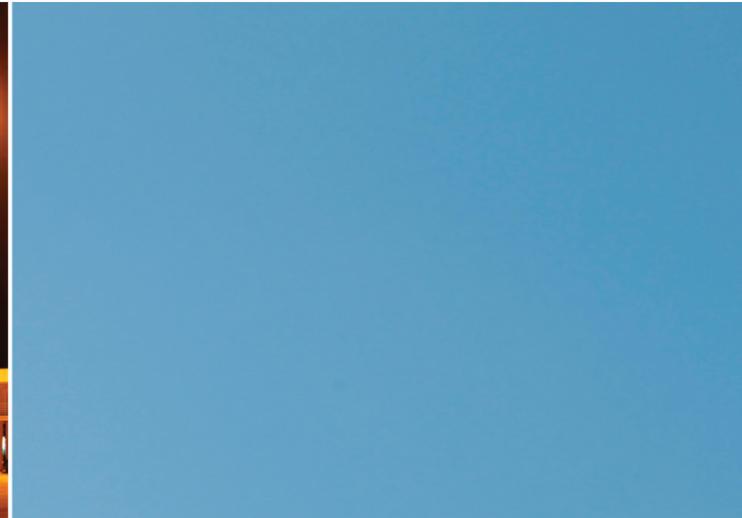
S P R Manukulasuriya  
Acting Head of Marketing



**1** More Than  
**Million**  
passengers  
choose BIA to take a  
connecting flight placing  
trust on high service  
standards maintained at  
**BIA**

Management  
Discussion &  
Analysis is .....

... In Focus



# Management Discussion & Analysis

## CONTINUOUS GROWTH MOMENTUM IN AIR TRAFFIC STATISTICS AT BIA

### PASSENGER GROWTH

7,766,491 Passengers used the airport with 1,527,153 Tourists, meeting the tourist forecasts made for the year. This is the first time in the history that the total passenger count reached 7.7 Mn. and tourist count reached 1.5 Mn level. Destinations in China, Indonesia, Russia and France recorded the highest increases in tourist arrivals while a strong growth was recorded on the routes to East Asia and Eastern Europe. (Tourist Arrivals by Country of Residence is shown in page 26)

### AIRCRAFT MOVEMENTS

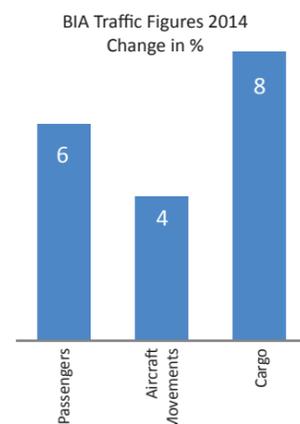
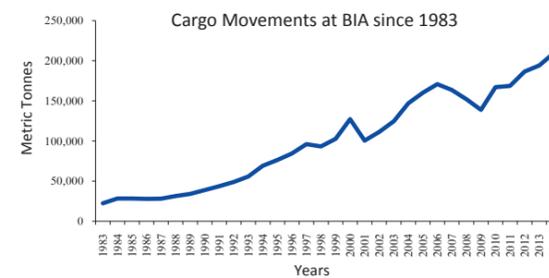
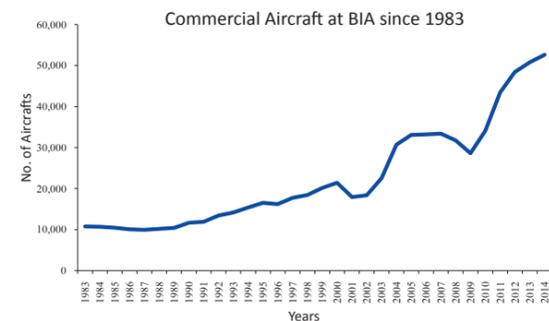
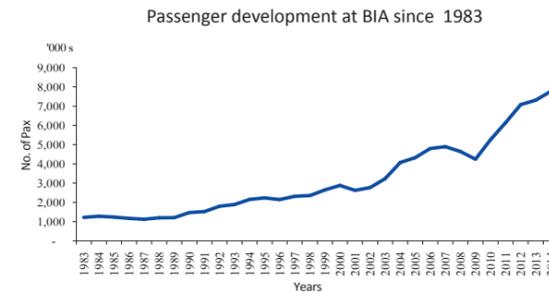
Over the year in review, 28 scheduled airlines have used BIA, flying to and from 45 Cities around the world. On average, there were 1,012 flights per week.

In addition to the national carrier SriLankan Airlines, existing Full Service Carriers (FSCs), such as Cathay Pacific, Air Arabia, Fly Dubai, Etihad Airways continued to expand their operations and marked an overall growth of 4% by FSCs. The incline marked by Low Cost Carriers (LCCs) was narrowed down to 1%, compared to the 4% recorded during 2013 for the same. The composition of FSC:LCC was 17 : 3 during the year under review.

### CARGO MOVEMENTS

The total tonnage of cargo handled during the year under review was 209,417MT. The export and import cargo recorded a same growth of 8% during 2014.

An increase in capacity and flight frequencies by existing cargo services as well as cargo flights contributed to the cargo growth.



## MRIA BEGINS ITS GROWTH

Year 2014 was the second year of commercial operations of MRJA. The volume of MRJA was 2,734 commercial aircraft movements, 40,386 total passenger movements out of which 7,158 were transfer passengers.

## EXPANDING TERMINAL CAPACITY

### TERMINAL 2

The US\$ 560Mn expansion of BIA, will add a new terminal to BIA. The new look terminal with improved architectural and interior finishes, as well as exciting retail and dining outlets, will enhance the refreshing travel and retail experience of passengers. This will increase the passenger handling capacity of BIA by an additional 9Mn Passengers Per Annum (PPA) from existing 6Mn PPA while increasing the circulation space in the transit area by 6,000 sq.m, boosting the handling capacity for transit passengers and creating a lively ambience at BIA. This project which includes two new pier buildings to the West of the existing terminal with arrivals and departures vertically separated will provide a rapid exit to the Colombo Katunayake Expressway directly from the airport. The project includes three different packages and are scheduled to be completed by early 2019.

The project launching took place in September, jointly by His Excellency Shinzō Abe Prime Minister of Japan and His Excellency Mahinda Rajapaksa the President of Sri Lanka. For the first time in the history of Sri Lanka, a Loan Agreement was signed

between Japan International Corporation Agency (JICA) and AASL, a Government Agency on 26<sup>th</sup> March, 2012.

As in any project, the expansion of handling capacity of the BIA is faced with challenges and risks. The passenger forecast for 2015 and 2016 for BIA exceeds 8.2Mn PPA and 9Mn PPA respectively. Since the BIA is designed to handle 6Mn passenger movements annually under normal circumstances, it is anticipated that the growth of BIA will stagnate due to the obvious capacity handling problems.

The MRJA provides the long term remedy from 2013 onwards by absorbing excess traffic of the BIA in addition to attracting new traffic. Medium term interim solutions are sought through the proposed domestic terminal at the BIA and the diversion of private jet operations to the Ratmalana city airport until the below mentioned terminal capacity is added.

- 1 FlyDubai re-fuelling at MRJA for daily scheduled flight to Dubai
- 2 Ceremonial Launching of BIA Phase-II Stage-2 Project for Terminal 2 of BIA



At present, BIA is designed to be equipped with following capacities for the under-mentioned parameters while the capacities following the major development project is shown under the parenthesis.

- Passenger handling capacity – 6Mn per annum (15Mn per annum)
- Aircraft handling capacity in the runway – 25 movements per hour (13 departures and 12 arrivals per hour)
- Cargo handling capacity- 250,000 MT per annum
- No of parking bays - 25 (36)
- Bridge bays - 08
- Non-bridge bays - 17
- No of boarding gates - 12 (20)
- Bridge gates - 08
- Remote gates - 04
- No of Check-in counters - 53 (96)

## AIR SPACE MANAGEMENT

### TECHNOLOGY UPGRADES

AASL, invested significantly to upgrade the Air Traffic Management System (ATM) at the Area Control Centre (ACC), with an integrated system capable of Multi Tracking Radar services, Automatic Dependent Surveillance (ADS) ADS-C and further enhancements are expected in the near future with ADS – B, Flight Data Processing and Air Traffic Services Inter- Facility Data Communications (AIDC). The upgrading of ATM systems is a fulfillment of a requirement specified in the ICAO’s road map towards developing a seamless

airspace in the Asia- Pacific Region, with the aim of reducing the operating costs of the airlines.

This infrastructure development at the ACC will permit AASL the sole Air Navigation Services Provider (ANSP) in Sri Lanka, to fulfill the requirements of ICAO’s Aviation System Block Upgrades (ASBU) at different time frames. Under ASBU, ICAO has identified four (04) Performance Improvement Areas (PIAs), namely Airport Operations (also known as Greener Airports), Globally Interoperable System & Data, Optimum Capacity & Flexible Flights, and Efficient Flight Path, which are to be fulfilled/achieved within prescribed timelines under four (04) Blocks designated as Block-0, Block-1, Block-2 and Block-3. The above diagram shows the timelines where Block-0 is the Near Term commenced in 2013 inclusive of the present position .

ASBU targets enabling countries to endeavor towards sustainable development of Aviation with an emphasis on preserving greener environment. Sri Lanka has contributed significantly towards these objectives by bringing improvements on the Flex Route system and the User Preferred Route (UPR) system, use of Direct Routes within the Colombo FIR and in to adjoining FIRs in India, Jakarta and Australia. The increased number of Flight Plans filed to use UPRs, Aircraft Positions Reports within Colombo FIR received via Aero-Mobile, Automatic Dependence Surveillance (ADS) and Controller-Pilot Data Link Communication (CPDLC) Logs are clear evidence in this regard. As our next step, AASL is aspiring to introduce Continuous Decent Operations (CDO) and Continuous Climb Operations (CCO), which will have a significant contribution to fuel saving and reducing carbon emission.

Colombo Area Control Centre (ACC) also implemented the Reduced Horizontal Separation (RHS) standard, by reducing the minimum distance between two aircraft at the same level to 50nm from the previous minima of 80nm in 2014 for aircraft equipped with ADS/CPDLC within a number of routes which permitted airlines to obtain optimum flight levels and reduce fuel burn, and thereby a significant reduction in the emission of CO<sub>2</sub> as well.

A significant fuel saving is achieved by the Colombo Approach Control Centre through Continuous Climb Operation (CCO), Continuous Descent Operation (CDO) and Pilot Preferred

Approaches for landings with the assistance of Collaborative Decision Making (CDM) with Colombo ACC. Under CDM, the Approach Control Centre coordinates in advance with ACC to ensure an undisturbed continuous climb to all departing aircraft even after the aircraft has eventually been transferred to ACC until their hand-over to the next FIR/Country, and conversely, the ACC coordinates in advance with Approach Control Centre to ensure an undisturbed continuous descent to all arriving aircraft even after the aircraft has eventually been transferred to Approach Control Centre until their hand-over to the Control Tower for landing.

Nearly 95 % of the aircraft are facilitated with this CDO and CCO concept, only occasional denial being during adverse weather conditions. The proposed upgrading of the ATM system in 2016 will further enhance the capacity of the Approach Control Centre facilitating safety and efficiency and the system is expected to be functional till 2030. This infrastructure will also support the Performance Based Navigation (PBN) system scheduled to be implemented in 2015.

### CANSO – ASIA PACIFIC CONFERENCE

AASL successfully hosted the Civil Air Navigation Services Organization (CANSO) Asia Pacific Conference in May 2014. This conference was recorded as one of the highest participated conferences with a participation of 148 delegates from 48 countries. The knowledge, experiences and the future plans in the field of Air Navigational Services (ANS) with special focus on Safety, Efficiency in ANS and Environmental concerns were deliberated upon during the 3 day conference.

## SAFETY AND SECURITY

Ensuring safe and secure airport operations is an important part of the role plays by AASL as manager and operator of the airport, and developer of the Sri Lanka’s aviation hub. To provide passengers with a safe and seamless experience, and airport partners with a sustainable and conducive work environment, AASL’s aerodrome Safety, Airport Emergency Service and Aviation Security units work together with the airport community to ensure that all stakeholders in the BIA aerodrome uphold strict safety and security standards in all aspects of operations.

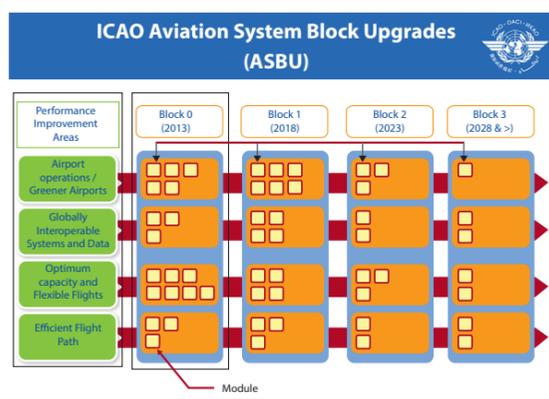
### AERODROME SAFETY

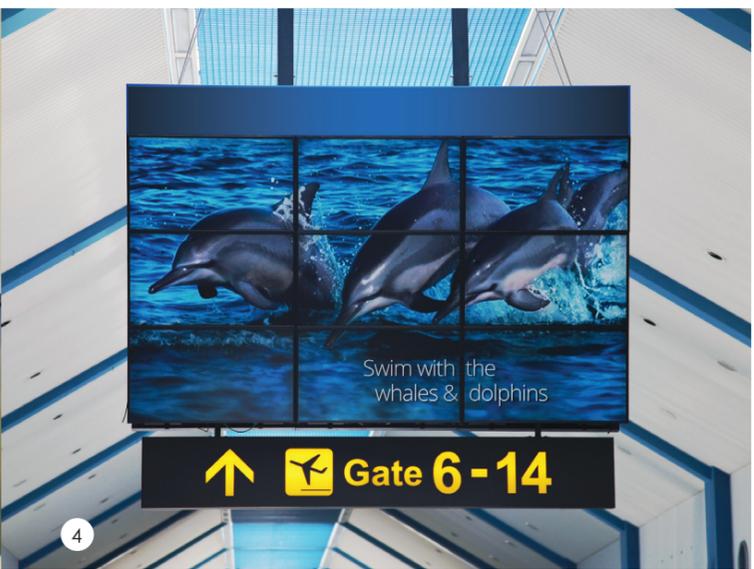
The Safety Management Division oversees the effective implementation of AASL’s safety Management system and ensures continued compliance with regulatory safety requirements at BIA, MRIA and RMA airports. To this end, the Safety Management Division performs stringent monitoring of safety performances of operational divisions within the 3 airports’ aerodromes, and conducts regular audits on these divisions.

### DISASTER PREPAREDNESS

The 4 days GARD (Get Airports Ready for Disasters) Workshop held at BIA in December 2014 prepared 33 participants for the aftermath of natural disasters. It was conducted by DHL in collaboration

- 1 CANSO Asia Pacific Conference 2014 in Colombo hosted by AASL
- 2 AASL Safety Manager (First from right) at Press Conference on ‘GARD’ Workshop, Colombo in December 2014





- 1 Full-scale Emergency Exercise in-progress at BIA, in July 2014
- 2 24-hour Water Rescue Operations in-progress at Negombo Lagoon fulfilling an ICAO requirement
- 3 Company Medical Officer at CAPSCA , presenting 'Public Health Emergency Preparedness Plan of BIA'
- 4 An LCD Digital Media Display at BIA Terminal

DGCA of Sri Lanka. Fits Aviation (Pvt) Ltd is such an entity that conducts International air cargo operations at BIA.

In the fulfilment of this mandatory aviation security operational requirement, AASL signed Service Level Agreement for the provisions of aviation security services by Fits Aviation (Pvt) Ltd on 03rd October 2014.

### FIRE FIGHTING AND RESCUE

Our Fire and Rescue Services offers customized programmes to meet specific requirements. 06 Fire Section leaders based at MRIA were given overseas training in Singapore on the Emergency Preparedness for A380 as part of Fire and Rescue's preparatory efforts for the commercial operation of the new aircraft. There are 5 more section leaders who were already trained at BIA for this purpose.

Further, with the training provided for Fire Vehicle and Rapid Intervention Vehicle (RIV) operators at BIA, the total competent operators increased to 94 at the end of year 2014. Due to its compact size and high performance, the RIV is capable of reaching the accident site in the shortest time, protecting evacuation paths, controlling fire and initiating rescue.

### AIRPORT EMERGENCY SERVICE

The Airport Emergency Planning Committee is the main forum to develop, distribute and amend the Airport Emergency Plan (AEP) for BIA, MRIA and RMA. This Committee will endorse any amendments to the AEP. The Committee meets once in 02 months or as and when necessary.

The Emergency Plan of BIA, MRIA and RMA is tested regularly by conducting emergency exercises. A full-scale emergency exercise is conducted at intervals not exceeding two years and a partial emergency exercise is conducted in the intervening year to ensure that any deficiency found during the full-scale aerodrome emergency exercise has been corrected. De-brief sessions are conducted by the Emergency Planning Committee immediately after each exercise conducted. A Full-scale emergency exercise was successfully carried out on 24<sup>th</sup> of July 2014 at BIA.

There are six sub-committees namely Security, Medical, Communication, Transport, Removal of disabled aircraft, facilitation were formed under the Emergency Planning Committee.

### HEALTH CONSCIOUSNESS

#### EBOLA ALERTNESS

When WHO declared a Public Health Emergency of international concern in August 2014 due to the risk of spreading of Ebola Virus disease across the globe due to air travel, AASL Medical Unit in collaboration with Ministry of Health and WHO country office took preventive measures at BIA and MRIA against the epidemic. These included screening of passengers transiting through West Africa region, conducting awareness campaigns to passengers and front line staff with the assistance of WHO country office and Infectious Disease Hospital of Ministry of Health while keeping medical staff on the highest alert.

### CAPSCA – COLLABORATIVE ARRANGEMENT FOR THE PREVENTION OF SPREAD OF COMMUNICABLE DISEASE THROUGH AIR TRAVEL

The Company Medical Officer along with representatives from Civil Aviation Authority, Sri Lankan Airlines and Public Health office of BIA were represented at the CAPSCA global meeting held in Cairo, Egypt in November 2014 with rampaging Ebola viral disease as its main focus of discussion. Sri Lanka received wide accolades from the global forum for successful and speedy implementation of public health emergency preparedness plan of BIA.

### EXPANDING THE BUSINESS

#### A FRESH FACET TO ADVERTISING

AASL is taking a fresh and revolutionary approach to boosting BIA's advertising revenue by implementing a major overhaul of the advertising media at the airport. To bring BIA's advertising to a higher level, we are revamping our existing advertising panels, introducing new advanced digital media technology at strategically located advertising sites in and out of the terminal, including the baggage belts. We installed 03 video walls in and around the terminal while 19 LCD Digital Media displays were installed within the terminal.

Apart from generating additional revenue, the revamp is expected to further raise the standard of airport advertising at BIA and provide our passengers with a more visually appealing airport experience.

## RELOCATION OF COMMERCIAL SPACES

In order to make departure check-in area more spacious, the commercial establishments housed in the Departure Public Concourse were relocated in the Departure Walkway. With this relocation, the commercial value of Departure Walkway was enhanced while the easy accessibility for purchasing for departing passengers was ensured.

## TRANSIT DUTY FREE SHOPPING AREA EXPANSION STAGE II

AASL continually reinforces its commitment to enhance the commercial facilities housed in the terminal buildings in order to infuse greater comfort and promote a more rewarding shopping experience to passengers. The refurbishment plan was executed by remodeling the transit area. A space of 1,250 m<sup>2</sup> of floor was thus released during the initial phase of the operation conducted in 2011. A further 1,500m<sup>2</sup> of floor area was added in the year 2014 at a cost of Rs 198Mn to accommodate more duty free shops and F & B

outlets, under phase II of the project. Contract is signed to rent out space for Burger King which is a global chain of fast food restaurants.

With these two expansion phases, now the transit area is equipped with a spa, massage and aromatherapy facilities aimed at attracting health tourism, a booming segment strengthened by healing properties of Sri Lanka's traditional Ayurvedhic treatments and natural herbal practices. It also includes a fully equipped Baby Care Unit. Prior to this expansion plan a Transit Hotel was constructed in 2011 consisting of 24 luxury rooms and equipped with a spa.

## TERMINAL 3 OF AIR CARGO VILLAGE

In order to facilitate for export trade community through Board of Investment (BOI) of Sri Lanka and also for processing import and export documentation round the clock, 15 office spaces on the first floor of the terminal 3 of Air Cargo Village (ACV) have been leased out through competitive bidding. With this new addition, ACV now comprises thirty four (34) warehouses, thirty (30) numbers of office spaces and ten (10) airline offices.

## CLEANLINESS IS KEY

The beautification and cleanliness of all corners of the airport is carefully looked after by the janitors and supervisors employed by our third party contractors and is overseen by our appointed personnel. They create a small but highly effective difference to passengers' travel experience at BIA. There are 180 janitors and 13 supervisors at arrival and departure terminals and 124 janitors and 10 supervisors in the ancillary buildings of AASL.

## MARKETING ENDEAVOURS

### MRIA MARKETING STRATEGIES

Our core marketing efforts were concerted to promote MRJA which is in its introductory stage of the industry life cycle. We concentrated in building relationships with the customers who have greater potential as it is not possible or desirable to build relationships with all customers. Promoting MRJA as the preferred alternate airport for scheduled airlines operating to BIA where MRJA would be used in case of a need for a diversion, as well as an en-route alternate airport for over-flights mainly along oceanic air routes, promoting loads for existing carriers at MRJA are amongst the top most marketing strategies which are being adopted.

While MRJA still can enjoy the special charging regime applied since 2013 for Landing and Parking charges with discounted prices compared to those applicable at BIA, now airlines who fly to and from MRJA can also enjoy a price discount of 3.7% to 7.2% for aviation fuel compared to the fuel price of BIA, which was achieved through negotiations with Ceylon Petroleum Corporation (CPC) by our Marketing Division during the year.

Although it is still premature to judge our efforts in terms of the number of airlines who have opted to add MRJA to their destination network, the positive queries made by the potential airlines is quite encouraging. Our efforts to attract airlines and passengers will continue to be collaborated with Sri Lanka Tourism, Sri Lanka Tourism Promotions Bureau (SLTPB) and Sri Lanka Bureau of Foreign Employment (SLBFE).



- 1 *Transit Duty-Free Shopping Area – now expanded*
- 2 *Immigration area decorated for Christmas*
- 3 *Cleanliness is viewed in 360° by all airport users*

- 4 *Femina Miss China 2014 Beauty Contest Finalists touring Sri Lanka prior to departure via MRJA home-bound as our new overseas Marketing Ambassadors*
- 5 *Passengers enjoying Duty-free shopping at MRJA*
- 6 *Bar code scanning of baggage at the Cargo Village*



## AIRPORT CHRISTMAS SHOPPING FESTIVAL

In 2014, AASL expanded one of its major annual events 'BIA Christmas shopping Festival' to encompass MRIA also in this 5th consecutive year under the broader title 'Airport Shopping Festival 2014/15'.

AASL and all its concessionaires at BIA and MRIA collectively endeavoured for the great success of this festival, which indeed created a pulsating atmosphere during the festive season at the Airports for all the passengers with precious opportunities of winning fabulous prizes through Raffle Draws, indulging in Recreation Activities whilst enjoying an array of entertainment within the Airport Terminal, in addition to attractive seasonal discounts on their duty-free purchases.

This year the Grand Prize of the Raffle Draw was a brand new Cherry J3 Sports Car sponsored by Ideal Cherry Automobiles Ltd; amidst a list of other attractive prizes that included cash prizes, electronic home appliances and office equipment. A purchase made at Arrival, Departure or Transit areas of the Airports to the minimum value of US\$ 10 would make any passenger eligible to partake in this Raffle Draw.

This event has gathered a steady momentum over the past four years since its inception in 2010/11, elevating it now to be a much sought-after annual happening at Airports in Sri Lanka.

## LOCKING THE VACUUM

As we have identified some vacuum in certain areas such as Brand development, Aviation Marketing Intelligence etc in Sri Lanka's aviation context, we will continue to invest in those areas to hold the grip to enjoy the competitive advantage.

## ATL PROMOTION CAMPAIGN

As an integral part of the planned marketing activities, Marketing Division launched an Above-The-Line (ATL) Promotional Campaign using all forms of media ranging from the traditional printing mode to rapidly developing digital means, targeting a wider spread of audience showcasing all our brand development activities with special focus on BIA Phase-II Stage-2 Development Project gains, Ratmalana Airport's availability for International Corporate Jet operations and investments whilst also enhancing the awareness

on the development of Aviation Industry towards making Sri Lanka an Aviation Hub in our Region.

## INTERNAL PROCESSES AND PROCEDURES

### FIRST ENTERPRISE RESOURCE PLANNING SYSTEM (ERP)

The first ERP was rolled out in March 2014 at AASL. The new generation Point of Sales (PoS) system is expected to improve inventory management system at AASL while targeting an overall efficiency enhancement in primary and support activities in the value chain of the business.

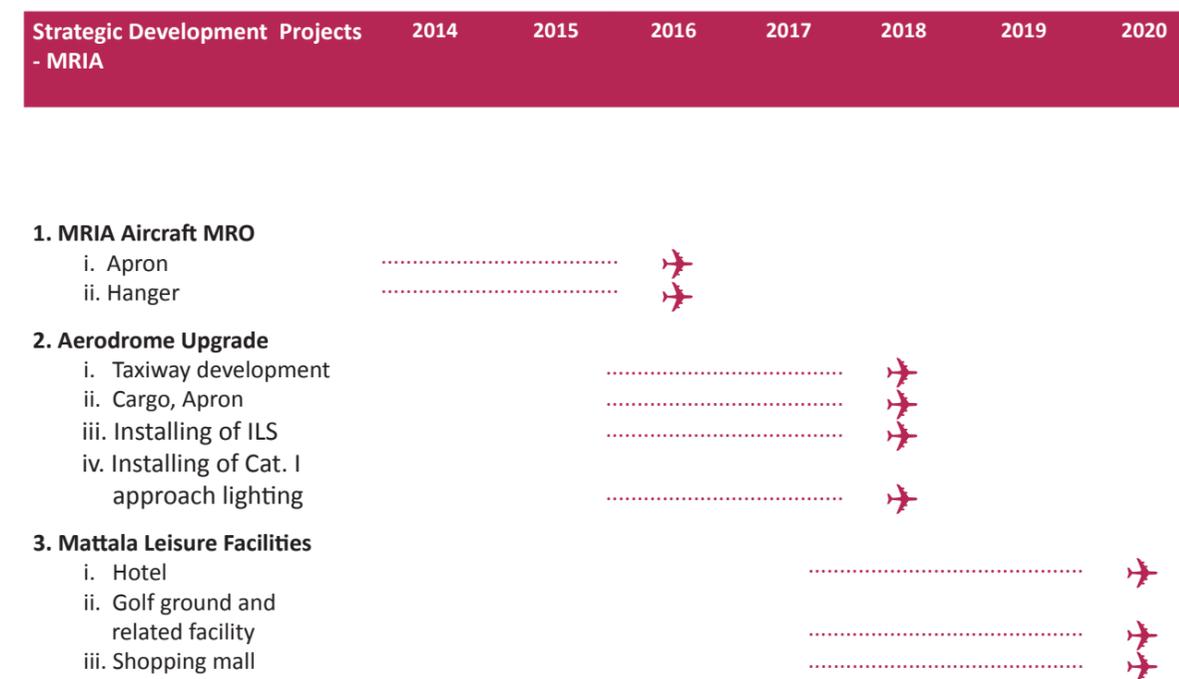
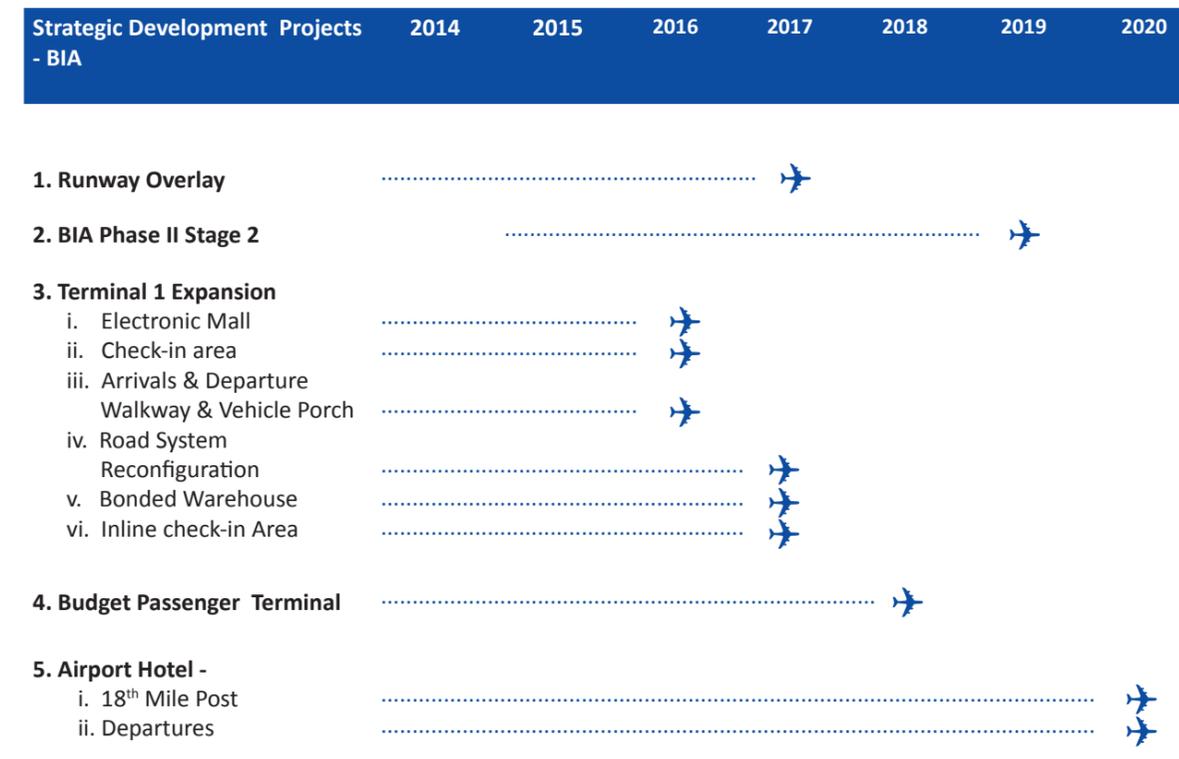
### BUDGETING

The methodology adopted for budgeting at AASL goes beyond the traditional budgeting, and budget preparation is done by the front line managers in a Participatory Style, where they will be responsible for budget preparation and achieving targets. Further, rather than adopting an incremental budgeting style where percentage changes are done for the previous year budget, budgeting for a fresh year is done considering the business volume projected for the forthcoming year. It also gives flexibility to change the budget wherever there are any new information; by way of budget revisions.

### QUALITY MANAGEMENT SYSTEM

The Quality Management System (QMS) of AASL which has been established in line with the provision of ISO 9001:2008 Standard covers key processes of AASL. During the year, Internal Audit and Quality Assurance Division carried out 100% of the planned internal audits for the year for QMS covering the key processes in the areas of Air Navigation Services, Airport Management, Electronics and Air Navigation Engineering, Fire & Rescue Services, Mechanical Engineering and Security Services and ensured that the requirements of the QMS were in place during the year under review.

## FUTURE PROJECTS PLANNED TILL 2020



## AWARDS AND ACCOLADES RECEIVED

### ICASL ANNUAL REPORT AWARDS - 2014

Our efforts to improve the quality of reporting through our core business publication; the annual report did not go unnoticed as we picked up the 'Bronze award' under 'Services Sector' at the Annual Report award Ceremony conducted by The Institute of Chartered Accountants of Sri Lanka where all private and state services compete under the same sector. AASL was the only state service provider which was awarded under the 'Services Sector'.

### NBEA - 2014

The Merit award under 'State Services' was bagged by us at the National Business Excellence Awards (NBEA) conducted by the National Chamber of Commerce. This particular Awards Competition assesses the overall Business Excellence of an Organization.



1 Vice Chairman of AASL & Senior Accountant receive NBEA Bronze Award, flanked by Head of Finance

2 AASL Team lead by Chairman posing with Bronze Award won under "Services Sector" at ICASL Annual Report Awards



## Tourist Arrivals by Country of Residence - 2007 to 2014

| Country of Residence                     | 2007           | 2008           | 2009           | 2010           | 2011           | 2012             | 2013             | 2014             |
|--|----------------|----------------|----------------|----------------|----------------|------------------|------------------|------------------|
| <b>NORTH AMERICA</b>                     | <b>28,355</b>  | <b>24,311</b>  | <b>24,948</b>  | <b>40,216</b>  | <b>49,057</b>  | <b>59,236</b>    | <b>65,616</b>    | <b>72,653</b>    |
| Canada                                   | 11,869         | 10,258         | 10,707         | 21,123         | 24,671         | 29,329           | 30,926           | 33,282           |
| U.S.A.                                   | 16,486         | 14,053         | 14,241         | 19,093         | 24,386         | 29,907           | 34,690           | 39,371           |
| <b>LATIN AMERICA &amp; THE CARIBBEAN</b> | <b>3,962</b>   | <b>3,739</b>   | <b>617</b>     | <b>620</b>     | <b>1,036</b>   | <b>1,626</b>     | <b>3,166</b>     | <b>4,124</b>     |
| <b>WESTERN EUROPE</b>                    | <b>194,448</b> | <b>167,187</b> | <b>170,123</b> | <b>256,861</b> | <b>315,210</b> | <b>373,063</b>   | <b>421,037</b>   | <b>479,007</b>   |
| Austria                                  | 3,580          | 2,651          | 2,409          | 3,925          | 6,262          | 7,991            | 11,300           | 12,664           |
| Belgium                                  | 4,669          | 2,378          | 2,617          | 5,398          | 10,122         | 11,323           | 9,138            | 9,915            |
| Denmark                                  | 1,796          | 1,320          | 1,362          | 4,393          | 6,582          | 8,323            | 9,845            | 11,239           |
| Finland                                  | 497            | 468            | 738            | 1,950          | 3,649          | 4,840            | 2,471            | 2,903            |
| France                                   | 8,091          | 10,594         | 15,886         | 31,285         | 48,695         | 56,863           | 64,388           | 78,883           |
| Germany                                  | 35,042         | 30,625         | 29,654         | 45,727         | 55,882         | 71,642           | 85,470           | 102,977          |
| Italy                                    | 11,451         | 9,126          | 7,514          | 11,423         | 13,527         | 15,871           | 17,982           | 21,116           |
| Netherlands                              | 17,526         | 13,030         | 11,291         | 17,861         | 23,966         | 26,754           | 22,281           | 24,196           |
| Norway                                   | 2,304          | 1,613          | 1,666          | 3,955          | 4,977          | 7,703            | 8,573            | 9,237            |
| Spain                                    | 2,484          | 2,282          | 2,387          | 4,461          | 5,886          | 8,319            | 8,183            | 11,914           |
| Sweden                                   | 4,851          | 3,711          | 3,560          | 7,096          | 10,937         | 13,775           | 12,597           | 14,259           |
| Switzerland                              | 4,917          | 5,326          | 6,331          | 9,427          | 14,110         | 20,054           | 19,141           | 20,097           |
| U.K.                                     | 94,060         | 81,331         | 81,594         | 105,496        | 106,082        | 114,218          | 137,416          | 144,168          |
| Others                                   | 3,180          | 2,732          | 3,114          | 4,464          | 4,533          | 5,387            | 12,252           | 15,439           |
| <b>EASTERN EUROPE</b>                    | <b>25,573</b>  | <b>29,440</b>  | <b>26,310</b>  | <b>35,517</b>  | <b>49,249</b>  | <b>72,401</b>    | <b>125,695</b>   | <b>154,153</b>   |
| Russia                                   | 13,621         | 15,797         | 11,834         | 13,278         | 21,385         | 28,402           | 51,235           | 69,718           |
| Ukraine                                  | 524            | 952            | 2,577          | 5,703          | 9,967          | 22,348           | 38,607           | 29,882           |
| Czech Republic                           | 1,880          | 2,555          | 2,814          | 4,204          | 5,548          | 5,877            | 8,881            | 11,736           |
| Poland                                   | 3,761          | 4,960          | 5,138          | 6,613          | 5,817          | 5,806            | 9,688            | 13,370           |
| Others                                   | 5,787          | 5,176          | 3,947          | 5,719          | 6,532          | 9,968            | 17,284           | 29,447           |
| <b>MIDDLE EAST</b>                       | <b>13,554</b>  | <b>16,776</b>  | <b>23,741</b>  | <b>37,540</b>  | <b>57,501</b>  | <b>56,169</b>    | <b>80,509</b>    | <b>88,991</b>    |
| Saudi Arabia                             | 3,861          | 3,456          | 6,685          | 9,301          | 15,081         | 19,423           | 23,753           | 30,875           |
| UAE                                      | 814            | 2,469          | 5,974          | 9,825          | 17,664         | 11,083           | 8,471            | 9,895            |
| Israel                                   | 2,648          | 2,596          | 1,901          | 3,919          | 6,164          | 7,212            | 8,545            | 8,058            |
| Kuwait                                   | 831            | 1,011          | 1,123          | 2,303          | 2,812          | 3,245            | 7,427            | 8,170            |
| Oman                                     | 515            | 499            | 727            | 1,359          | 2,177          | 2,602            | 7,634            | 12,756           |
| Others                                   | 4,885          | 6,745          | 7,331          | 10,833         | 13,603         | 12,604           | 24,679           | 19,237           |
| <b>AFRICA</b>                            | <b>2,712</b>   | <b>2,141</b>   | <b>1,549</b>   | <b>2,308</b>   | <b>3,614</b>   | <b>5,045</b>     | <b>8,081</b>     | <b>12,163</b>    |
| South Africa                             | 933            | 756            | 779            | 1,415          | 1,962          | 3,048            | 3,366            | 4,155            |
| Others                                   | 1,779          | 1,385          | 770            | 893            | 1,652          | 1,997            | 4,715            | 8,008            |
| <b>EAST ASIA</b>                         | <b>52,854</b>  | <b>44,944</b>  | <b>48,329</b>  | <b>68,430</b>  | <b>96,194</b>  | <b>132,730</b>   | <b>183,097</b>   | <b>280,511</b>   |
| China (P.R.)                             | 11,949         | 9,812          | 8,550          | 10,430         | 16,308         | 27,627           | 54,288           | 128,166          |
| Hong Kong, China                         | 186            | 537            | 1,330          | 1,230          | 2,199          | 1,535            | **               | **               |
| Indonesia                                | 1,404          | 1,157          | 1,040          | 1,343          | 2,049          | 2,890            | 17,540           | 29,558           |
| Japan                                    | 14,274         | 10,075         | 10,926         | 14,352         | 20,586         | 26,085           | 29,923           | 39,136           |
| Korea (South)                            | 4,870          | 4,300          | 3,695          | 4,426          | 5,485          | 7,838            | 12,207           | 13,412           |
| Malaysia                                 | 6,704          | 5,188          | 6,850          | 13,367         | 16,094         | 21,776           | 19,519           | 23,178           |
| Philippines                              | 2,162          | 1,693          | 1,421          | 1,391          | 2,047          | 5,687            | 15,615           | 11,160           |
| Singapore                                | 5,688          | 5,802          | 7,808          | 11,875         | 15,953         | 17,273           | 15,546           | 15,762           |
| Thailand                                 | 2,467          | 3,583          | 3,208          | 3,684          | 5,880          | 7,897            | 9,608            | 9,260            |
| Taiwan (P.C)                             | 2,553          | 1,907          | 2,715          | 5,277          | 7,010          | 12,703           | 3,931            | 5,193            |
| Others                                   | 597            | 890            | 786            | 1,055          | 2,583          | 3,265            | 4,920            | 5,686            |
| <b>SOUTH ASIA</b>                        | <b>149,626</b> | <b>128,098</b> | <b>126,205</b> | <b>175,694</b> | <b>237,647</b> | <b>247,559</b>   | <b>326,556</b>   | <b>370,299</b>   |
| Bangladesh                               | 1,665          | 1,564          | 1,294          | 1,954          | 4,726          | 4,646            | 10,037           | 10,754           |
| India                                    | 106,067        | 85,238         | 83,634         | 126,882        | 171,374        | 176,340          | 208,795          | 242,734          |
| Maldives                                 | 29,539         | 31,564         | 31,916         | 35,791         | 44,018         | 47,572           | 79,474           | 86,359           |
| Nepal                                    | 885            | 860            | 676            | 753            | 826            | 1,038            | 2,021            | 3,319            |
| Pakistan                                 | 10,204         | 7,885          | 7,373          | 9,148          | 14,724         | 16,056           | 25,336           | 25,424           |
| Others                                   | 1,266          | 987            | 1,312          | 1,166          | 1,979          | 1,907            | 893              | 1,709            |
| <b>AUSTRALASIA</b>                       | <b>22,924</b>  | <b>21,839</b>  | <b>26,068</b>  | <b>37,290</b>  | <b>46,467</b>  | <b>57,776</b>    | <b>60,836</b>    | <b>65,252</b>    |
| Australia                                | 20,241         | 19,536         | 23,239         | 33,456         | 41,728         | 51,614           | 54,252           | 57,940           |
| New Zealand                              | 2,627          | 2,240          | 2,672          | 3,487          | 4,212          | 5,641            | 6,174            | 6,880            |
| Others                                   | 56             | 63             | 157            | 347            | 527            | 521              | 410              | 432              |
| <b>Total</b>                             | <b>494,008</b> | <b>438,475</b> | <b>447,890</b> | <b>654,476</b> | <b>855,975</b> | <b>1,005,605</b> | <b>1,274,593</b> | <b>1,527,153</b> |

\* The tourists who stay in Sri Lanka for a period of 1-365 days are analysed above. Sri Lankans, transfer & transit, tourists who come for employment & residence are excluded

\*\* This figure is included under China in 2013

Source : Sri Lanka Tourism Development Authority

# Financial Review

## PERFORMANCE OVERVIEW

The 2014 financial year showed a mixed scorecard in terms of AASL's key financial parameters. The consolidated turnover of AASL improved its previous best by over Rs. 1.63 Bn. When compared to the previous year, the increase in consolidated turnover was 13%. The profitability growth in terms of Profit After Tax (PAT) affected due to the increased income tax expenditure by 85% on account of MRIA deferred tax expenditure on its asset base.

The company improved on its previous best Net Profit Before Tax (NPBT) by over Rs. 0.75Bn. When compared to the previous year, the increase in NPBT was 16%. However, AASL's earnings before interest, taxes, depreciation and amortization (EBITDA) of Rs. 6.79 Bn represented a 42% incline over the preceding year.

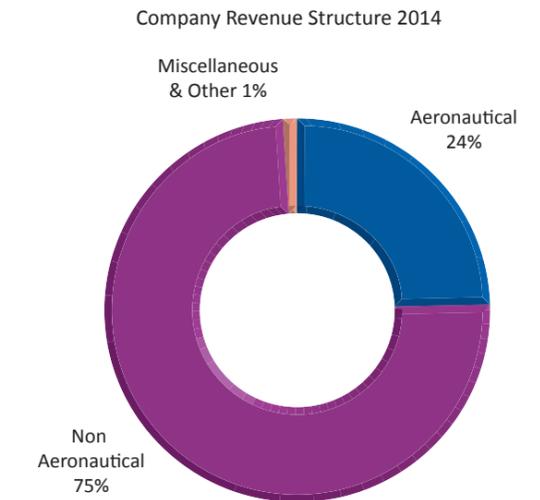
The strong economic rebound in Sri Lanka and the region in financial year 2014, along with concerted efforts to market the country as a travel destination contributed to improve AASL financial performance.

Passenger traffic on FSCs grew moderately by 8%, while continued to contribute the bulk of passenger traffic accounting for 87% of the BIA. This rise in passenger traffic slightly negated by 2% marginal decline recorded by Low Cost Carriers (LCCs) over the preceding year.

## TURNOVER

AASL reported a consolidated turnover of Rs.13.7Bn for the year under review, marking an increase of 13% from the previous year. This increase is mainly attributable to increase in non-aeronautical income by 12% (by Rs. 1.1Bn) over the previous year which accounted for 75% of our total revenue.

The Development of AASL consolidated turnover over a five year period is analyzed below:



The biggest contributor to AASL's turnover in the year under review was the Embarkation Levy, which accounted for 26% of same as in the previous year. The concession Income which recorded a significant increase of 13% was the second largest contributor accounting for 21%. Other main contributors to the turnover were Rental income, Landing and Parking income and Overflying income which contributed 17%, 16% and 6% respectively. They recorded a turnover growth of 10%, 9% and 15% respectively. If we further analyse the movements which resulted in enhanced revenue, the maximum take-off weight (MTOW), which is the key parameter of landing and parking income, accelerated by 7% during this year from 3,663,010 MT in 2013 to 3,919,098 MT in 2014, while overflying movements moved upwards by 15% to 31,600 from 27,529 movements.

**“OUT OF TOTAL OPERATIONAL REVENUE, 51% IS EARNED IN FOREIGN CURRENCIES AMOUNTING TO RS 6.9 BN (US\$ 53 MN). ITALY, UAE, INDIA, QATAR AND HONG KONG ARE THE TOP 5 COUNTRIES FROM WHICH AASL EARNS AN INCOME OVER US\$ 2 MN (RS. 250 MN) IN 2014.”**

However, the percentage growth of overflying income is not equal to this percentage growth in movements as the overflying income is varied on pre-determined slabs made up of MTOW of overflying aircraft.

## INCOME EARNED IN FOREIGN CURRENCIES

Out of total operational revenue, 51% is earned in foreign currencies amounting to Rs 6.9 Bn (US\$ 53 Mn). Italy, UAE, India, Qatar and Hong Kong are the top 5 countries from which AASL earns an income over US\$ 2 Mn (Rs. 250 Mn) in 2014. In 2014 a double digit growth in turnover was recorded, while earning an income over US\$ 1Mn by Qatar (43%), UAE (11%), Hong Kong (40%), Malaysia (36%), Saudi Arabia (63%) & UK (47%). This is mainly due to increase in maximum take off weight of aircraft, frequencies of arrivals as well as overflying in our longstanding customers.

The top 20 countries who account for our highest absolute revenue in the year 2014 & 2013 with their share of operational revenue, absolute revenue growth with percentage growth and the country's rank based on absolute revenue are listed down below.

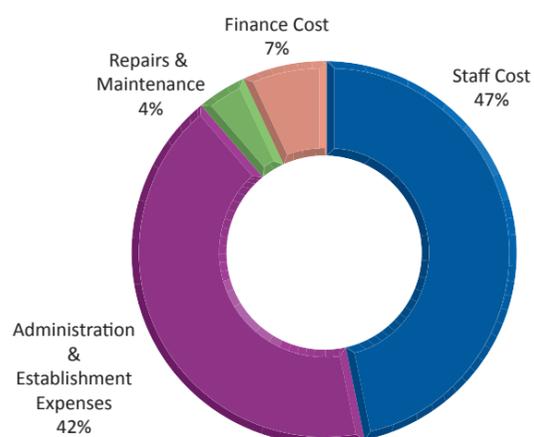
## COUNTRY WISE US\$ REVENUE COMPARISON

| Country      | 2014              |                      | 2013              |                      | Revenue         | Revenue  | 2014                          | 2013                          |
|--------------|-------------------|----------------------|-------------------|----------------------|-----------------|----------|-------------------------------|-------------------------------|
|              | Revenue US\$      | Share of Op. Revenue | Revenue US\$      | Share of Op. Revenue | Growth absolute | Growth % | Rank on Absolute Revenue-2014 | Rank on Absolute Revenue-2013 |
| ITALY        | 11,931,914        | 11.31%               | 11,228,609        | 11.72%               | 703,305         | 6%       | 1                             | 1                             |
| UAE          | 11,274,989        | 10.68%               | 10,178,851        | 10.63%               | 1,096,138       | 11%      | 2                             | 3                             |
| INDIA        | 10,574,810        | 10.02%               | 10,206,471        | 10.66%               | 368,339         | 4%       | 3                             | 2                             |
| QATAR        | 4,047,862         | 3.84%                | 2,825,100         | 2.95%                | 1,222,762       | 43%      | 4                             | 4                             |
| HONG KONG    | 2,441,929         | 2.31%                | 1,740,484         | 1.82%                | 701,445         | 40%      | 5                             | 6                             |
| MALAYSIA     | 2,113,697         | 2.00%                | 1,550,743         | 1.62%                | 562,954         | 36%      | 6                             | 7                             |
| SINGAPORE    | 2,109,392         | 2.00%                | 2,219,071         | 2.32%                | (109,679)       | -5%      | 7                             | 5                             |
| SAUDI ARABIA | 1,714,978         | 1.63%                | 1,049,414         | 1.10%                | 665,564         | 63%      | 8                             | 8                             |
| UK           | 1,132,308         | 1.07%                | 769,592           | 0.80%                | 362,716         | 47%      | 9                             | 10                            |
| THAILAND     | 874,769           | 0.83%                | 794,305           | 0.83%                | 80,464          | 10%      | 10                            | 9                             |
| KUWAIT       | 850,895           | 0.81%                | 391,146           | 0.41%                | 459,749         | 118%     | 11                            | 15                            |
| OMAN         | 821,608           | 0.78%                | 725,006           | 0.76%                | 96,602          | 13%      | 12                            | 11                            |
| KOREA        | 638,513           | 0.61%                | 418,480           | 0.44%                | 220,033         | 53%      | 13                            | 13                            |
| TURKEY       | 628,707           | 0.60%                | 414,970           | 0.43%                | 213,738         | 52%      | 14                            | 14                            |
| INDONESIA    | 552,067           | 0.52%                | 499,550           | 0.52%                | 52,517          | 11%      | 15                            | 12                            |
| AUSTRALIA    | 347,710           | 0.33%                | 220,973           | 0.23%                | 126,737         | 57%      | 16                            | 17                            |
| CHINA        | 304,259           | 0.29%                | 206,726           | 0.22%                | 97,533          | 47%      | 17                            | 18                            |
| SOUTH AFRICA | 186,240           | 0.18%                | 182,700           | 0.19%                | 3,540           | 2%       | 18                            | 19                            |
| MALDIVES     | 183,327           | 0.17%                | 147,371           | 0.15%                | 35,956          | 24%      | 19                            | 20                            |
| MAURITIUS    | 159,300           | 0.15%                | 125,850           | 0.13%                | 33,450          | 27%      | 20                            | 21                            |
| OTHERS       | 460,863           | 0.44%                | 760,885           | 0.79%                | -292,603        | -38%     |                               | NOT RANKED                    |
|              | <b>53,350,137</b> |                      | <b>46,656,296</b> |                      |                 |          |                               |                               |

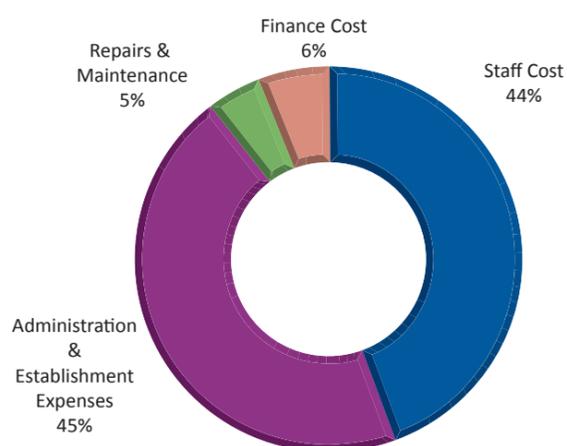
## OPERATIONAL EXPENDITURE

Total expenditure grew by 2% to reach Rs.9.4 Bn up from Rs. 9.2 Bn in 2013. With tight management controls over administration expenses, the cost to income ratio for the period under review contracted to a commendable 69% as opposed to high cost ratios evidenced in preceding year even in the second year of commercial operations of MRIA. This was after absorbing Rs. 1.4 Bn depreciation of MRIA. During the year the staff cost increased by 9% to reach Rs.4.7 Bn up from Rs.4.3 Bn in 2013. Repair and maintenance expenses decreased marginally by 1% in the year under review compared to preceding year.

Company Expenditure Structure 2014



Company Expenditure Structure 2013



## NET FINANCE INCOME / COST

Net Finance Income / cost comprises of two components, namely, costs involved in long term borrowing and Finance Income inclusive of exchange gain / losses on loan conversion. Comparative to last year, AASL experienced an exchange gain on loan conversion of Rs 1.2 Bn as opposed to an exchange gain of Rs 1.7 Bn in the preceding year whilst interest income depicted a marginal drop of 1% relative to the preceding year. The loan interest experienced a 22% increase compared to preceding year since MRIA loan interest of Rs. 505 Mn was added to the existing portfolio of BIA loan interests amounting to Rs. 195 Mn during the year.

## PROFITABILITY

With the MRIA business model which is at its introductory phase, AASL posted Profit Before tax of Rs 5.5Bn. It is a 16% of YOY increase. However Profit after Tax of Rs. 3.3Bn was recorded in 2014 with 8% YOY decrease. AASL's profit performance for the previous four years is analyzed below.



## CASH FLOW

The operating profit before working capital changes increased from Rs 5.3Bn in the previous year to Rs. 7.4Bn in the year under review. Further, the major drop of 63% in working capital resulted in a further increase in the cash flow and has resulted in a positive cash flow from operating activities amounting to Rs 7.5 Bn. Cash outflow on account of capital expenditure amounted Rs 1.2Bn (out of which Rs.130Mn was for MRIA) (Rs. 5,400Mn in 2013). The net increase in cash and cash equivalents during the year was Rs 6,207Mn (net decrease of Rs.394Mn in 2013)

AASL possesses the necessary banking facilities to support its operations, cash generation from operations and available banking are adequate to finance working capital, capital expenditure, dividends and statutory payments.

## CAPITAL STRUCTURE

The AASL Capital structure is briefly set out below

|               |    |           |
|---------------|----|-----------|
| Share Capital | Rs | 20 Mn     |
| Reserves      | Rs | 10,659 Mn |
| Debt          | Rs | 35,920 Mn |

Composition of Capital Structure

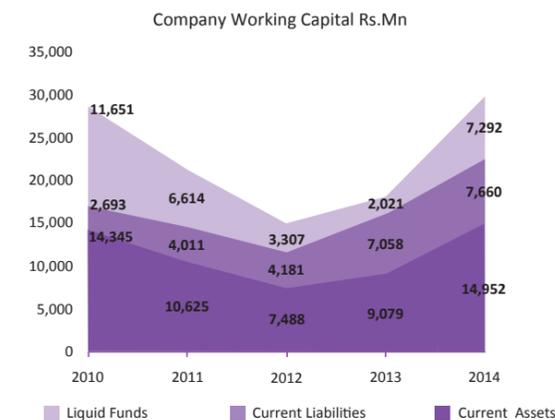


The company successfully increased retained earnings by 50% compared to the previous year. The long term liabilities (Retirement Benefit Liability + Capital Expenditure grants received from the Government+ Deferred Tax Liability) increased significantly by 41% due to increase in deferred tax liability compared to 2013.

## GEARING RATIO

The gearing ratio, which is calculated as a proportion of the long term interest bearing borrowings to equity added to long term interest bearing borrowings, which is an indicative of the financial leverage of the company, marginally dropped to 71% for the FY 2014. It stood at 82% in 2013. Although this gearing ratio might make it seem as though the entity is highly leveraged, these borrowings are wholly consist of loans obtained through Government of Sri Lanka (GOSL) for the development of BIA under sovereign guarantee.

## WORKING CAPITAL



## STAKEHOLDERS' WEALTH MAXIMIZATION

### VALUE ADDITION FOR YEAR 2014

The company created a total value of Rs. 14Bn, for the financial year ended December 31, 2014, a significant increase of 21% compared from the previous year. This is mainly due to decrease in administration, establishment and marketing expenses from Rs 3,131Mn in 2013 to Rs 2,068 Mn in 2014, due to the reasons explained under 'operational expenditure' above.

The following Statement of Value addition shows how the total wealth was created and distributed among employees, the GOSL and the providers of debt and equity capital. Also shown is the portion of wealth retained for reinvestment in operations by way of depreciation and reserves.

# Human Resource Management

AASL views Human Resources (HR) as a value creator having a high impact on the bottom line. Accordingly, AASL's HR strategy is designed to focus on a comprehensive corporate HR suite to enable it to establish a key differentiator in building competitively advantageous strategies for sustainable business promotion and goals. The overall strategic plan of the company mandatorily directed the AASL's HR strategy.

## RECRUITMENT AND SELECTION

Our recruitment process demands that all potential candidates are thoroughly evaluated to assess their skills and abilities to meet the future challenges faced by AASL. The comprehensive recruitment process ensures that candidates are assessed on their capabilities in multiple areas, including written, spoken, physical and practical aptitudes where applicable. During the year, the company recruited 214 candidates to fill the existing cadre requirements of BIA and MRIA in the following categories:

| Level                            | No. of Recruitments | Cadre as at 31/12/2014 |
|----------------------------------|---------------------|------------------------|
| Executives                       | 02                  | 247                    |
| Supervisors/ Technical officers  | 06                  | 322                    |
| Clerical & Allied                | 17                  | 711                    |
| Skilled & Semi-skilled employees | 103                 | 2,014                  |
| Minor & Unskilled employees      | 86                  | 638                    |
| <b>TOTAL</b>                     | <b>214</b>          | <b>3,932</b>           |

## PROMOTIONS

During the year, 311 promotions took place, which led to upliftment and enhancements of performance.

## TRAINING AND DEVELOPMENT

An important aspect of retaining staff with the company is training and development.

All training imparted are assessed for effectiveness through participants' feedback as well as the Company's own evaluation process. Training opportunities are provided both locally (from internal and external sources) and overseas.

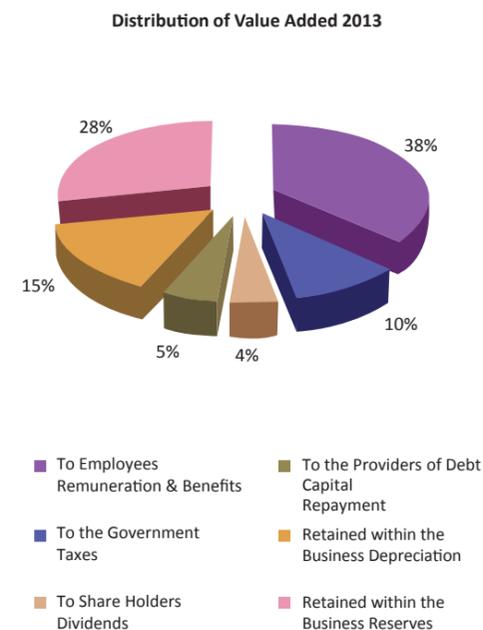
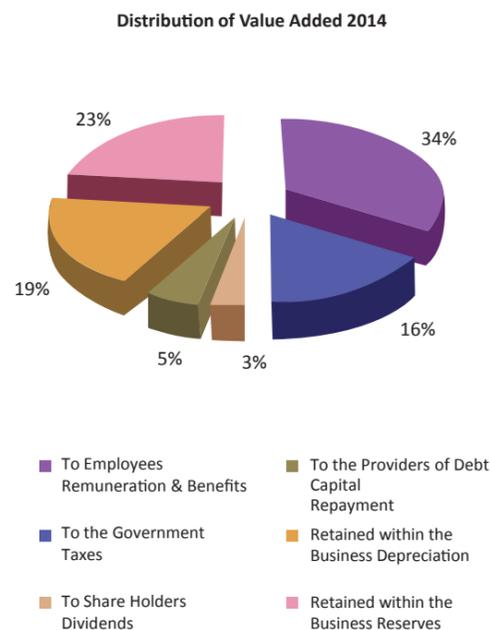
AASL fosters the learning habit. Job related educational expenses and subscriptions for membership in professional bodies are reimbursed by the Company in a bid to promote knowledge acquisition and personal development. All participants who receive the overseas training opportunities are required to submit a report electronically to the commonly accessible file directory called 'e-library portal', whereby the knowledge sharing is promoted.

In 2014, 1836 employees underwent local training whilst, 106 employees underwent overseas training, all of which was funded by the company.

Our training calendar is extensive and comprehensive and includes programmes that are not only job oriented, but also those designed for the development of soft skills and in creating the all round individual who will be an asset and a significant contributor to the success of the company.

|  | No. of Trainee hours |        |
|--|----------------------|--------|
|  | 2014                 | 2013   |
| Overseas training                      | 7,800                | 9,408  |
| Local Training (in-house and external) | 22,395               | 26,898 |

|  | 2014<br>Rs.000     | 2013<br>Rs.000 |      |      |  |
|--|--------------------|----------------|------|------|--|
| Revenue  | 13,612,559         | 12,219,411     |      |      |  |
| Other Income                                       | 129,642            | (109,728)      |      |      |  |
| Finance Income                                     | 1,875,516          | 2,428,407      |      |      |  |
| Gain arising on changes in Actuarial assumption    | 451,965            | 170,790        |      |      |  |
|  | <b>16,069,682</b>  | 14,708,880     |      |      |  |
| Administration, Establishment & Marketing Expenses | <b>(2,068,009)</b> | (3,131,819)    |      |      |  |
| <b>Value Addition</b>                              | <b>14,001,673</b>  | 11,577,061     |      |      |  |
|  |                    |                | %    | %    |  |
| <b>Distribution of Value Added</b>                 |                    |                |      |      |  |
| To Employees Remuneration & Benefits               | 4,728,971          | 4,341,092      | 34%  | 38%  |  |
| To the Government Taxes                            | 2,210,865          | 1,192,121      | 16%  | 10%  |  |
| To Shareholders Dividends                          | 500,000            | 500,000        | 3%   | 4%   |  |
| To the Providers of Debt Capital Repayment         | 700,145            | 573,574        | 5%   | 5%   |  |
| Retained within the business Depreciation          | 2,624,562          | 1,745,935      | 19%  | 15%  |  |
| Retained within the business Reserves              | 3,237,130          | 3,224,340      | 23%  | 28%  |  |
|  | <b>14,001,673</b>  | 11,577,061     | 100% | 100% |  |



## CIVIL AVIATION TRAINING CENTRE (CATC)

One of our greatest achievements this year in the field of training and development was the gaining of the status of 'Full Member' of the ICAO TRAINAIR PLUS Programme by our training arm CATC, on 2<sup>nd</sup> June 2014.

This was consequent to the successful development of the TRAINAIR PLUS STP 'Advanced Test & Measuring Techniques for ATSEP'. Meanwhile, the project for the development of the second STP 'AIS/MAP publication Specialist' commenced and is expected to be completed in early 2015. The number of STP (Standardized Training Packages) is an important Performance Indicator that gives competitive edge for commercial training.

The CATC delivered a total of 61,980 trainee hours during 2014, 82% of which represents the training given to the company employees while the rest represents commercial training. This included 21 short duration training programmes for 498 company employees aimed at developing their soft skills.

CATC earned an income of approximately Rs. 3 Mn through the conduction of commercial courses, which includes a foreign currency share of 69%.

During the year 2014, the total trainee throughput of the CATC was 955 trainees. This included 26 foreign trainees and 15 local commercial trainees.

Breakdown of training conducted by CATC during the year is as follows.

| Area                          | Number of Trainee Hours |
|-------------------------------|-------------------------|
| Soft skills Development       | 2,196                   |
| Training For new recruits     | 25,392                  |
| Career Development            | 11,220                  |
| Instructional Training        | 4,218                   |
| Refresher Training            | 7,614                   |
| Training for external parties | 11,340                  |
| <b>Total</b>                  | <b>61,980</b>           |

## COUNSELING SCHEMES

With the aim of increasing overall productivity across AASL, a Counseling Unit was formed in 2008 at AASL and still functioning successfully with the support of 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.

## WORK ATMOSPHERE

AASL believes that all employees can perform to their fullest capacity if the work atmosphere is conducive to perform. This means providing them with much needed tangible and intangible requirements for work. To fulfill this need, the AASL has implemented an attractive remuneration and benefit package. The medical insurance facility,

death donation scheme, comprehensive accident insurance policy, provision of staff transport and uniforms are among them. The company maintains an open door policy to encourage employee communication. Career progression is based on the approved carrier progression schemes. The opportunities for sports and recreation activities are provided through sports, welfare and sports club. Important social events in our annual calendar are Annual get together, Buddhist and Catholic pilgrimage, New Year and Christmas celebrations etc. The management provides every opportunity for team work and collaborate with stakeholders and other divisions making life in AASL a rich and productive experience.

## PERFORMANCE MANAGEMENT

A new Performance Management system has been formulated and tested as a pilot project during the last couple of years. The system will be rolled out from the beginning of 2015 by rectifying the pitfalls found during the pilot project. It is planned to systematically introduce the system in phases to cover a majority of employee population in the upcoming years while the senior managers and executives will be covered in its first phase.

## PERFORMANCE EVALUATION

We do adopt a top-down approach in evaluating the individual performance at present.

The criteria under the new system will ensure that employee goals are aligned to key organizational objectives and that rewards and recognition

are linked directly to performance. Under the proposed system, employees are expected to define their operational goals and development goals for them to meet the current job challenges while acquiring the competencies required to undertake the responsibilities in the current job role and the next step in the hierarchy. Thereby, a solid platform will be laid to establish a system for Succession Planning.

## PATH AHEAD

There are few challenges to be overcome in the immediate future years. The salary restructuring of the entire staff needs to be fully addressed to eliminate present anomalies while reflecting the responsibilities undertaken by each level. The employees will have to undergo extensive training on new business undertakings, especially in the area of ground handling and domestic airports development, as the plans are on the cards now to add those elements into our portfolio of core business activities. Most importantly, the entire staff is expected to revamp in order to move our focus from facilitating passengers to offering a guest experience to all our customers.



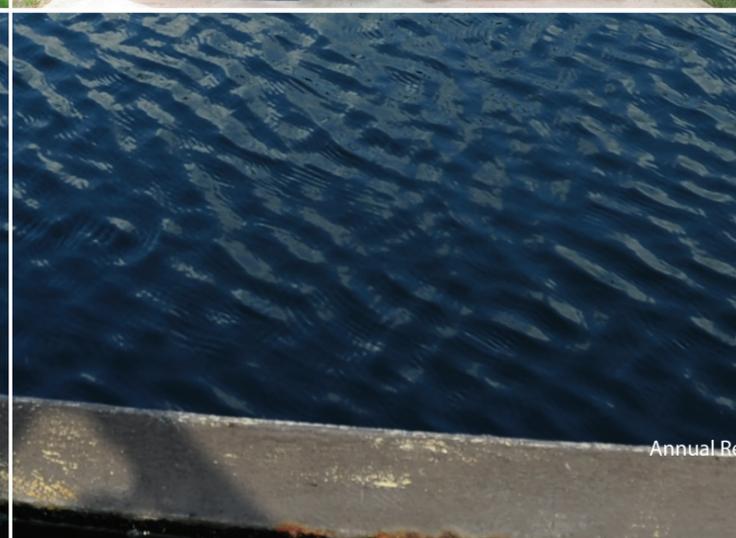
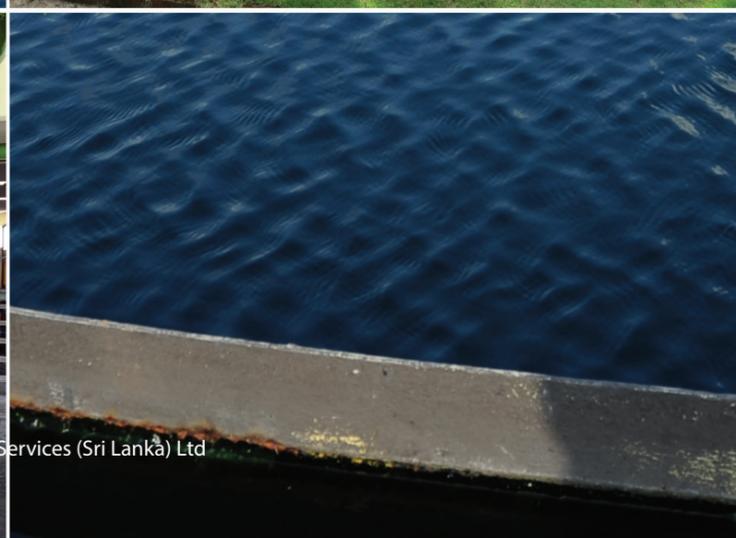
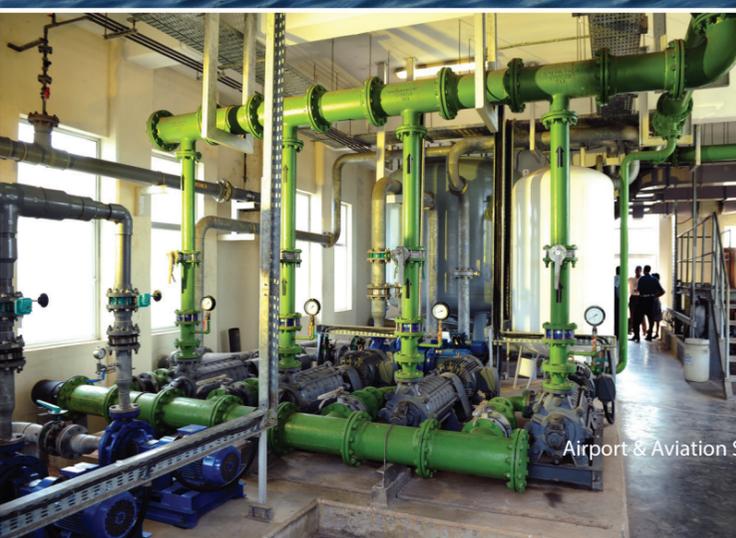
- 1 Mr Diego Martinez, ICAO TRAINAIR PLUS Programme Manager awarding the full membership plaque to the Head of CATC of AASL at the membership ceremony held in Hyderabad, India
- 2 Vesak Bathi Gee 2014, presented by Buddhist Association of AASL
- 3 Christmas Carols 2014, organized by Christian Association of AASL

# 4 Million People

Take a flight back in time every year with unforgettable memories to declare

# Sustainability Management is.....

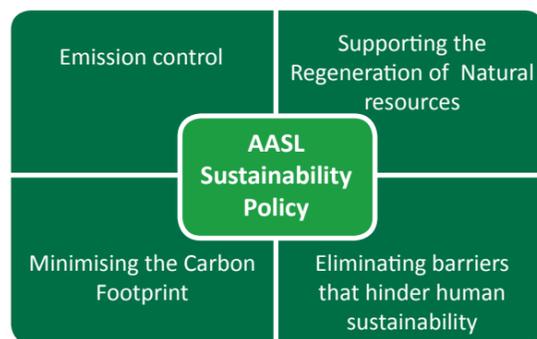
.... In Focus



# Sustainability Report

In the past few years the concept of Corporate Sustainability has evolved considerably to appear at the forefront of the modern corporate growth strategy. This momentum has resulted in the continuous pursuit of better solutions that promote greater long term sustainability for employees and all stakeholders; ultimately translating to a healthier bottom line. The AASL sustainability dictum goes beyond a simple 'Green' policy. The environment itself is identified as a definitive stakeholder of the organization. We believe that enduring value could only be created by embracing a broader corporate perspective. Our approach recognizes the importance of social and cultural elements that impact on organization. We are aware of the economic environment that has a significant bearing on our operations. Hence, our plans and strategies capture the positivity of these elements and channel it towards creating lasting value for the organization and all stakeholders.

Our integrated environmental policy is based on four key principles.



## EMISSION CONTROL

AASL reiterates its commitment to environmental conservation by going the extra step. The company continuously evaluates all substances discharged or released to the natural surroundings. Thereby minimizing emissions and controlling the green house effect. All our environmental activities have been sanctioned by the Central Environmental Authority (CEA) of Sri Lanka.

## EXISTING SEWERAGE TREATMENT PLANT (STP)

The STP was commissioned to control the toxicity levels of effluents discharged to the environment. The plant was set up under license from the CEA. In compliance with CEA guidelines all treated effluent materials originating from the STP are rigorously tested prior to discharge. Daily in-house sample testing is supported by quarterly tests conducted by the Industrial Technology Institute (ITI). CEA issues Environmental Protection License for the operation of STP only after being satisfied with compliance of these results with relevant environmental standards.

## THE INCINERATOR AND WASTE MANAGEMENT

Industrial waste management comes under the purview of the CEA. AASL's waste management facility is a state-of-the-art Solid Waste Disposal incinerator that was commissioned under the Environmental Protection License (EPL) issued by the CEA. As per the CEA guidelines, prior to the issuance of the EPL, all solid waste matter discharged by the incinerator was tested by ITI. The renewal of the license is determined on successful periodic reviews of the system and continuous testing of samples. All recyclable waste such as waste paper, glass, plastic, steel etc. are outsourced to various collectors registered with CEA for recycling purpose. Majority of garden waste is composted while any other contaminated waste matter that cannot be recycled are incinerated. The incinerator serves to destroy all disease causing bacteria and viruses from the effluent matter.

## ECO-AIRPORT MANAGEMENT PLAN (EMP) AT BIA

AASL's 'Eco Airport Management Policy' is an integrated management tool that conceptualizes a broader scope covering the areas of reduction of resource consumption, reducing of waste disposal, improvement of ecology (atmosphere, noise and water quality), conservation of natural environment and public disclosure of information

and processes related to this EMP.

For the purpose of realizing an environmentally friendly airport at BIA based on the EMP, BIA Environmental Committee was formed in 2010 which shall be responsible for elaborating and implementing EMP, reviewing and revising EMP cyclically in order to achieve the planned targets.

Increasing awareness and educating employees, in particular janitorial staff on water control mechanisms and promoting 3R (Reduce, Recycle and Reuse) practices on waste management for all operational functions are some of the initiatives which got strengthened under the guidance of this environmental committee.

## MINIMIZING THE CARBON FOOTPRINT

### ENERGY CONSERVATION

A mammoth 74% of AASL's energy consumption is taken up by the Passenger Terminal Building at the BIA. Identification and measurement of individual load centres is done through an Energy Audit. The objective of the audit is to establish the key contributors to the energy load. The air conditioning systems and lighting loads have been identified as having a significant share of the total energy consumed.

AASL has made a concentrated effort to educate employees on the importance of following energy efficient practices. During the year the 'switch off' policy has been increasingly applied as a parameter in the energy audits.

AASL's energy management practices were applied through a range of smart, sustainable solutions.

- Existing buildings were refitted with energy efficient lighting, lighting control and motor control systems (eg: T5 fluorescent fittings, C-Bus Control system, drives for AHUs, PAUs')
- Integration of the new chiller systems with the existing Building Management System for chillers
- Use of ballasts and bulbs during remodelling projects

- Upgrading building air-handling units with variable speed drives and soft start controls
- Introduction of solar heaters for hot water systems
- Optimizing the use of natural lighting with skylights and the dimming regulators
- Usage of motion sensors, occupancy sensors in the Passenger terminal building
- Power factor corrections, key tag activated master switches at the transit hotel change over from hot cupboards to microwave ovens for warming of food resulting in an energy saving of 4KWH
- Use of pedestal fans after office hours and during weekends in the office area without the use of air conditioners

These initiatives were a tremendous success as evidenced by the significantly low increase in electricity consumption units (KWH) as compared to 2010 despite the highest ever passenger and flight movements recorded during the year.

## ELECTRICAL ENERGY CONSUMPTION PER PASSENGER FROM YEAR 2010 TO 2014

| Year | kwh/pax |
|------|---------|
| 2010 | 6.29    |
| 2011 | 5.99    |
| 2012 | 5.27    |
| 2013 | 5.04    |
| 2014 | 4.89    |

We are greatly encouraged by our accomplishments and have now extended our conservation drive to seek energy efficient alternatives such as solar panels. A pilot project will be completed within 2015 for selected office complexes.

## SUPPORTING THE REGENERATION OF NATURAL RESOURCES

Increasing globalization and the irresponsible usage has placed an immeasurable strain on the world's limited natural resources. The cost of the rapidly degenerating ecological balance cannot be quantified, highlighting the dire need practical solutions to ease the pressure. AASL has accepted the challenge to ease the dependency on natural resources by seeking alternative resources to meet corporate needs thereby effectively supporting regeneration efforts. We endeavour to find realistic solutions that address the gravity of the issues at hand.

### WATER CONSERVATION

Our water conservation and management programme is one such initiative. Over 50%, approximately 1,200 m<sup>3</sup> of the total 2,200 m<sup>3</sup> of the daily drinking water requirement at the BIA is met by water from the bore wells drilled on the premises. This water is treated as per standardized consumption parameters. Our water conservation efforts are supported by a range of initiatives including the use of Sensor taps in the Passenger Terminal Building (PTB), Dual cistern flushing to reduce water usage and the installation of photoelectric person sensors in the PTB. Continuous evaluations are done to gauge whether water control mechanisms are maintained at optimum functionality levels and highlight any areas of concern. Repair and maintenance requirements are attended to as a matter of priority.

## ELIMINATING BARRIERS THAT HINDER HUMAN SUSTAINABILITY

### AASL CONTRIBUTES FOR THE EDUCATION AND TRAINING OF YOUTH

AASL continues its aggressive awareness campaigns and training programmes with a view to empowering the nation with an educated youth populace. The company provides training to undergraduates of the Sri Lankan Universities, diploma holders and industrial trainees in various disciplines including IT, Finance, Electronics, Mechanical Engineering, General Administration, Transport and Logistics Management, Automobile Engineering etc. A total of 59 youth were trained under these initiatives, during the year.

### SUSTAINABILITY THROUGH AWARENESS AND EDUCATION

To increase awareness and educate the younger generation on the AASL's crucial role in the national aviation industry, the company supports the government initiated programme titled 'Nana Guna Waduma Sisu Diriya'. A weekly programme conducted as an educational excursion to the BIA and launched in 2002 to increase awareness among school children. The program continued successfully in the year under review and organized 60 school visits, 10 visits from universities, 15 visits from Armed forces and another 15 visits from other institutions.

The doors of MRIA were also opened for general public and the airport was visited by 96,000 visitors during the year, while 850 students and 300 other institutional visitors benefitted from the guided tours.

## CULTURAL CONCERN

Sri Lanka's long history has always been entwined with its culture. These elements have proved to be the strongest attraction in consistently drawing tourists to the country. Our cultural support programmes endeavour to uphold true Sri Lankan values and customs. AASL has taken under its wing to support by way of donations to a large number of significant cultural festivals held islandwide from nearly half a decade. We have supported this through our donations for the most popular perahera's in Sri Lanka while executing the following projects A total sum of Rs 3,970,000 was spent on these cultural festivals.

### ARTS AND CULTURE

- Donation to 69<sup>th</sup> Upasampadha ceremony of 'Ramangnha Maha Nikaya' held in June 2014 at Gatambe temple, Peradeniya.
- Contribution to 'Iyam Poruwa Gangathilake Viharaya' – Madiwela Kotte to repair the Dharmashalawa and to construct a toilet block.
- Contribution to 'Sapugoda Esala Maha perehara' 2014.
- Contribution to Tissamaharama Ruhunu Poson Maha Perehara 2014.
- Sponsorship of the annual Esala festival of the Ruhunu Maha Katharagama Dewalaya-2014.

- Contribution to 'Sri Dalada Perehara' – Sri Jayawardenapura Kotte Rajamaha Viharaya – Kotte
- Contribution to 'Kanda Udarata Esala Perehara' 2014, Kandy.

## OTHER PROJECTS CARRIED OUT

### CONSTRUCTION OF A PAVILION AT ANAMADUWA IN NORTH WESTERN PROVINCE

A fully pledged pavilion which could accommodate 150 persons at a time was constructed at D.M. Dassanayake play ground at Anamaduwa at a cost of Rs 8.5Mn and handed over to the Anamaduwa Provincial Council during the year.

### HOUSING PROJECT FUND OF AASL

For the sixth consecutive year, AASL donated Rs. 4.5 Mn of funds raised through the till boxes kept at the airport premises to 'Api Wenuwen Api' fund which is created by Ministry of Defense in order to build housing complexes for armed forces personnel who have sacrificed much for our country. With this donation, the total amount donated rises to Rs 43Mn.



1 Armed Forces personnel on a special Educational visit to BIA organized by AASL

2 AASL Staff lend CSR Project

3 Incinerator at BIA

Corporate  
**Governance is .....**

... In **FOCUS**

Out of 32 Annual General Meetings (AGMs) of AASL held upto 2014, 19 AGMs were held at this Board Room located at 2<sup>nd</sup> floor, Arrivals Terminal Building at BIA

## OUR APPROACH AND COMMITMENT

AASL views good Corporate Governance as the underlying principle behind organizational competitiveness, growth and long term sustainability. The widely accepted definition classifies Corporate Governance (CG) as 'the system by which companies are directed and controlled'. The salient features of CG are the mitigation of conflicting interests between stakeholders, accountability and economic efficiency.

All our CG practices are tested to ensure that it leads the Company to encourage the value creation, innovation, economic development and an enhanced standard of quality and service to our customers and the public.

AASL's CG principles are derived from the Public Enterprises Guidelines for Good Governance issued by Department of Public Enterprises, Ministry of Finance under the Category 'A' Commercial Public Enterprises.

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

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

## 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 Civil Aviation in line with the Articles of Association. The Chairman who leads the CG policies of the organization is responsible for providing leadership to the Board is appointed by the Minister. Vice Chairman and Executive Director(s) are appointed among by the Board.

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

- a) To lead the company towards achieving its vision.
- b) To oversee the management, operations and development of the company.

## INDEPENDENCE OF THE BOARD

The Board comprises of 08 Directors, of which 05 are Non-Executive Directors and 03 Executive Directors. This Board composition reflects the independence of management, both in 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 to the Company Secretary who act in professional manner. The Company Secretary ensures that Board procedures are followed and provide guidance on legal requirements regarding Board proceedings.

In addition, the secretary circulates the notice 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 is also executed by the secretary.

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

## 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 Articles of Association.
- c) Framing policies for implementation by the 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. The Corporate Objectives for the planning horizon of 2013-2017 were modified during 2014 by identifying the planning gaps and to increase the degree of attainment of the Vision above.
- e) Ensuring financial discipline and productive use of all resources.
- f) Guaranteeing adequate accountability by delegating responsibility and also by maintaining sufficient records.
- g) Asserting that an effective risk management system is in place, to insulate the Company against disruptions, setbacks etc. and also to minimize the financial and non financial losses to the company.

The Board is responsible for the overall management of the Company through established effective systems of control, the implementation of which is shared 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 the activities of the Management by means of Management Information reports and evaluating performance 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 matched with desired expectations.
- d) Appointing competent personnel as Managers and ensuring that there is adequate delegation and team spirit amongst the Senior Management, by providing an environment that is conducive to carry out respective functions independently and responsibly.
- e) Attending Committee on Public Enterprises (COPE) meetings and Parliamentary Consultative Committee (PCC) meetings.

## THE ROLE OF THE AUDIT AND MANAGEMENT COMMITTEE (AMC) AS A BOARD COMMITTEE

The Board is assisted by the 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 Accounting Standards and assessing implementation of recommendations and directives of the Committee On Public Enterprises.

The AMC comprises of three Non-Executive Directors, Chief Accountant of Ministry of Civil Aviation, Head of Internal Audit and Quality Assurance (H/IA & QA). The three Non-Executive Directors Dr. D S P Senaratne (Chairman of AMC), Mr. J R U De Silva and Mr. Yoga Perera who have been appointed by the Board, served in this committee during the year under review.

The Board receives a report of the Committee's 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 03 meetings during the financial year 2014.

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

## PRINCIPLE 2: TRANSPARENCY, INTEGRITY AND RISK MANAGEMENT

Independent verification to safeguard the integrity of the Company's financial reporting, which demands enhanced governance, accountability and transparency are assured by the AMC.

## INTERNAL AUDIT

In terms of the Treasury Circular DMA/2009(1), Financial Regulation 134 (1) and Sri Lanka Accounting and Auditing Standards Act No 15 of 1995,

IA&QA Division has been allowed to be independent of the control of those who are responsible for or are actually carrying out the Financial and Accounting operations of AASL, as well as those engaged in the execution of Schemes and Projects or Performance of work and Services

rendered by AASL.

AMC is strongly supported by an established Internal Audit and Quality Assurance (IA & QA) Division. The Head of IA & QA functionally reports to the AMC and administratively to the Chairman.

The main focus of the IA & QA is to provide independent assurance on the overall system of internal control, risk management and governance process 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. The audit activities include:

- Reviewing strategic plans, business processes and improving initiatives.
- The Head of IA & QA ensure that major decisions undertaken by the Board of Directors are implemented effectively.
- Evaluating and making recommendations on risk assessment over management decisions and activities under the purview of each division of the AASL, to the AMC and the Chairman of the AASL.
- Making observations on risk assessment by external auditors in respect of systems and controls.
- Adhoc and periodic financial reviews with respect to income and expenditure and its recognition as well as reporting.
- Undertaking quality audits regarding selected airport facilities and airport services.
- Review of procurement procedures in compliance with the National Procurement Agency guidelines.

The IQ & QA undertook many assignments during the year under review covering the aforementioned areas.

## PRINCIPLE 3: ACCOUNTABILITY TO THE GOVERNMENT AS THE KEY STAKEHOLDER

As a fully owned government company, accountability to the Government is exercised by 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.

## 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 – 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 committee for one such meeting.

## PCC

The Parliamentary Consultative Committee (PCC) on Aviation has the power to request the Chairman, Board of Directors and Senior Managers of the company to be present at meetings of the Committee, to clarify queries raised on any matters of interest or concern regarding the operations of the Company. AASL was summoned by PCC, two times in the year 2014.

## MINISTER OF FINANCE / GENERAL TREASURY

The Minister of Finance or the General Treasury on his behalf is responsible for financial discipline in the public sector, including public enterprises. A Treasury representative is appointed to the Board to monitor performance, ensure compliance with statutes, rules and regulations etc. and to report on any matters of concern to the Minister.

Mr. D S P Senaratne, 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 CIVIL AVIATION

The Secretary of the Ministry of 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 the following matters with the Board.

1. Corporate Plan and Budgets
2. Physical and financial performance of the current year
3. Management Letter on Company
4. Development activities undertaken during the year
5. Matters arising from meetings of the COPE

## PRINCIPLE 4: RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

We believe that stakeholder value is enhanced when we treat our stakeholders well and have a reputation for civic responsibility and legal compliance. In light of that, the Company recognises the legal and other obligations to all legitimate stakeholders including the Government as the key stockholder and other stockholders and to other constituencies, including employees, users of the airport (airlines, passengers and the business community who run their businesses inside the airport), suppliers and other service providers and the community as a whole. These obligations are best viewed as part of the paramount duty to optimize long term stakeholder value.

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

1. Due diligence by the Board and Management to the regulatory framework.
2. Fulfilling the responsibilities of the Government, acting as the agent 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.

#### PRINCIPLE 5: TIMELY AND BALANCED DISCLOSURE

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

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

# RISK MANAGEMENT

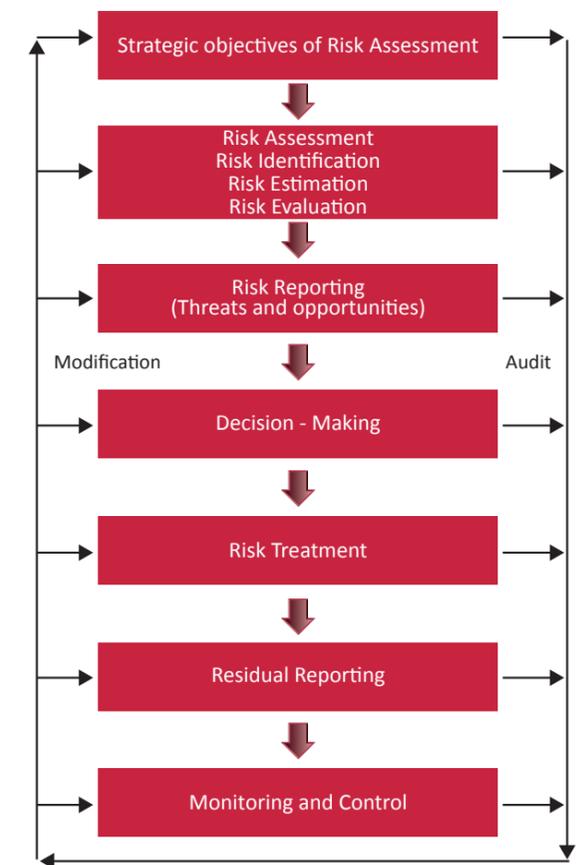
As the statutory service provider of the Government of Sri Lanka who manage and develop three airports in the country namely BIA, MRIA and RMA; AASL shoulders a multitude of risks that not only threatens the operational and financial performance of the organization, but also the image of the country at large. Therefore, at AASL, Risk Management is one of the key elements in the Corporate Governance framework, and the Board is responsible for the effectiveness of the AASL's system of internal control and Risk Management.

- To give an assurance that the quality of our business remains constant, whilst allowing for the ability to respond swiftly to changes and new developments.
- Create an appropriate balance between entrepreneurship and the risk associated with business opportunities.

Risk Management cycle at AASL is presented by way of a diagram as follows.

Objectives of Risk Management are as follows.

- Establishment and maintenance of sound systems of internal controls to mitigate all types of risks.
- Create awareness on concept of risk management to staff and educate them on risk management practices
- Communicate risk assessment and risk response to those concerned
- Obtaining qualitative, sufficient and accurate information in timely manner.
- Ensure the existence of expertise in understanding technical and complex information
- Establish risk appetite
- To enable AASL to be successful in achieving its financial and non financial objectives
- To identify the risks faced by AASL by using appropriate risk identification methods
- Continuous improvement of the ability to respond and mitigate risks facing AASL
- Maintains AASL's reputation
- To help AASL to be socially responsible and be seen as a good corporate citizen
- To apply an appropriate risk response strategy for each category of risk.



- Our risk assessment process comprises risk evaluation through risk identification. Risk identification requires an excellent knowledge of AASL's Objectives, aviation services, markets and a continuous study on the impact of external factors, namely; Legal, Political, Economic, Social and Technological environment in which the company operates. Risk identification involves perceiving hazards, identifying failures and recognizing adverse consequences.
- AASL adopts two methods of approach for identifying risks – top down (management knows well) and bottom up (operatives know best). AASL adopts root cause analysis to investigate the cause of risks by working backwards and considering all possible cases.
- Based on risk identification and its impact on the business, AASL takes decisions as to whether the each specific risk should be accepted or treated by comparing it with the risk profile of AASL.
- Risk Reporting : AASL's risk reporting addresses the control systems for risk management, processes used to identify and respond to risks, methods used to manage significant risks and monitoring and reviewing of systems.
- Risk Treatment: Risk response is the process of selecting and implementing measures to mitigate the risks, while considering alternative courses of action. These actions include avoidance, reduction, sharing and acceptance of risks which depend on the risk appetite of AASL.
- Residual Reporting : Reporting risks that are left over after all other major risks are treated.
- Monitoring : Once the risk treatment is developed and implemented, the success of such implementation depends on monitoring by the risk management team.
- The cycle is repeated as an ongoing process, with modifications effected whenever the need arises at each stage of risk management cycle. Any information gathered during the cycle process is used to refine the process.

Our risks, corresponding impacts and Risk Response strategies are as follows.

| Risk Category and Description  | Potential Impact on AASL  | Risk Response strategies   |
|--|---|--|
| <b>Strategic Risks</b>   |   |  |
| <b>Industry/country risks</b><br>Air traffic volume growth rate<br>AASL's business operations are dependent on the volume and growth of air traffic, which are significantly affected by tourism influx into the country. And also subjected to seasonal fluctuations. | <ul style="list-style-type: none"> <li>• Inability to achieve targeted profitability &amp; returns</li> </ul>                                   | <ul style="list-style-type: none"> <li>• Joint marketing efforts to boost tourism in the country with Sri Lanka Tourism.</li> </ul>  |
| <b>High dependency on national carriers.</b><br>Sri Lankan Airlines is the largest customer of AASL with a 53% share of passenger volume of the BIA.   | <ul style="list-style-type: none"> <li>• Exposing AASL to a high level of structural risks in terms of the market and customer base.</li> </ul> | <ul style="list-style-type: none"> <li>• 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-sky policy.</li> </ul> |

| Risk Category and Description  | Potential Impact on AASL   | Risk Response strategies  |
|--|--|---|
| <b>Strategic Risks (Contd.)</b>  |  |   |
| <b>Market development risk for the second international airport</b><br>Risk of client base | <ul style="list-style-type: none"> <li>• The year of breakeven &amp; the payback period of the project would be longer</li> </ul>  | <ul style="list-style-type: none"> <li>• Marketing efforts are focused on identifying and expanding the market potential for MRIA. Scenario analysis and forecasts, traffic forecasts, route forecasts and catchment area analysis etc. are some of such vital steps.</li> <li>• Promotional activities are undertaken by the Marketing Division, with the bodies collectively in the tourism and aviation cluster.</li> </ul>  |
| <b>Operational Risks</b>   |  |   |
| <b>Loss or damages to aviation assets</b>  | <ul style="list-style-type: none"> <li>• Cost overruns &amp; loss of profit</li> </ul>   | <ul style="list-style-type: none"> <li>• In addition to the appropriate safety and fire protection measures, emergency plans are rehearsed on a regular basis.</li> <li>• Transference of risk to third parties through insurance policies is considered a mandatory practice.</li> </ul>   |
| <b>Exposure to high level of operational gearing due to large capital investments</b>      | <ul style="list-style-type: none"> <li>• If the company's Return on Assets (ROA) does not exceed the interest on the loan, it will greatly diminish the company's return on equity and profitability.</li> </ul> | <ul style="list-style-type: none"> <li>• All major investment decisions are made following a project feasibility evaluation. The most widely used techniques include CFROI, Payback period, NPV, EVA and IRR.</li> <li>• Capital rationing, or in other words, limiting the investments in capital assets and projects is adopted through the annual budgeting process in order to maintain a healthy liquidity and adequate financial leverage to plan out long term projects. The prioritization in the capital rationing process is done based on the critical nature and business importance of the proposed capital asset or project.</li> <li>• AASL's expenditure commitment is determined by the ceiling dictated by liquidity and gearing ratios, while the funds for other projects over and above this upper limit are sought through external sources.</li> </ul> |

| Risk Category and Description   | Potential Impact on AASL   | Risk Response strategies  |
|---|--|---|
| <b>Operational Risks (Contd.)</b>   |  |   |
| <b>Legal Risks</b><br>Risks associated with deaths/bodily injury to passengers and public using the three airports and property damage. | <ul style="list-style-type: none"> <li>Apart from the financial loss to be borne by AASL arising due to legal obligations, there will be negative consequences on safety.</li> </ul> | <ul style="list-style-type: none"> <li>The airport operators Liability Insurance Policy was introduced to cover accidents within the airports.</li> <li>The Public Liability Insurance Policy was made mandatory in the Agreements of Airline Operators, Duty Free Shops and other concessionaires, to cover the legal risks associated with deaths/damages to third parties within their contracted areas.</li> <li>The 'Contractors All Risks' Insurance Policy which all contractors should submit at the time of entering into contracts with AASL, is yet another cover for risks associated with construction contracts within airports.</li> <li>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 risks.</li> </ul> |
| <b>Non- compliance to environmental standards</b>   | <ul style="list-style-type: none"> <li>Sustainability issues resulted from the ignorance of the environmental balance</li> </ul>   | <ul style="list-style-type: none"> <li>Adhering to the environmental standards required by the Central Environmental Authority.</li> <li>The exchange of information is done with the involvement of local citizens in the mediation process or through neighbourhood advisory boards.</li> </ul>   |
| <b>Wilful damages to computer systems and risks</b>   | <ul style="list-style-type: none"> <li>Disruption to operations, Passenger dissatisfaction, loss of competitive advantage</li> </ul>   | <ul style="list-style-type: none"> <li>To combat the risks of hackers and viruses to our confidential, sensitive and safety related information, an effective firewall mechanism is in place.</li> <li>Also in operation are the advanced system authentication controls 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.</li> </ul>  |

| Risk Category and Description   | Potential Impact on AASL  | Risk Response strategies   |
|---|---|--|
| <b>Operational Risks (Contd.)</b>                                       |   |  |
| <b>Frauds, Breakdown of internal controls, processes and procedures</b> | <ul style="list-style-type: none"> <li>Disruption to operation, loss of profits &amp; dissipation of Resources</li> </ul> | <ul style="list-style-type: none"> <li>A stringent system of internal controls is in operations such as standardized financial procedures and ISO certified Quality Management System audits (Compliance Audits).</li> <li>Periodic reviews and implementation of effective internal controls by the Internal Audit department are supplemented by regular management audits carried out by internal teams within the Organization.</li> </ul>   |
| <b>Failure of Systems</b>   | <ul style="list-style-type: none"> <li>Obstruction to operations</li> </ul>   | <ul style="list-style-type: none"> <li>Pre- monitoring mechanisms as well as post monitoring and detection systems are in place to prevent and minimize the system failures. The Central Fault monitoring system is such a pre monitoring system which displays the current status and faults graphically and warns on future collapses.</li> <li>Fire detection systems and contingency plans are in place to ensure the prompt detection of faults while minimizing the loss or damage.</li> <li>Data Centre at airport support the advanced technologies like network virtualization, Server virtualization &amp; consolidation and Storage virtualization</li> <li>AASL is currently discharging the business continuity services enabling minimization 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.</li> </ul> |

| Risk Category and Description           | Potential Impact on AASL  | Risk Response strategies   |
|---|---|--|
| <b>Operational Risks (Contd.)</b>       |   |  |
| <b>Risks associated with sourcing</b>   | <ul style="list-style-type: none"> <li>Compromise the Price, quality &amp; brand competitiveness of purchases of goods &amp; services obtained</li> </ul> | <ul style="list-style-type: none"> <li>The strict adherence to tender guidelines prevent us from exposure to most of the frequently found risks.</li> <li>The suppliers' capacity to do business with us 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.</li> <li>The contract agreements are the key to controlling the risk associated with outsourcing, continuous supply, timely delivery and after sales service.</li> <li>Once the potential customers and suppliers have qualified and been awarded contracts to participate in our inbound and outbound logistics chain, the risks of non-performance by the suppliers are covered through standard conditions introduced through performance bonds and bid bonds against bank guarantees.</li> <li>Payment default risks associated with customers are minimized by obtaining bank guarantees, which sufficiently cover us from any monetary losses, in the event of a payment default.</li> </ul> |
| <b>Interruption in utility services</b> | <ul style="list-style-type: none"> <li>Obstruction to operations</li> </ul>   | <ul style="list-style-type: none"> <li>Improvement of the ground water harvesting system through additional bore wells in order to reduce the overdependence on the main water supply system to ensure an uninterrupted supply of water.</li> <li>A sufficient number of Generators with the required capacity have been deployed as the back-up plan in case of electricity failure.</li> </ul>   |

| Risk Category and Description  | Potential Impact on AASL   | Risk Response strategies  |
|--|--|---|
| <b>Operational Risks (Contd.)</b>  |  |   |
| <b>Security Risks</b><br>Risks associated with aviation security namely global terrorism, drug trafficking, dangerous liquids and solids, un-quarantined animals and plants, unruly passengers, contrabands and touting for customers etc. | <ul style="list-style-type: none"> <li>Malicious acts against passengers, aircraft and other aviation assets and threats to border security</li> </ul>   | <ul style="list-style-type: none"> <li>The airport security personnel of AASL work collaboratively with the BIA's in-house supervisory resources namely; Customs, Immigration, Air Force and Police help in keeping these occurrences to a minimum.</li> </ul>  |
| <b>Safety Risks</b><br><b>Bird Population trends</b>   | <ul style="list-style-type: none"> <li>Accidents and incidents due to Bird strikes may result in fatal injuries and damages to aircraft. Consequently, the airlines may step out from flying.</li> </ul> | <ul style="list-style-type: none"> <li>Measures taken primarily at aerodrome, such as avifauna assessment and management.</li> <li>The bird hazard control unit executes the recommendations spelled out by the Field Ornithology Group of Sri Lanka attached to Department of Zoology of University of Colombo in their periodic study revealing carried out at both BIA and MRIA.</li> </ul>  |
| <b>Aircraft incidents/ accidents in the Colombo Flight Information Region</b>  | <ul style="list-style-type: none"> <li>Airlines may step out from flying. Will result in loss of business.</li> </ul>  | <ul style="list-style-type: none"> <li>Regulation, Education and Training.</li> <li>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. The in-house 'Safety Management System' described under MDA further enhances the effectiveness in our approach in minimizing the safety risks.</li> </ul> |
| <b>Health Risks</b><br>Spreading of communicable diseases due to air travel  | <ul style="list-style-type: none"> <li>In case there are no preventive and precautionary measures, the passengers may opt to avoid the country as a flying destination.</li> </ul>                       | <ul style="list-style-type: none"> <li>AASL Medical unit in collaboration with Ministry of Health and WHO country office takes precautionary measures, such as screening of passengers, awareness campaigns etc.at BIA and MRIA while keeping medical staff on the highest alert.</li> </ul>  |

| Risk Category and Description   | Potential Impact on AASL   | Risk Response strategies   |
|---|--|--|
| <b>Operational Risks (Contd.)</b>   |  |  |
| <b>Financial Risks</b><br><b>Risk of fluctuations of Parity Rates</b><br>Exposure or uncertainty inherent in dealing with more than one currency that does not have fixed – parity values | <ul style="list-style-type: none"> <li>Adverse impact on profitability and liquidity on translation of foreign currency transactions to base reporting currency</li> </ul> | <ul style="list-style-type: none"> <li>The liquidity risk arising out of default payment is mitigated by charging a default interest income at a rate over and above the lending rate offered by Government securities.</li> </ul>   |
| <b>Adverse interest rate fluctuations and default risk of investments</b>   | <ul style="list-style-type: none"> <li>Stunted growth prospects &amp; high opportunity cost</li> </ul>   | <ul style="list-style-type: none"> <li>Invest in daily overnight Treasury bills.</li> <li>In order to minimize interest rate risk and improve yields we purchase number of bonds along the short to long term maturity spectrum.</li> <li>Invested on 100% secured investment tools with guaranteed returns.</li> </ul>  |
| <b>Risk of default by the debtors</b>   | <ul style="list-style-type: none"> <li>Loss of profit &amp; higher working capital requirement</li> </ul>  | <ul style="list-style-type: none"> <li>Prior to permitting or extending a credit line, AASL obtains bank guarantees from their debtors, based on predetermined limits of credit which adequately cover the risk of default.</li> <li>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.</li> <li>Entering into guaranteed performance contracts with minimum parameters dictated for turnover earned by concessionaires at BIA. Bank guarantees are incorporated in to the agreements, which also cover penalties, duration and settlement procedures.</li> </ul> |

| Risk Category and Description   | Potential Impact on AASL   | Risk Response strategies  |
|---|--|---|
| <b>Operational Risks (Contd.)</b>   |  |   |
| <b>Human Resources Risk</b><br><br>Loss of trained and skilled employees and brain drain  | <ul style="list-style-type: none"> <li>High training costs and disturbance to business continuity planning</li> </ul>  | <ul style="list-style-type: none"> <li>The fair and equitable remuneration structure provides special allowances for professional, academic and technical qualifications, in order to retain the portion of professional cadre.</li> <li>Foreign employment and exposure opportunities are granted on no-pay terms and combined with bonded contracts.</li> </ul> |
| <b>Reputation Risks</b><br><br>Perceptions and misconceptions of stakeholders may ruin the reputation.<br><br>Adverse publicity | <ul style="list-style-type: none"> <li>Customer dissatisfaction</li> <li>Decline the brand value of the company</li> <li>Loss of competitive advantage</li> <li>Adverse impact on Sustainable business management</li> </ul> | <ul style="list-style-type: none"> <li>The realization of risks 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.</li> </ul>                     |

# FINANCIAL REPORTS & CALENDAR ARE .....

... In Focus



## FINANCIAL REPORTS

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## FINANCIAL CALENDAR

Final Dividends for 2013 was paid on  
**October 28, 2014**

Annual Report and Accounts for 2014  
signed on **June 25, 2015**

Thirty third Annual General Meeting to  
be held on **June 30, 2015**

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

## ABOUT THE COMPANY

AASL is a fully Government owned company with statutory powers to manage and develop civil airports in Sri Lanka. The details set out herein, provide the pertinent information required by the Companies Act No. 7 of 2007, and are guided by best 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 4 November, 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 BIA, MRIA and the Colombo Airport, Ratmalana.
2. The provision and maintenance of search rescue and fire fighting services and aviation security services at the aerodromes specified above.
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 aircraft and passengers within the FIR

## REVIEW OF OPERATIONS

The reviews of this report 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 statement 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 Accounting Standards (SLFRS/LKAS) and requirement of the Companies Act No.7 of 2007.

The Directors are satisfied that the financial statement presented on pages from 68 to 100 give 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 pages from 65 to 66.

## SIGNIFICANT ACCOUNTING POLICIES

There are no significant changes of any accounting policies during the year 2014. The Company adopted Sri Lanka accounting Standards, (LKAS/SLFRS) during the year 2014 and is compliant with the previous year. The accounting policies adopted in the preparation of financial statements are given on pages from 72 to 82.

## CORPORATE SOCIAL RESPONSIBILITY (CSR)

The total contribution for CSR by AASL during the year amounted to Rs. 25.1Mn.

## 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 cover all financial and risk management activities, in addition to-

reviewing systems effectiveness in terms of achieving the Company's strategic goals and objectives. This is done in accordance with the provision made under the corporate governance framework described on pages from 45 to 49.

## FUTURE DEVELOPMENTS

The proposed capacity expansion of BIA in terms of a further 9 Mn PPA, overlay the BIA runway, and the enhancement of infrastructure, resorts, and associated property developments at both BIA as well as MRIA along with aircraft Maintenance, Repair and Overhaul (MRO) facility as well as upgrading of aerodrome facility at MRIA 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

### Turnover

The Company recorded the highest ever Gross Turnover amounting to Rs. 13.7 Bn. A detailed analysis of turnover and profit are presented in the Financial Review.

### Operating Results

The Company reported the Profit Before Tax (PBT) amounting to Rs. 5.5Bn. for the year ended 2014, which is an increase of 16% compared to the previous year. However, there was a drop in Profit After Tax (PAT) by 8% from the preceding year to Rs 3.3Bn due to increase in deferred tax provision.

The Table 01 below shows, how Comprehensive Income is made up of PBT for the year 2014 compared to the preceding year.

|   | 2014<br>Rs.Mn | 2013<br>Rs.Mn |
|---|---------------|---------------|
| PBT after payment of all operating expenditure and provision for depreciation | 5,496         | 4,746         |
| Less : Taxation   | 2,211         | 1,192         |
| PAT for the year  | 3,285         | 3,554         |
| Other comprehensive Income  | -             | -             |
| Gain arising from changes in actuarial assumption                             | 452           | 171           |
| Total Comprehensive Income  | 3,737         | 3,724         |

Table 01

## RESERVES

The reserve for the Company has been increased to Rs.10,659 Mn as at December 31, 2014, from Rs.7,421 Mn in 2013, as a result of increase in retained earnings by Rs. 3,225Mn and other reserves by Rs. 12Mn. The movement in reserves of the Company is shown in the Statement of Changes in Equity on page 70.

## DIVIDENDS

The Directors declared and paid a final dividend of Rs. 500 Mn to General Treasury on October 28, 2014 out of PAT of 2013. The dividends to be paid out of PAT of 2014 is to be proposed at the AGM to be held on June 30, 2015.

## CAPITAL EXPENDITURE

The capital expenditure of the Company was Rs. 1,234 Mn in the year under review, compared to Rs. 6,378 Mn in 2013. The movements in property, plant and equipment during the year is set out in note No. 12 of the financial statements.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY **Contd.**

## EVENTS AFTER THE BALANCE SHEET DATE

No material events that require adjustment to the Financial Statement 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 risks, 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, 2014, are given in notes 27 and 28 on page 100 of the Financial Statements.

## SHARE CAPITAL

The share capital of the Company appears in the Company accounts and comprises ordinary shares at Rs. 100/= each. The shareholding as at December 31, 2014 is as follows:

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

Table 02

## INFORMATION ON THE BOARD OF DIRECTORS AND BOARD SUBCOMMITTEES

### DIRECTORATE

The names of the 09 Directors who held office at the end of the financial year are given below. There were neither new appointments nor cessations to/from the Board during the year. The appointment of the Chairman (Article 79) and Non-Executive Directors (Article 82) have been done as per the terms shown in above parenthesis of the Articles of Association of AASL.

|                           |                      |
|---------------------------|----------------------|
| Prasanna J Wickramasuriya | - Chairman           |
| Kamal S Ratwatte          | - Vice Chairman      |
| Yohanne Jayaratne         | - Executive Director |
| Kosala R Wickramanayake   | - Director           |
| Ananda Goonatileke        | - Director           |
| Yoga Perera               | - Director           |
| Shanika Gopallawa         | - Directress         |
| J R U De Silva            | - Director           |
| S P Senaratne             | - Director           |

A new board has been appointed on January 30, 2015. (The names of the new board members and the group photograph are shown in pages 7 and 8)

### BOARD COMMITTEES

The Audit and Management Committee (AMC) is established by the Board for better monitoring and guidance for operations and internal control. It comprises three Non-Executive Directors appointed by the Board; namely Mr. S P Senaratne who acted as the Chairman of AMC, J R U de Silva and Yoga Perera. The other member who served in this committee during the year was the Chief Accountant of the Ministry of Civil Aviation. The Head of Internal Audit & Quality Assurance acted as the convener and the secretary of AMC during the year.

### 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 or as at December 31, 2014.

## DIRECTORS' REMUNERATION AND OTHER BENEFITS

There were three Executive Directors and a Non-Executive Directress (as per clause 77 of the Article of Association) who were paid Rs. 22.2 Mn during the year as remuneration. This included all financial benefits namely salary, EPF, ETF, reimbursement of entertainment, telephone, leave, other allowance and bonus. The others who were Non Executive Directors were paid an amount of Rs. 461,333/- being the cost of travelling allowances and directors' fees for attending the Board meetings.

## SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

The Company is committed to operating in an ethical and environmentally sustainable manner. Details of the Company's commitment to this approach, and community involvement and charitable donations, can be found in the Review of Sustainability Management.

## 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

Ms PricewaterhouseCoopers, Chartered Accountants, were appointed, in terms of Section 158 of the Company Act No. 7 of 2007, as auditors of the Company. The audit fee for the current year is Rs.536,535 (2013: Rs 1,395,775). The fees paid to the auditors for non-audit services for the year is Nil (2013: Rs. 315,840)

## ANNUAL GENERAL MEETING (AGM)

The AGM is scheduled to be held on June 30, 2015 at the board room of AASL at 3.00 pm

## ACKNOWLEDGEMENT

The Board of Directors wishes to thank and appreciate the direction and guidance provided by the preceding board who ceased to hold the office during the first quarter of 2015.

They also wish to congratulate the management team for their encouragement, professionalism, and constructive criticism and wisdom, which contributed towards the achievement of greater triumphs by Company.

Further, they wish to express their gratitude towards the Government of Sri Lanka, the Ministry of Civil Aviation and other institutions that continued to assist the company in its endeavors.

Last but not least our gratitude goes to the all AASL staff for their commitment, integrity, and hard work. We consider our staff to be our most valuable intangible asset.

BY ORDER OF THE BOARD



G H Ananda Wimalasena  
Chairman  
June 26, 2015

# INDEPENDENT AUDITOR'S REPORT



To the shareholders of Airport & Aviation Services (Sri Lanka) Limited

## REPORT ON THE FINANCIAL STATEMENTS

1 We have audited the accompanying financial statements of Airport & Aviation Services (Sri Lanka) Limited which comprise the Statement of financial Position as at 31 December 2014, and the Statement of Comprehensive Income, Changes in Equity and Statement of Cash Flows for the year then ended, and notes, comprising a Summary of Significant Accounting Policies and other Explanatory Information as set out on pages 72 to 100

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

2 Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

# INDEPENDENT AUDITOR'S REPORT

To the shareholders of Airport & Aviation Services (Sri Lanka) Limited (Contd.)

## BASIS FOR QUALIFIED OPINION

4 The statement of financial position includes property, plant and equipment relating to the Mattala Rajapaksha International Airport (MRIA) with a carrying amount of Rs. 26,761,070,163 as at 31 December 2014. From the beginning of 2015 there had been a downturn in the operations of MRJA and presently flight movements are limited to a single airline with passenger movements declining from 1,218 in January 2014 to 196 in May 2015. We consider these to be indicators of impairment in accordance with LKAS 36, Impairment of assets, as the economic performance of MRJA has deteriorated at the date of this report with full potential of the airport not expected to be realized in the near future. However, management has not carried out an impairment assessment to check whether there is any indication that MRJA may be impaired, on the basis of it being a separate cash generating unit, and thereby has not carried out an impairment test to determine whether any impairment write down should be applied to the amounts recorded in the statement of financial position at 31 December 2014. In the absence of information to assess the recoverable amount of the property, plant and equipment of MRJA, we are unable to satisfy ourselves as to the carrying amount of such property, plant and equipment as at 31 December 2014.

## QUALIFIED OPINION

5 In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the financial position of Airport & Aviation Services (Sri Lanka) Limited as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## EMPHASIS OF MATTER

6 We draw attention to Note 2.1.1 to the Financial Statements which explains the basis for amalgamating the financial statements of the company with the government grant for capital expenditure (Voted Fund) and the Retained Revenue Fund. Our opinion is not qualified in respect of this matter.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

7 These Financial Statements also comply with the requirements of Section 151 (2) of the Companies Act, No. 07 of 2007.

## CHARTERED ACCOUNTANTS

26<sup>th</sup> June 2015

COLOMBO

PricewaterhouseCoopers, P. O. Box 918, 100 Braybrooke Place, Colombo 2, Sri Lanka  
T: +94 (11) 771 9838, 471 9838, F: +94 (11) 230 3197, www.pwc.com/lk

Partners Y. Kanagasabai FCA, D.T.S.H. Mudalige FCA, C.S. Manoharan FCA, N.R. Gunasekera FCA,  
S. Gajendran FCA, Ms. S. Hadgie FCA, Ms. S. Perera ACA, T.U. Jayasinghe ACA

PricewaterhouseCoopers is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

## CLARIFICATION OF MANAGEMENT ON AUDITOR'S QUALIFIED OPINION

1. As highlighted by the Auditors, there were 1,218 passenger movements at MRIA in January 2014, while 2,620 and 1,307 passenger movements were recorded in January and February 2015 respectively. However, due to the policy decision made by Srilankan Airlines, their flights were stopped with effect from February 2015. Consequently, from March 2015 onwards passenger movements were declining. We are of the opinion that a short three months period (from March 2015 to May 2015) is not sufficient to justify such an assessment of a project of this magnitude.

2. Management and Board of Directors of AASL have provided the Auditors with proposals and plans for better utilization of this Airport, which in their opinion, would substantially improve the performance of the airport in the short, medium and long term.

3. Airports internationally are long term projects and it requires sufficient time, generally in excess of 15-20 years to become profitable.

4. These projects are not either short life or medium life, but long life enterprises and it is not appropriate to be assessed as purely commercial ventures with short term SPANS.



ANANDA WIMALASENA  
CHAIRMAN  
ON BEHALF OF THE BOARD  
29<sup>th</sup> JUNE, 2015

## STATEMENT OF COMPREHENSIVE INCOME

| Year ended December 31  | Note | 2014                   | 2013            |
|---|------|------------------------|-----------------|
|   |      | Rs.                    | Rs.             |
| <b>Revenue</b>  | 5    | <b>13,612,558,544</b>  | 12,219,410,803  |
| Other Income  | 6    | <b>129,642,459</b>     | (109,727,814)   |
|   |      | <b>13,742,201,003</b>  | 12,109,682,988  |
| Administrative, Establishment and Marketing Expenses                                | 7    | <b>(9,421,541,976)</b> | (9,218,845,691) |
| <b>Operating Profit</b>   |      | <b>4,320,659,027</b>   | 2,890,837,297   |
| Finance (cost)/ Income - Net  | 8    | <b>1,175,370,739</b>   | 1,854,833,363   |
| <b>Profit Before Tax</b>  |      | <b>5,496,029,766</b>   | 4,745,670,660   |
| Income Tax Expenses   | 9    | <b>(2,210,864,900)</b> | (1,192,120,539) |
| <b>Profit for the Year</b>  |      | <b>3,285,164,866</b>   | 3,553,550,120   |
| Basic Earning Per Share   | 10   | <b>16,426</b>          | 17,768          |
| <b>Other Comprehensive Income</b>   |      |                        |                 |
| Gain arising from changes in assumptions on computing retirement benefit obligation | 23   | <b>451,965,325</b>     | 170,789,838     |
| <b>Total Other Comprehensive Income</b>   |      | <b>451,965,325</b>     | 170,789,838     |
| <b>Total Comprehensive Income for the Year</b>                                      |      | <b>3,737,130,191</b>   | 3,724,339,958   |

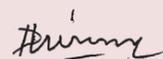
The note on pages 72 to 100 form an intergral part of these financial statements.

Independent Auditors Report on Page 65 to 66

## Statement of Financial Position

| As at December 31   | Note | 2014<br>Rs.           | 2013<br>Rs.           |
|---|------|-----------------------|-----------------------|
| <b>ASSETS</b>   |      |                       |                       |
| <b>Non-Current Assets</b>   |      |                       |                       |
| Property, Plant and Equipment                                     | 12   | 41,080,043,445        | 43,841,742,259        |
| Intangible Assets   | 13   | 27,251,433            | 22,331,676            |
| Deferred Tax Assets   | 14   | 707,123,424           | 729,040,167           |
| Investment in Debentures  | 15   | 2,550,000,000         | 2,550,000,000         |
| Loans to Company Officers   | 17   | 76,573,944            | 49,486,091            |
|   |      | <b>44,440,992,246</b> | <b>47,192,600,193</b> |
| <b>Current Assets</b>   |      |                       |                       |
| Inventories   | 16   | 265,250,647           | 367,704,670           |
| Trade and Other Receivables                                       | 17   | 3,805,846,607         | 4,288,154,564         |
| Income Tax Receivable   | 18   | 643,041,022           | 392,812,336           |
| Treasury Bills Repurchase agreements and short term bank deposits | 19   | 9,639,936,284         | 3,641,320,794         |
| Cash and Cash Equivalents   | 19   | 597,887,449           | 389,358,998           |
|   |      | <b>14,951,962,009</b> | <b>9,079,351,362</b>  |
| <b>Total Assets</b>   |      | <b>59,392,954,255</b> | <b>56,271,951,555</b> |
| <b>EQUITY AND LIABILITIES</b>                                     |      |                       |                       |
| <b>Capital and Reserves</b>                                       |      |                       |                       |
| Stated Capital  | 20   | 20,000,200            | 20,000,200            |
| Reserves  | 21   | 1,004,726,769         | 992,726,769           |
| Retained Earnings   |      | 9,653,787,232         | 6,428,657,042         |
|   |      | <b>10,678,514,201</b> | <b>7,441,384,011</b>  |
| <b>Non-Current Liabilities</b>                                    |      |                       |                       |
| Borrowings  | 22   | 33,731,461,267        | 36,569,711,285        |
| Retirement Benefit Obligation                                     | 23   | 2,255,951,234         | 2,336,496,517         |
| Deferred Tax Liability  | 14   | 3,630,708,665         | 1,258,999,351         |
| Deferred Government Grant   | 24   | 1,436,666,249         | 1,607,202,584         |
|   |      | <b>41,054,787,415</b> | <b>41,772,409,737</b> |
| <b>Current Liabilities</b>  |      |                       |                       |
| Trade and Other Payables  | 25   | 5,471,460,267         | 6,310,379,613         |
| Borrowings  | 22   | 2,188,192,372         | 747,778,194           |
|   |      | <b>7,659,652,639</b>  | <b>7,058,157,807</b>  |
| Total Liabilities   |      | <b>48,714,440,054</b> | <b>48,830,567,544</b> |
| <b>Total Equity and Liabilities</b>                               |      | <b>59,392,954,255</b> | <b>56,271,951,555</b> |

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 for issue by the Board of Directors on June 25, 2015



Chairman



Executive Director

Signed on behalf of the Board on June 25, 2015

The notes on pages 72 to 100 form an integral part of these financial statements.

Independent Auditors Report on Page 65 to 66

## Statement of Changes in Equity

|  | Note | Stated Capital<br>Rs. | Other Reserves<br>Rs. | Retained Earnings<br>Rs. | Total<br>Rs.          |
|--|------|-----------------------|-----------------------|--------------------------|-----------------------|
| Balance as at January 01, 2013         |      | 20,000,200            | 892,726,769           | 3,304,317,084            | 4,217,044,053         |
| Dividend Paid                          | 11   | Nil                   | Nil                   | (500,000,000)            | (500,000,000)         |
| Profit for the year                    |      | Nil                   | Nil                   | 3,553,550,120            | 3,553,550,120         |
| Transfer to Reserve Account            |      | Nil                   | 100,000,000           | (100,000,000)            | Nil                   |
| Other Comprehensive Income             |      | Nil                   | Nil                   | 170,789,838              | 170,789,838           |
| Balance as at December 31, 2013        |      | 20,000,200            | 992,726,769           | 6,428,657,042            | 7,441,384,011         |
| <b>Balance at January 01, 2014</b>     |      | <b>20,000,200</b>     | <b>992,726,769</b>    | <b>6,428,657,042</b>     | <b>7,441,384,011</b>  |
| Dividend Paid                          | 11   | Nil                   | Nil                   | (500,000,000)            | (500,000,000)         |
| Profit for the year                    |      | Nil                   | Nil                   | 3,285,164,867            | 3,285,164,867         |
| Transfer to Reserve Account            |      | Nil                   | 12,000,000            | (12,000,000)             | Nil                   |
| Other Comprehensive Income             |      | Nil                   | Nil                   | 451,965,325              | 451,965,325           |
| <b>Balance as at December 31, 2014</b> |      | <b>20,000,200</b>     | <b>1,004,726,769</b>  | <b>9,653,787,233</b>     | <b>10,678,514,202</b> |

The notes on pages 72 to 100 form an integral part of these Financial Statements.

Independent Auditors Report on Page 65 to 66

# Statement of Cash Flows

| Year ended December 31                                  | Note | 2014<br>Rs.     | 2013<br>Rs.     |
|---|------|-----------------|-----------------|
| <b>Cash Flows from Operating Activities</b>             |      |                 |                 |
| Profit Before Income Tax Expenses                       |      | 5,496,029,766   | 4,745,670,660   |
| <b>Adjustment for :</b>                                 |      |                 |                 |
| Depreciation  | 12   | 2,624,562,243   | 1,745,934,943   |
| Amortization  | 13   | 8,116,711       | 5,487,647       |
| Exchange (Gain)/Loss                                    | 22   | (1,164,566,849) | (1,710,553,888) |
| Income from Investment                                  | 8    | (698,867,771)   | (704,800,969)   |
| (Profit)/Loss on Sales of Property, Plant and Equipment |      | (2,284,013)     | (1,504,067)     |
| Written off   | 12   | 207,062,809     | Nil             |
| Amortization of Deferred Government Grants              | 24   | (150,918,051)   | 208,702,010     |
| Finance Cost  | 8    | 700,144,990     | 573,573,582     |
| Provision for Retirement Benefit Plan                   | 23   | 398,155,879     | 427,394,184     |
| Operating Profit before Working Capital Changes         |      | 7,417,435,714   | 5,289,904,103   |
| (Increase)/ Decrease in Inventories                     |      | 102,454,024     | (92,793,920)    |
| (Increase)/ Decrease in Trade and Other Receivables     |      | 482,307,957     | (1,539,200,432) |
| Increase /(Decrease) in Trade and Other Payables        |      | 311,226,879     | 4,029,287,464   |
| Cash Generated from Operations                          |      | 8,313,424,573   | 7,687,197,216   |
| Defined Benefit Plan Costs Paid                         | 23   | (26,735,837)    | (80,851,587)    |
| Interest Paid   | 8    | (700,144,990)   | (573,573,582)   |
| Income Tax Paid   | 18   | (67,467,529)    | (1,183,822,320) |
| Net Cash Generated from Operating Activities            |      | 7,519,076,218   | 5,848,949,727   |
| <b>Cash Flows from Investing Activities</b>             |      |                 |                 |
| Acquisition of Property, Plant and Equipment            | 12   | (1,219,827,099) | (6,350,563,955) |
| Acquisition of Intangible Assets                        | 13   | (14,053,964)    | (27,819,323)    |
| Investment in Debentures                                | 15   | Nil             | (250,000,000)   |
| Proceeds from Sale of Property, Plant and Equipment     |      | 3,056,143       | 2,270,297       |
| Interest Received                                       | 8    | 698,867,771     | 704,800,969     |
| Staff Loan Granted                                      |      | (98,366,407)    | (59,444,451)    |
| Staff Loan Receipt                                      |      | 71,278,553      | 48,566,363      |
| Net Cash used in Investing Activities                   |      | (559,045,002)   | (5,932,190,100) |
| <b>Cash Flows from Financing Activities</b>             |      |                 |                 |
| Dividend Paid   | 11   | (500,000,000)   | (500,000,000)   |
| Loan Receipt  | 22   | 530,994,851     | 1,320,557,033   |
| Loan Repayment  | 22   | (764,263,842)   | (1,131,712,410) |
| Repayment to the Treasury during the year               |      | (19,618,285)    | Nil             |
| Net Cash used in Financing Activities                   |      | (752,887,276)   | (311,155,377)   |
| Net Increase in Cash and Cash Equivalents               |      | 6,207,143,941   | (394,395,750)   |
| Cash and Cash Equivalents at the Beginning of the Year  | 19   | 4,030,679,792   | 4,425,075,543   |
| Cash and Cash Equivalents at the end of the Year        | 19   | 10,237,823,732  | 4,030,679,792   |

The notes on pages 72 to 100 form an integral part of these financial statements.  
Independent Auditors Report on Page 65 to 66

# 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<sup>st</sup> December 2014 were authorised for issue in accordance with a resolution of the Board of Directors on 25<sup>th</sup> June 2015.

## 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 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<sup>th</sup> August 2005 to amalgamate the assets and liabilities of the airport with those of the Company along with the necessary legislative amendments.

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

## Notes to the Financial Statements (Contd)

### 2.1.1 Amalgamation (Contd)

The Board of Directors of the Company on 28<sup>th</sup> 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.

Subsequent to the amalgamation and with the repeal of the Air Navigation (Special Provisions) Act, No. 2 of 1982 by the Civil Aviation Act, No.14 of 2010, the audit of the Voted Fund by the Auditor General, under Section 14(2)(c) of the Finance Act No. 38 of 1971 was considered no longer applicable. Accordingly, the Voted Fund representing the government grants for the capital expenditure was not audited by the Auditor General but was audited by the Company Auditors M/s PricewaterhouseCoopers for the year ended 31<sup>st</sup> December 2014.

### 2.1.2 Statement of Compliance

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<sup>st</sup> December, 2014 and for the year then ended together with the comparative information are comply with the Sri Lanka Accounting Standards (SLFRS/ LKAS).

### 2.1.3 Comparative Information

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

### 2.1.4 Changes in Accounting Policy and Disclosures

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

- (a) The following standards have been adopted by the Company for the first

time for the financial year beginning on or after 1<sup>st</sup> January, 2014 and have a material impact on the Company:

Amendment to LKAS 32, 'Financial Instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Company financial statements.

Amendments to LKAS 36, 'Impairment of Assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in LKAS 36 by the issue of SLFRS 13.

Amendment to LKAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under LKAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Company has applied the amendment and there has been no significant impact on the Company financial statements as a result.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that Company liability is within the scope of LKAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Company is not currently subjected to significant levies so the impact on the Company is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1<sup>st</sup> January, 2014 are not material to the Company.

- (b) A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1<sup>st</sup> January 2014, and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

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: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in LKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. SLFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under LKAS 39. The standard is effective for accounting periods beginning on or

after 1<sup>st</sup> January, 2018. Early adoption is permitted. The Company is yet to assess SLFRS 9's full impact.

IFRS 15, 'Revenue from Contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. 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 1<sup>st</sup> January, 2017 and earlier application is permitted. The Company is assessing the impact of SLFRS 15.

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 Lankan 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.

## Notes to the Financial Statements (Contd)

|  |  |  |   |
|--|--|--|---|
| <p>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.</p> <p>Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains – net'.</p> <p>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 amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised 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.</p> | <p>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.</p> <p>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 balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.</p> <p>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.</p> <p>Deferred Income Tax Assets and Liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority.</p> | <p>equipment brought before 31<sup>st</sup> December, 2003 are valued based on a valuation and thereafter on weighted average basis.</p> <p>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.</p> <p>Company has made allowances for all inventories which are non-moving for more than 10 years.</p>   | <p>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.</p> <p>The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.</p> <p>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 income statement during the financial period in which they are incurred.</p> <p>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.</p> <p>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.</p> |
| <p><b>2.3 Current and Deferred Income Tax</b></p> <p>The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, 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 balance sheet date.</p>  | <p><b>2.4 Inventories</b></p> <p>Inventories are stated at the lower of cost and net realizable value after making due allowances for obsolete and slow moving items.</p> <p>Spare parts and consumables for fire</p>  | <p><b>2.5 Trade and Other Receivables</b></p> <p>Trade Receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.</p> <p>Other receivables are recognized at cost less allowances for bad and doubtful receivables.</p> <p><b>2.6 Cash and Cash Equivalents</b></p> <p>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.</p> <p>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.</p> <p><b>2.7 Property, Plant and Equipment</b></p> <p>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</p> |   |

## Notes to the Financial Statements (Contd)

### 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.

### 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 that 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 income statement 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 balance sheet are those which fall due for payment on demand or within one year from the balance sheet date. Items classified as non-current liabilities are those which fall due for payment beyond a period of one year from the balance sheet date.

Trade payables are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method.

### 2.10 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

### 2.11 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

### 2.12 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting

is used, the increase in the provision due to the passage of time is recognized as an interest expense.

### 2.13 Retirement Benefit Obligations

#### (a) Defined Benefit Plan

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 Balance Sheet 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 projected unit credit method. 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.

#### (b) Defined Contribution Plans

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

## Notes to the Financial Statements (Contd)

|   |  |  |  |
|---|--|--|--|
| <p>pay all employees the benefits relating to employee service in the current and prior periods.</p> <p>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.</p>  | <p><b>2.16 Financial Assets</b></p> <p><b>2.16.1 Classification</b></p> <p>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.</p>                                 | <p>(d) Available for Sale</p> <p>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 balance sheet date.</p>  | <p>When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'gains and losses from investment securities'.</p> <p>Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognized in the income statement as part of other income when the company's right to receive payments is established.</p>                         |
| <p><b>2.14 Grants and Subsidies</b></p> <p>The monetary grants related to assets are recognized at the consideration received and deferred over the useful life of the asset.</p>   | <p>(a) Financial Assets at Fair Value through Profit or Loss</p> <p>A financial asset is classified into this category if acquired principally for the purpose of selling in the short term designated by management. Assets in this category are classified as Current Assets if expected to settle within 12 months; otherwise, they are classified as Non- Current Assets. Derivatives are also categorized as financial assets at fair value through profit or loss unless they are designated as hedges.</p>                        | <p><b>2.16.2 Recognition and Measurement</b></p> <p>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 loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial Assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Available-for-sale Financial Assets and Financial Assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.</p> | <p><b>2.17 Offsetting Financial Instruments</b></p> <p>Financial Assets and Liabilities are offset and the net amount reported in the Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise 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.</p>                           |
| <p><b>2.15 Impairment of Non-Financial Assets</b></p> <p>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.</p> <p>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.</p> | <p>(b) Loans and Receivables</p> <p>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 &amp; Other Receivable and Cash &amp; Cash equivalent" in the Balance Sheet.</p> | <p>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 income statement within other gains/(losses) – net, in the period in which they arise.</p> <p>Dividend income from Financial Assets at fair value through profit or loss is recognized in the income statement as part of other income when the company's right to receive payments is established.</p> <p>Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.</p>   | <p><b>2.18 Impairment of Financial Assets</b></p> <p>(a) Assets carried at Amortised Cost</p> <p>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</p> |
| <p>(c) Held to Maturity Investments</p> <p>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.</p>   | <p>(c) Held to Maturity Investments</p> <p>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.</p>  | <p>(c) Held to Maturity Investments</p> <p>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.</p>  | <p>(c) Held to Maturity Investments</p> <p>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.</p>  |

## Notes to the Financial Statements (Contd)

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 income statement. 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 income statement.

(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 income statement on equity instruments are not reversed through the income statement. 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 income statement.

### 2.19 Financial Liabilities

The Company's financial liabilities include trade and other payables, bank loans and other borrowings and unfavorable currency forward contract. All other financial liabilities except for financial liabilities at fair value through profit or loss are recognized initially at their fair values and subsequently measured at amortized cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

### 2.20 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The

following specific criteria are used for the purpose of recognition of revenue.

#### (a) Rendering of Services

Revenue from rendering of services is recognized in the accounting period in which the services are rendered or performed.

#### (b) Interest

Interest Income is recognized as the interest accrues unless collectability is in doubt.

#### (c) Rental Income

Rental income is recognized 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.

#### (e) Others

Other income is recognized on an accrual basis.

## 3 Financial Risk Management

### 3.1 Financial Risk Factors

The company's activities expose it to a variety of financial risks: market risk (including foreign currency risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

#### (a) Market Risk

#### (i) Foreign Exchange Risk

The company is sensitive to the fluctuations in exchange rates and is principally exposed to fluctuations in the value of the Sri Lankan Rupee (LKR) against the United States Dollar (USD),

Euro, Canadian Dollar 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 Lankan 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 Lankan Rupee against the United States Dollar can have an adverse effect on the company's profitability through its impact on repayment of loans taken by foreign currencies through Department of Treasury.

The table below shows the Company's sensitivity to reasonable possible change in exchange rate of LKR against USD, Euro and Japanese Yen assessed by the Company, while all other variables are held constant. The USD and Japanese Yen are the major currencies in which Company's financial instruments are denominated after the Company's presentation and document currency- LKR. The impact of the movement in exchange rates of USD, Euro and Japanese Yen on equity are given in the table below.

## Notes to the Financial Statements (Contd)

### Sensitivity of the Exchange Rate of USD against LKR

|  | <b>2014</b><br>Increase/ Decrease<br>in Profit (Rs.) | <b>2013</b><br>Increase/ Decrease<br>in Profit (Rs.) |
|--|--|--|
| 10 % appreciation/ depreciation (2013- 10%) of the USD | <b>(17,093,739)</b>                                  | 67,433,604   |
| 15 % appreciation/ depreciation (2013- 15%) of the USD | <b>(25,640,608)</b>                                  | 101,150,406  |
| 20 % appreciation/ depreciation (2013- 20%) of the USD | <b>(34,187,478)</b>                                  | 134,867,208  |

### Sensitivity of the Exchange Rate of Euro against LKR

|   | <b>2014</b><br>Increase/ Decrease<br>in Profit (Rs.) | <b>2013</b><br>Increase/ Decrease<br>in Profit (Rs.) |
|---|--|--|
| 10 % appreciation/ depreciation (2013- 10%) of the Euro | <b>2,111,699</b>                                     | 4,058,639  |
| 15 % appreciation/ depreciation (2013- 15%) of the Euro | <b>3,167,548</b>                                     | 6,087,959  |
| 20 % appreciation/ depreciation (2013- 20%) of the Euro | <b>4,223,398</b>                                     | 8,117,278  |

### Sensitivity of the Exchange Rate of Japanese Yen against LKR

|  | <b>2014</b><br>Increase/ Decrease<br>in Profit (Rs.) | <b>2013</b><br>Increase/ Decrease<br>in Profit (Rs.) |
|--|--|--|
| 10 % appreciation/ depreciation (2013- 10%) of the Yen | <b>126,882,158</b>                                   | 236,754,049  |
| 15 % appreciation/ depreciation (2013- 15%) of the Yen | <b>190,323,237</b>                                   | 355,131,073  |
| 20 % appreciation/ depreciation (2013- 20%) of the Yen | <b>253,764,316</b>                                   | 473,508,098  |

### Sensitivity of the Exchange Rate of Canadian Dollar against LKR

|  | <b>2014</b><br>Increase/ Decrease<br>in Profit (Rs.) | <b>2013</b><br>Increase/ Decrease<br>in Profit (Rs.) |
|--|--|--|
| 10 % appreciation/ depreciation (2013- 10%) of the CAD | <b>434,213</b>                                       | 937,425  |
| 15 % appreciation/ depreciation (2013- 15%) of the CAD | <b>651,319</b>                                       | 1,406,138  |
| 20 % appreciation/ depreciation (2013- 20%) of the CAD | <b>868,425</b>                                       | 1,874,850  |

#### (ii) Cash Flow and Fair Value Interest Rate Risk

The Company's interest rate risk arises from long term borrowings denominated in USD, Euro, Canadian Dollars and Japanese Yen. These are issued at fixed rates and thus it mitigates the cash flow interest rate risks on borrowings. This will further mitigated by the cash held at variable rates. Borrowings issued at fixed rates expose the company to fair value interest rate risk.

The Company has considered movements in these interest rates over the last four years and has concluded that the movement in interest rates is not deemed to have a material effect on equity.

#### (b) Credit Risk

The credit risk arises from trade and other receivables from outside parties. Further details set out in note 26.

#### (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 balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions. Surplus cash held by the company over and above balance required for working capital management are invested in short term government securities to mitigate the liquidity risk.

The gearing ratio as at 31<sup>st</sup> December, 2013 and 31<sup>st</sup> December, 2014 were as follows:

|   | <b>Company</b>          |                 |
|---|-------------------------|-----------------|
|   | <b>2014</b><br>Rs.      | 2013<br>Rs.     |
| Total Borrowings (Note 22)                | <b>35,919,653,640</b>   | 37,317,489,479  |
| Less: Cash and Cash Equivalents (Note 19) | <b>(10,237,823,733)</b> | (4,030,679,792) |
| <b>Net Debt</b>                           | <b>25,681,829,907</b>   | 33,286,809,687  |
| Total Equity                              | <b>10,678,514,202</b>   | 7,441,384,011   |
| <b>Total Capital</b>                      | <b>36,360,344,109</b>   | 40,728,193,698  |
| <b>Gearing Ratio</b>                      | <b>71%</b>              | 82%             |

#### 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 balance sheet. Total capital is calculated as 'Equity' as shown in the balance sheet.

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 the 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.

##### 4.1 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 23.

### (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 balance sheet date and adjusted to reflect the company's current best estimate.

Other non-aeronautical income mainly consists of gross profit from lounges amounting to Rs. 268,581,180 (2013- Rs. 204,556,646) and income from incineration of garbage amounting to Rs. 52,294,749 (2013- Rs. 46,994,614)

## 6. Other income

|   | 2014<br>Rs.        | 2013<br>Rs.          |
|---|--------------------|----------------------|
| Amortization of Government Grant                                | 150,918,051        | (208,702,010)        |
| Operating Profit from Fuel Filling Station (Note 6.1)           | 16,847,413         | 10,524,512           |
| Net Foreign Exchange Gain/ (Loss) on transactions/ translations | (38,123,005)       | 88,449,684           |
|   | <b>129,642,459</b> | <b>(109,727,814)</b> |

### 6.1 Operating Profit From Fuel Filling Station

|  | 2014<br>Rs.       | 2013<br>Rs.       |
|--|-------------------|-------------------|
| Sales  | 1,244,650,775     | 1,018,950,296     |
| Less: Cost of Sales                          | (1,214,127,006)   | (994,289,518)     |
| Gross Profit                                 | 30,523,769        | 24,660,778        |
| Less : Personnel and Administration Expenses | (13,690,756)      | (14,151,866)      |
| Sundry Income                                | 14,400            | 15,600            |
| <b>Operating Profit</b>                      | <b>16,847,413</b> | <b>10,524,512</b> |

## 7. Expenses by Nature

|   | 2014<br>Rs.          | 2013<br>Rs.          |
|---|----------------------|----------------------|
| Directors' Emoluments                     | 22,215,319           | 12,125,756           |
| Staff Cost                                | 3,925,045,779        | 3,561,976,885        |
| Defined Contribution Plan Costs           | 383,553,532          | 339,595,015          |
| Defined Benefit Plan Costs (Note 23)      | 398,155,879          | 427,394,183          |
| Auditor's Remuneration Audit              | 536,535              | 1,395,775            |
| Non Audit                                 | Nil                  | 315,840              |
| Depreciation (Note 12)                    | 2,624,562,243        | 1,745,934,943        |
| Amortisation (Note 13)                    | 8,116,711            | 5,487,647            |
| Debtors (Impairment Reversal)/ Impairment | (17,930,516)         | 266,136,888          |
| Repair and Maintenance                    | 434,195,269          | 439,824,761          |
| Electricity Expenses                      | 893,701,538          | 778,885,305          |
| Legal Fees                                | 384,942              | 264,693              |
| Donations                                 | 170,026              | 147,500              |
| Other Expenses                            | 748,834,719          | 1,639,360,501        |
|   | <b>9,421,541,976</b> | <b>9,218,845,692</b> |

## 5. Revenue

|  | 2014<br>Rs.           | 2013<br>Rs.           |
|--|-----------------------|-----------------------|
| Aeronautical   | 3,367,416,696         | 3,045,451,920         |
| Non-Aeronautical                                       | 10,239,540,139        | 9,163,694,034         |
|  | <b>13,606,956,835</b> | <b>12,209,145,954</b> |
| Miscellaneous Revenue                                  | 5,601,709             | 10,264,849            |
|  | <b>13,612,558,544</b> | <b>12,219,410,803</b> |
| <b>Aeronautical Revenue</b>                            |                       |                       |
| Landing Charges  | 2,197,005,039         | 2,015,848,922         |
| Landing Charges- Domestic                              | 7,154,354             | (806,941)             |
| Overflying Charges                                     | 830,071,618           | 723,884,696           |
| Aerobridge Charges                                     | 333,185,685           | 306,525,243           |
|  | <b>3,367,416,696</b>  | <b>3,045,451,920</b>  |
| <b>Non-Aeronautical Revenue</b>                        |                       |                       |
| Embarkation Levy                                       | 3,559,421,970         | 3,205,074,015         |
| Entry Permits  | 149,515,718           | 140,702,414           |
| Entry Permits- PVG                                     | 6,240,179             | 10,364,661            |
| Parking Fees- Vehicles                                 | 50,220,045            | 49,181,004            |
| Rental   | 2,331,849,224         | 2,118,323,213         |
| Concession   | 2,946,570,114         | 2,606,022,535         |
| Franchise Fee on Ground Handling- SLA                  | 247,476,658           | 215,358,679           |
| Ground Handling- Domestic- RMA/BIA                     | 9,506,728             | 14,571,118            |
| Franchise Fee- SLCS                                    | 205,124,487           | 181,595,085           |
| Training Centre Income                                 | 3,065,990             | 1,853,576             |
| Other Non-Aeronautical Income                          | 730,549,026           | 620,647,734           |
|  | <b>10,239,540,139</b> | <b>9,163,694,034</b>  |
| <b>Total Aeronautical and Non-Aeronautical Revenue</b> | <b>13,606,956,835</b> | <b>12,209,145,954</b> |

## Notes to the Financial Statements (Contd)

### 8. Net Finance Cost /(Income)

|  | 2014<br>Rs.            | 2013<br>Rs.     |
|--|------------------------|-----------------|
| <b>Finance Cost</b>  |                        |                 |
| Loan Interest  | 700,144,990            | 573,573,582     |
|  | <b>700,144,990</b>     | 573,573,582     |
| <b>Finance Income</b>  |                        |                 |
| Interest on Treasury Bills/Bonds under repurchase agreements | <b>(309,504,316)</b>   | (240,667,828)   |
| Interest on USD Fixed Deposits                               | <b>(33,335,943)</b>    | (51,021,743)    |
| Interest on Rupee Fixed Deposits                             | <b>(86,789,091)</b>    | (141,808,609)   |
| Interest on Debenture  | <b>(269,238,421)</b>   | (271,302,789)   |
| Interest on Staff Loans                                      | <b>(12,081,108)</b>    | (13,052,088)    |
| Exchange (Gain) / Loss on Loan conversion                    | <b>(1,164,566,849)</b> | (1,710,553,888) |
|  | <b>(1,875,515,729)</b> | (2,428,406,945) |
|  | <b>(1,175,370,739)</b> | (1,854,833,363) |

### 9. Income Tax Expense

The major components of income tax expense for the year ended 31<sup>st</sup> December are as follows :

|  | 2014<br>Rs.          | 2013<br>Rs.   |
|--|----------------------|---------------|
| <b>Current Income Tax</b>                        |                      |               |
| Current Tax Charge                               | Nil                  | 182,761,157   |
| Over provision of Taxes in respect of prior year | <b>(182,761,157)</b> | (26,384,415)  |
| <b>Income tax</b>                                | <b>(182,761,157)</b> | 156,376,742   |
| <b>Deferred Income Tax</b>                       |                      |               |
| Charge in respect of Deferred Taxation (14)      | <b>2,393,626,056</b> | 1,035,743,797 |
| <b>Total Tax Expense</b>                         | <b>2,210,864,899</b> | 1,192,120,539 |

Due to capital allowances claimed on Property, Plant and Equipment exceeding the book depreciation substantially and qualifying payments claimable exceeding assessable income. There is no taxable income on which Company is liable to tax for the year ended 31 December 2014.

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 :

|  | 2014<br>Rs.          | 2013<br>Rs.   |
|--|----------------------|---------------|
| <b>Profit Before Tax</b>   | <b>5,496,029,766</b> | 4,745,670,660 |
| Tax calculated at the effective tax rate of 28% (2013- 28%)      | <b>1,538,888,334</b> | 1,328,787,785 |
| Profit not subject to tax  | <b>(50,391,570)</b>  | (519,321,112) |
| Expenses not deductible for tax                                  | <b>379,128,741</b>   | 401,558,059   |
| Income not subject to tax  | <b>(9,334,064)</b>   | (14,286,088)  |
| Tax losses for which no deferred income tax asset was recognised | <b>535,334,613</b>   | 21,766,311    |
| Over provision for income tax in respect of prior years          | <b>(182,761,157)</b> | (26,384,415)  |
| <b>Total Tax Expense</b>   | <b>2,210,864,898</b> | 1,192,120,540 |

### 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 in issue during the year.

The following reflects the Income and Share data used in the Basic Earnings Per Share computation.

|   | 2014                 | 2013          |
|---|----------------------|---------------|
| Net profit attributable to shareholders- Rs                   | <b>3,285,164,867</b> | 3,553,550,120 |
| Weighted average number of ordinary shares in issue (Note 20) | <b>200,002</b>       | 200,002       |
| Basic Earnings Per Share- Rs                                  | <b>16,426</b>        | 17,768        |

### 11. Dividends

The dividends paid in 2014 amounting to Rs.500,000,000, as shown in the statement of changes in equity, represents the final dividend paid in respect of the year ended 31<sup>st</sup> December, 2013. The dividend in respect of the year ended 31<sup>st</sup> December, 2014 is to be proposed at the Annual General Meeting. These financial statements do not reflect this dividend payable.

### 12. Property, Plant and Equipment

Land and building includes land amounting to Rs.940,412,498 as at 31<sup>st</sup> December, 2014 (2013- Rs. 940,412,498) which is located at Katunayake.

The 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.

Part of the buildings of the airport are constructed on Government Land.

Property, Plant and Equipments includes fully depreciated assets still in use amounting to Rs.7,469,762,337 (2013- Rs. 6,607,547,791).

## Notes to the Financial Statements (Contd)

### 12. Property, Plant and Equipment (Contd.)

|   | Land & Bulidings       | Plant and Machinery    | Motor vehicle        | Furniture, Fittings & Office Equipments | Communication & Navigation Equipment | Other Equipment      | Airport Infrastructure | Capital Work In Progress | Total                   |
|---|------------------------|------------------------|----------------------|---|--------------------------------------|----------------------|------------------------|--------------------------|-------------------------|
|   | Rs.                    | Rs.                    | Rs.                  | Rs.                                     | Rs.                                  | Rs.                  | Rs.                    | Rs.                      | Rs.                     |
| <b>As at 1<sup>st</sup> January 2013</b>        |                        |                        |                      |   |                                      |                      |                        |                          |                         |
| Cost  | 9,333,060,329          | 3,746,917,402          | 724,504,967          | 896,902,927                             | 5,344,762,929                        | 911,890,272          | 7,410,274,359          | 26,428,330,421           | 54,796,643,605          |
| Accumulated depreciation                        | (2,436,897,351)        | (3,394,200,020)        | (588,302,535)        | (746,624,374)                           | (3,812,159,527)                      | (765,567,655)        | (3,815,012,698)        | Nil                      | (15,558,764,160)        |
| <b>Closing net book amount</b>                  | <b>6,896,162,978</b>   | <b>352,717,382</b>     | <b>136,202,431</b>   | <b>150,278,553</b>                      | <b>1,532,603,402</b>                 | <b>146,322,617</b>   | <b>3,595,261,661</b>   | <b>26,428,330,421</b>    | <b>39,237,879,445</b>   |
| <b>Year ended 31<sup>st</sup> December 2013</b> |                        |                        |                      |   |                                      |                      |                        |                          |                         |
| Opening net book amount                         | 6,896,162,978          | 352,717,382            | 136,202,431          | 150,278,553                             | 1,532,603,402                        | 146,322,617          | 3,595,261,661          | 26,428,330,421           | 39,237,879,445          |
| Additions                                       | 154,689,863            | 36,997,833             | 44,552,988           | 64,535,048                              | 190,053,727                          | 51,463,684           | 189,589,966            | 5,638,233,116            | 6,370,116,225           |
| Transfer from WIP                               | 8,370,137,706          | 959,547,261            | 311,068,464          | 119,789,079                             | 1,676,330,875                        | 87,670,999           | 19,264,033,896         | (30,788,578,280)         | Nil                     |
| Transfers- cost                                 | (817,842,549)          | (58,602,404)           | 475,901              | (19,953,715)                            | 456,090,243                          | (47,654,063)         | 857,916,430            | (370,429,842)            | Nil                     |
| Transfers- others                               | Nil                    | Nil                    | Nil                  | Nil                                     | Nil                                  | Nil                  | Nil                    | (14,101,389)             | (14,101,389)            |
| - Accumulated depreciation                      | (804,781,374)          | (59,499,735)           | 475,900              | (15,788,766)                            | 78,327,403                           | (46,647,230)         | 847,913,801            | Nil                      | Nil                     |
| Written off- cost                               | (2,677,732)            | (689,076)              | (255,000)            | (450,148)                               | (824,082)                            | (554,812)            | Nil                    | Nil                      | (5,450,850)             |
| - Accumulated depreciation                      | 174,030                | 531,041                | 75,277               | 215,290                                 | 131,434                              | 69,544               | Nil                    | Nil                      | 1,196,616               |
| Disposals- cost                                 | (279,037)              | (2,670,159)            | Nil                  | (15,217,334)                            | (6,434,983)                          | (52,782,219)         | (28,229,274)           | Nil                      | (105,613,006)           |
| - Accumulated depreciation                      | 117,437                | 2,666,587              | Nil                  | 15,239,461                              | 6,427,560                            | 52,168,036           | 28,227,695             | Nil                      | 104,846,777             |
| Adjustment                                      | (148,883)              | 1,631,494              | (185,437)            | (1,145,918)                             | (94,384)                             | (232,390)            | Nil                    | Nil                      | (175,518)               |
| Depreciation charge (Note 7)                    | (287,635,950)          | 303,079,335            | (75,191,070)         | (81,778,802)                            | (571,166,768)                        | (42,789,518)         | (991,473,268)          | Nil                      | (1,746,956,041)         |
| <b>Closing net book amount</b>                  | <b>13,507,916,490</b>  | <b>1,535,709,559</b>   | <b>417,219,454</b>   | <b>215,722,748</b>                      | <b>3,361,444,427</b>                 | <b>147,034,647</b>   | <b>23,763,240,907</b>  | <b>893,454,027</b>       | <b>43,841,742,259</b>   |
| <b>As at 31<sup>st</sup> December 2013</b>      |                        |                        |                      |   |                                      |                      |                        |                          |                         |
| Cost  | 17,037,088,580         | 4,681,500,856          | 1,080,347,318        | 1,045,605,857                           | 7,659,978,709                        | 950,033,860          | 27,693,585,377         | 893,454,027              | 61,041,594,584          |
| Accumulated depreciation                        | (3,529,172,090)        | (3,145,791,298)        | (663,127,865)        | (829,883,109)                           | (4,298,534,282)                      | (802,999,213)        | (3,930,344,470)        | Nil                      | (17,199,852,326)        |
| <b>Closing Net Book Amount</b>                  | <b>13,507,916,490</b>  | <b>1,535,709,559</b>   | <b>417,219,454</b>   | <b>215,722,748</b>                      | <b>3,361,444,427</b>                 | <b>147,034,647</b>   | <b>23,763,240,907</b>  | <b>893,454,027</b>       | <b>43,841,742,259</b>   |
| <b>Year ended 31<sup>st</sup> December 2014</b> |                        |                        |                      |   |                                      |                      |                        |                          |                         |
| Cost  | <b>17,037,088,580</b>  | <b>4,681,500,856</b>   | <b>1,080,347,318</b> | <b>1,045,605,857</b>                    | <b>7,659,978,709</b>                 | <b>950,033,860</b>   | <b>27,693,585,377</b>  | <b>893,454,027</b>       | <b>61,041,594,584</b>   |
| Reclassification- Cost                          | <b>505,689,953</b>     | <b>(91,953,531)</b>    | <b>255,001</b>       | <b>(20,653,115)</b>                     | <b>(1,065,484)</b>                   | <b>1,515,204</b>     | <b>(382,289,289)</b>   | <b>(11,498,740)</b>      | <b>Nil</b>              |
| Accumulated depreciation                        | <b>(3,529,172,090)</b> | <b>(3,145,791,298)</b> | <b>(663,127,865)</b> | <b>(829,883,109)</b>                    | <b>(4,298,534,282)</b>               | <b>(802,999,213)</b> | <b>(3,930,344,470)</b> | <b>Nil</b>               | <b>(17,199,852,326)</b> |
| Reclassification- Depreciation                  | <b>839,235,181</b>     | <b>191,558,391</b>     | <b>(952,198)</b>     | <b>37,051,297</b>                       | <b>(156,632,477)</b>                 | <b>93,286,010</b>    | <b>(1,003,546,203)</b> | <b>Nil</b>               | <b>Nil</b>              |
|   | <b>14,852,841,624</b>  | <b>1,635,314,419</b>   | <b>416,522,256</b>   | <b>232,120,930</b>                      | <b>3,203,746,465</b>                 | <b>241,835,861</b>   | <b>22,377,405,416</b>  | <b>881,955,287</b>       | <b>43,841,742,259</b>   |
| <b>Year ended 31<sup>st</sup> December 2014</b> |                        |                        |                      |   |                                      |                      |                        |                          |                         |
| Opening net book amount                         | <b>14,852,841,624</b>  | <b>1,635,314,419</b>   | <b>416,522,256</b>   | <b>232,120,930</b>                      | <b>3,203,746,465</b>                 | <b>241,835,861</b>   | <b>22,377,405,416</b>  | <b>881,955,287</b>       | <b>43,841,742,259</b>   |
| Additions                                       | <b>Nil</b>             | <b>54,151,675</b>      | <b>111,573,383</b>   | <b>31,454,312</b>                       | <b>88,238,346</b>                    | <b>55,809,980</b>    | <b>130,581,567</b>     | <b>963,291,230</b>       | <b>1,435,100,493</b>    |
| Written off- cost                               | <b>(18,115,251)</b>    | <b>(3,864,305)</b>     | <b>(563,341)</b>     | <b>(123,357)</b>                        | <b>(15,254,797)</b>                  | <b>(5,225,731)</b>   | <b>(3,294,041)</b>     | <b>(160,621,986)</b>     | <b>(207,062,809)</b>    |
| - Accumulated depreciation                      | <b>2,837,891</b>       | <b>2,958,858</b>       | <b>Nil</b>           | <b>96,338</b>                           | <b>11,948,894</b>                    | <b>5,116,563</b>     | <b>3,225,227</b>       | <b>Nil</b>               | <b>26,183,771</b>       |
| Disposals- cost                                 | <b>Nil</b>             | <b>(13,794,351)</b>    | <b>(9,204,369)</b>   | <b>(18,559,176)</b>                     | <b>(12,931,990)</b>                  | <b>(17,005,013)</b>  | <b>(74,456)</b>        | <b>Nil</b>               | <b>(71,569,354)</b>     |
| - Accumulated depreciation                      | <b>Nil</b>             | <b>13,794,147</b>      | <b>9,204,353</b>     | <b>18,145,185</b>                       | <b>12,601,521</b>                    | <b>16,977,568</b>    | <b>74,451</b>          | <b>Nil</b>               | <b>70,797,224</b>       |
| Transfers- cost                                 | <b>(276,645,731)</b>   | <b>(15,581,412)</b>    | <b>(11,194,385)</b>  | <b>(4,633,744)</b>                      | <b>(76,318,014)</b>                  | <b>(19,915,667)</b>  | <b>(744,839,777)</b>   | <b>(215,273,394)</b>     | <b>(1,364,402,125)</b>  |
| - Accumulated depreciation                      | <b>Nil</b>             | <b>(1,254,419)</b>     | <b>Nil</b>           | <b>Nil</b>                              | <b>4,947,265</b>                     | <b>1,670,646</b>     | <b>Nil</b>             | <b>Nil</b>               | <b>5,363,492</b>        |
| Depreciation charge (Note 7)                    | <b>(322,374,514)</b>   | <b>(335,300,275)</b>   | <b>(103,555,626)</b> | <b>(74,796,743)</b>                     | <b>(611,149,118)</b>                 | <b>(60,751,129)</b>  | <b>(1,148,182,100)</b> | <b>Nil</b>               | <b>(2,656,109,505)</b>  |
| <b>Closing net book amount</b>                  | <b>14,238,544,018</b>  | <b>1,336,424,337</b>   | <b>412,782,272</b>   | <b>183,703,745</b>                      | <b>2,605,828,572</b>                 | <b>218,513,077</b>   | <b>20,614,896,287</b>  | <b>1,469,351,137</b>     | <b>41,080,043,445</b>   |
| <b>As at 31<sup>st</sup> December 2014</b>      |                        |                        |                      |   |                                      |                      |                        |                          |                         |
| Cost  | <b>17,248,017,551</b>  | <b>4,610,458,934</b>   | <b>1,171,213,608</b> | <b>1,033,090,777</b>                    | <b>7,642,646,769</b>                 | <b>965,212,633</b>   | <b>26,693,669,381</b>  | <b>1,469,351,137</b>     | <b>60,833,660,789</b>   |
| Accumulated depreciation                        | <b>(3,009,473,533)</b> | <b>(3,274,034,597)</b> | <b>(758,431,336)</b> | <b>(849,387,031)</b>                    | <b>(5,036,818,197)</b>               | <b>(746,699,556)</b> | <b>(6,078,773,094)</b> | <b>Nil</b>               | <b>(19,753,617,344)</b> |
| <b>Closing Net Book Amount</b>                  | <b>14,238,544,018</b>  | <b>1,336,424,337</b>   | <b>412,782,272</b>   | <b>183,703,745</b>                      | <b>2,605,828,572</b>                 | <b>218,513,077</b>   | <b>20,614,896,287</b>  | <b>1,469,351,137</b>     | <b>41,080,043,445</b>   |

## Notes to the Financial Statements (Contd)

### 13. Intangible Assets

|   | Software<br>Rs.     | Total<br>Rs.        |
|---|---------------------|---------------------|
| <b>Year ended 31<sup>st</sup> December 2013</b> |                     |                     |
| Opening net book amount                         | Nil                 | Nil                 |
| Additions                                       | 27,819,323          | 27,819,323          |
| Amortisation during the year (Note 7)           | (5,487,647)         | (5,487,647)         |
| <b>Closing Net Book Amount</b>                  | <b>22,331,676</b>   | <b>22,331,676</b>   |
| <b>As at 31<sup>st</sup> December 2013</b>      |                     |                     |
| Cost  | 27,819,323          | 27,819,323          |
| Accumulated Amortisation                        | (5,487,647)         | (5,487,647)         |
| <b>Closing Net Book Amount</b>                  | <b>22,331,676</b>   | <b>22,331,676</b>   |
| <b>Year ended 31<sup>st</sup> December 2014</b> |                     |                     |
| Opening net book amount                         | <b>22,331,676</b>   | <b>22,331,676</b>   |
| Additions                                       | <b>14,053,964</b>   | <b>14,053,964</b>   |
| Adjustments *                                   | <b>(1,017,496)</b>  | <b>(1,017,496)</b>  |
| Amortisation during the year                    | <b>(8,116,711)</b>  | <b>(8,116,711)</b>  |
|   | <b>27,251,433</b>   | <b>27,251,433</b>   |
| <b>As at 31<sup>st</sup> December 2014</b>      |                     |                     |
| Cost  | <b>40,855,791</b>   | <b>40,855,791</b>   |
| Accumulated Amortisation                        | <b>(13,604,358)</b> | <b>(13,604,358)</b> |
| <b>Closing Net Book Amount</b>                  | <b>27,251,433</b>   | <b>27,251,433</b>   |

\* This 'adjustments' refers to excess provision reversal on software purchases.

### 14. Deferred Income Tax

|   | Balance Sheet        |               | Income Statement     |               |
|---|----------------------|---------------|----------------------|---------------|
|   | 2014<br>Rs.          | 2013<br>Rs.   | 2014<br>Rs.          | 2013<br>Rs.   |
| <b>Deferred Tax Liability on :</b>          |                      |               |                      |               |
| Accelerated Tax Depreciation                | <b>3,630,708,665</b> | 1,258,999,351 | <b>2,371,709,314</b> | 1,131,562,668 |
|   | <b>3,630,708,665</b> | 1,258,999,351 | <b>2,371,709,314</b> | 1,131,562,668 |
| <b>Deferred Tax Assets on :</b>             |                      |               |                      |               |
| Defined Benefit Plan                        | <b>631,666,344</b>   | 654,219,025   | <b>22,552,681</b>    | (49,210,773)  |
| Provision for Inventory and Debtors         | <b>24,655,424</b>    | 23,065,316    | <b>(1,590,108)</b>   | 978,358       |
| Deferred Government Grants                  | <b>50,801,657</b>    | 51,755,826    | <b>954,169</b>       | (47,586,456)  |
|   | <b>707,123,425</b>   | 729,040,167   | <b>21,916,742</b>    | (95,818,871)  |
| Deferred Income Tax Charge/ Credit (Note 9) |                      |               | <b>2,393,626,056</b> | 1,035,743,797 |

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;

|                              | 2014<br>Rs.            | 2013<br>Rs.     |
|------------------------------|------------------------|-----------------|
| Deferred Tax Asset           | <b>707,123,425</b>     | 729,040,167     |
| Deferred Tax Liability       | <b>(3,630,708,665)</b> | (1,258,999,351) |
| Deferred Tax Liability (net) | <b>(2,923,585,240)</b> | (529,959,184)   |

### 15. Investment in Debentures

Investment in debentures wholly consists of investment in 5 year redeemable debentures of Bank of Ceylon. The carrying value of the investment, held to maturity equals the fair value.

|  | 2014<br>Rs.          | 2013<br>Rs.   |
|--|----------------------|---------------|
| Debentures at weighted average Rates of Interest |                      |               |
| 6 month TB Rate + 0.75%                          | <b>800,000,000</b>   | 800,000,000   |
| Debentures at fixed rate (11% & 13%)             | <b>1,750,000,000</b> | 1,750,000,000 |
|  | <b>2,550,000,000</b> | 2,550,000,000 |

Debenture date of issue and date of Redemption are as follows ;

| Date of Issue | Date of Redemption | Amount of Investment<br>Rs. |
|---------------|--------------------|-----------------------------|
| 08.12.2011    | 07.12.2016         | 1,500,000,000               |
| 28.06.2010    | 27.06.2015         | 300,000,000                 |
| 08.12.2011    | 07.12.2016         | 500,000,000                 |
| 25.10.2013    | 24.10.2018         | 250,000,000                 |
|               |                    | 2,550,000,000               |

## Notes to the Financial Statements (Contd)

### 16. Inventories

|  | 2014<br>Rs.         | 2013<br>Rs.  |
|--|---------------------|--------------|
| General **                                 | 49,808,301          | 49,807,057   |
| Electronics                                | 70,059,293          | 69,221,183   |
| Engineering                                | 149,795,109         | 143,025,189  |
| Fuel                                       | 11,358,567          | 12,819,271   |
| Fire Equipment Spare Parts                 | 19,949,896          | 20,055,631   |
| Goods in Transit                           | 22,925,016          | 125,777,568  |
| Stock- Lounge                              | 458,761             | 424,110      |
|  | <b>324,354,943</b>  | 421,130,009  |
| Less : Allowance for slow moving inventory | <b>(59,104,296)</b> | (53,425,339) |
|  | <b>265,250,647</b>  | 367,704,670  |

\*\* The above 'General' Inventory includes painting items, stationeries, staff uniform and other hardware items, etc..

### 17. Trade and Other Receivables

|   | 2014                 | 2013          |
|---|----------------------|---------------|
| Trade Debtors                           | 4,092,918,582        | 4,763,018,047 |
| Less: Provision for Impairment of Debts | <b>(664,612,619)</b> | (778,697,079) |
|   | <b>3,428,305,963</b> | 3,984,320,968 |
| Other Receivables                       | 86,375,728           | 78,073,540    |
| Advances and Prepayments                | 221,596,743          | 181,662,468   |
| Less: Provision for Doubtful Debts      | <b>(1,476,881)</b>   | (1,898,551)   |
|   | <b>306,495,591</b>   | 257,837,457   |
| Loans to company officers               | 71,045,053           | 45,996,139    |
|   | <b>71,045,053</b>    | 45,996,139    |
|   | <b>3,805,846,607</b> | 4,288,154,564 |

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 4.2% in 2014 (2013: 4.2 %)

|                                  | 2014<br>Rs.        | 2013<br>Rs. |
|----------------------------------|--------------------|-------------|
| <b>Loans to company officers</b> |                    |             |
| Less than 1 year                 | 71,045,053         | 45,996,139  |
| More than 1 year                 | 76,573,944         | 49,486,091  |
|                                  | <b>147,618,997</b> | 95,482,230  |

All non- current receivables are due within five years from the end of the reporting period.  
The fair values of trade receivables and amortized staff loans are as follows:

|                           | 2014                 | 2013          |
|---------------------------|----------------------|---------------|
| Trade Receivables         | 3,428,305,963        | 3,984,320,968 |
| Loans to company officers | 71,045,053           | 45,996,139    |
|                           | <b>3,499,351,016</b> | 4,030,317,107 |

As of 31<sup>st</sup> December 2014, Trade Receivables of Rs. 2,262,954,777 (2013: Rs.1,786,129,696 ) were fully performing.

### 17. Trade and Other Receivables (Contd)

As of 31<sup>st</sup> December 2014, Trade Receivables of Rs.869,158,834 (2013: Rs.985,675,328) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

|                       | 2014<br>Rs.        | 2013<br>Rs. |
|-----------------------|--------------------|-------------|
| Between 2 to 3 months | 447,853,862        | 243,907,807 |
| 3 to 6 months         | 421,304,972        | 741,767,521 |
|                       | <b>869,158,834</b> | 985,675,328 |

As of 31<sup>st</sup> December 2014, Trade Receivables of Rs.666,089,500 (2013: Rs.780,595,630 ) were impaired.The individual impaired receivables mainly relate to aeronautical and non- aeronautical activities.

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

|            | 2014<br>Rs.       | 2013<br>Rs. |
|------------|-------------------|-------------|
| US Dollars | 13,712,392        | 17,558,870  |
|            | <b>13,712,392</b> | 17,558,870  |

The movement in the provision for impairment of trade receivables is as follows:

|                                | 2014<br>Rs.          | 2013<br>Rs. |
|--------------------------------|----------------------|-------------|
| At 1 <sup>st</sup> January     | 780,595,630          | 514,475,316 |
| Written off during the year    | <b>(56,079,449)</b>  | Nil         |
| Provision made during the year | 113,304,020          | 273,246,163 |
| Reversals made during the year | <b>(171,730,701)</b> | (7,125,849) |
| At 31 <sup>st</sup> December   | <b>666,089,500</b>   | 780,595,630 |

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.

## Notes to the Financial Statements (Contd)

### 18. Income Tax Receivable/ Payable

|                                       | 2014<br>Rs.        | 2013<br>Rs.   |
|---------------------------------------|--------------------|---------------|
| Balance at the beginning of the year  | 392,812,336        | (634,633,241) |
| Previous year over provision          | 182,761,157        | (156,376,742) |
| Payments during the year              | 67,467,529         | 1,183,822,320 |
| <b>Balance at the end of the year</b> | <b>643,041,022</b> | 392,812,336   |

### 19. Cash and Cash Equivalents

|  | 2014<br>Rs.           | 2013<br>Rs.   |
|--|-----------------------|---------------|
| Short Term Bank Deposits   | 3,005,936,284         | 1,246,878,486 |
| Treasury Bills under repurchase agreements                             | 6,634,000,000         | 2,394,442,308 |
|  | <b>9,639,936,284</b>  | 3,641,320,794 |
| Cash at bank   | 597,387,001           | 388,924,388   |
| Cash in hand   | 500,448               | 434,610       |
|  | <b>597,887,449</b>    | 389,358,998   |
| Total cash and cash equivalents for the purpose of cash flow statement | <b>10,237,823,733</b> | 4,030,679,792 |

### 20. Stated Capital

|                     | Number of<br>Shares | Value<br>Rs. |
|---------------------|---------------------|--------------|
| At 31 December 2013 | 200,002             | 20,000,200   |
| At 31 December 2014 | 200,002             | 20,000,200   |

All issued shares are fully paid

### 21. Reserves

|  | 2014<br>Rs.          | 2013<br>Rs. |
|--|----------------------|-------------|
| Net assets taken over from Airports Authority                                | 892,726,769          | 892,726,769 |
| Reserve for lightning damages to property, plant and equipment and inventory | 112,000,000          | 100,000,000 |
|  | <b>1,004,726,769</b> | 992,726,769 |

The value of net assets transferred to the Company from the Airports Authority which was dissolved upon the incorporation of the Company, and also Rs. 112 Mn transferred from retained earnings for utilization in the event of damages to property plant and equipment and inventory are considered reserves.

## 22. Borrowings

|                                      | 2014<br>Rs.           | 2013<br>Rs.     |
|--------------------------------------|-----------------------|-----------------|
| <b>Loans</b>                         |                       |                 |
| Balance at the beginning of the Year | 37,317,489,479        | 38,839,198,744  |
| Loans obtained during the Year       | 530,994,851           | 1,320,557,033   |
|                                      | <b>37,848,484,330</b> | 40,159,755,777  |
| Loans settled during the Year        | (764,263,842)         | (1,131,712,410) |
| Exchange (gain)/loss on translation  | (1,164,566,849)       | (1,710,553,888) |
| Balance at the end of the Year       | <b>35,919,653,640</b> | 37,317,489,479  |
| Current portion of borrowings        | 2,188,192,372         | 747,778,194     |
| Non-current portion of borrowings    | 33,731,461,267        | 36,569,711,285  |
|                                      | <b>35,919,653,640</b> | 37,317,489,479  |

Maturity analysis of the borrowings

|   | 2014<br>Rs.    | 2013<br>Rs.    |
|---|----------------|----------------|
| No later than 1 year                        | 2,188,192,372  | 747,778,194    |
| Later than 1 year and no later than 5 years | 15,737,262,606 | 16,962,773,467 |
| Later than 5 years                          | 17,994,198,662 | 19,606,937,818 |

The above wholly consists of loans denominated in foreign currency obtained through General Treasury at the market rate for the development of Bandaranayake international Airport under sovereign guarantee. The fair value of borrowings equals their carrying amount as the impact of discounting is not significant.

The fair values are based on cash flows discounted using rates based on each of the following loans :

|   | 2014<br>(%) | 2013<br>(%) |
|---|-------------|-------------|
| United States Dollar (USD)- Mattala Rajapakse International Airport | 2.00        | 2.00        |
| Japanese Yen  |             |             |
| Bandaranayake International Airport Development Project             | 2.75        | 2.75        |
| Bandaranayake International Airport Development Project             | 1.80        | 1.80        |
| Bandaranayake International Airport Development Project             | 0.75        | 0.75        |
| Bandaranayake International Airport Development Project             | 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        |
| Canadian Dollar- Bandaranayake International Airport                | 0.75        | 0.75        |

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

|                            | 2014          | 2013          |
|----------------------------|---------------|---------------|
| United States Dollar (USD) | 190,000,000   | 189,277,081   |
| Japanese Yen               | 9,251,987,000 | 9,499,904,000 |
| Euro                       | 1,026,616     | 1,132,058     |
| Canadian Dollar            | 37,500        | 75,000        |

## Notes to the Financial Statements (Contd)

### 23. Retirement Benefit Obligation

Movement in the liability recognized in the balance sheet is as follows:

|   | 2014<br>Rs.   | 2013<br>Rs.   |
|---|---------------|---------------|
| As at beginning of the year                   | 2,336,496,517 | 2,160,743,758 |
| Current service cost                          | 136,468,269   | 157,301,214   |
| Interest Cost (Note 7)                        | 261,687,610   | 270,092,970   |
| Payments made during the year                 | (26,735,837)  | (80,851,587)  |
| Gain arising from changes in assumptions used | (451,965,325) | (170,789,838) |
| As at end of the year                         | 2,255,951,234 | 2,336,496,517 |

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:

|                                 | 2014<br>Rs. | 2013<br>Rs. |
|---------------------------------|-------------|-------------|
| Discount rate                   | 11.20%      | 12.50%      |
| Rate of future salary increases | 7.50%       | 11.15%      |
| Inflation rate                  | 4.70%       | 6.90%       |
| Rate of staff turnover          | 0.78%       | 3.00%       |
| Retirement age                  | 60 years    | 60 years    |

The liability for defined benefit obligations is not externally funded.

### 24. Deferred Government Grant

| Treasury Grant                               | 2014<br>Rs.          | 2013<br>Rs.          |
|--|----------------------|----------------------|
| At the beginning of the year                 | 1,607,202,584        | 1,398,500,574        |
| Reverful of over Amortization/(Amortization) | (150,918,051)        | 208,702,010          |
| Refund to the treasury                       | (19,618,285)         | Nil                  |
| <b>At the end of the year</b>                | <b>1,436,666,249</b> | <b>1,607,202,584</b> |

#### 24.1 The above grants include:

(a) A sum of Rs.34,265,267 received in 2010 from the Telecommunication Regulatory Commission as a grant received for the microwave link established between Piduruthalagala and Ratmalana during 2008, which had been amortized effective from 2008 over the useful life of the communication equipment estimated as 8 years.

(b) An amount of Rs 8,479,962,767 received from the Department of Treasury, accounted as Treasury contributions in the Voted Fund in previous years prior to the amalgamation and now accounted as a grant representing amounts received for BIA development projects since incorporation of the Company. On amalgamation the amounts received prior to 2001 utilized for assets purchased prior to that year had been adjusted to opening equity balance. The balance Rs 2,297,170,632 represents the grants received for assets acquired subsequent to 2001 and is being amortized over the useful life periods of those assets.

### 25. Trade and Other Payables

|                     | 2014<br>Rs.          | 2013<br>Rs.          |
|---------------------|----------------------|----------------------|
| Trade payable       | 4,086,862,072        | 5,360,520,521        |
| Refundable deposits | 236,078,626          | 211,309,971          |
| Other payables      | 1,148,519,568        | 738,549,120          |
|                     | <b>5,471,460,266</b> | <b>6,310,379,612</b> |

### 26. Financial Instruments by Category

#### (a) Financial Instruments

| Financial Assets                      | 2014<br>Rs.          | 2013<br>Rs.          |
|---------------------------------------|----------------------|----------------------|
| Loans and receivables                 |                      |                      |
| Trade and other receivables (Note 17) | 3,734,801,554        | 4,242,009,653        |
| Cash and bank balances (Note 19)      | 597,887,449          | 389,358,998          |
|                                       | <b>4,332,689,003</b> | <b>4,631,368,651</b> |

#### Held to maturity financial assets

|  |                       |                      |
|--|-----------------------|----------------------|
| Investment in debentures (Note 15)                       | 2,550,000,000         | 2,550,000,000        |
| Investments in treasury bills/bonds repurchase (Note 19) | 6,634,000,000         | 2,394,442,308        |
| Short term bank deposits (Note 19)                       | 3,005,936,284         | 1,246,878,486        |
|  | <b>12,189,936,284</b> | <b>6,191,320,794</b> |

#### Financial Liabilities

|  |                       |                       |
|--|-----------------------|-----------------------|
| Other financial liabilities  |                       |                       |
| Borrowings (Note 22)   | 35,919,653,640        | 37,317,489,479        |
| Trade and other payables (excluding non financial liabilities) (Note 25) | 5,471,460,266         | 6,310,379,612         |
|  | <b>41,391,113,906</b> | <b>43,627,869,091</b> |

## Notes to the Financial Statements (Contd)

### (b) Credit Quality by Class of Financial Assets

The credit quality of Financial Assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

#### 31<sup>st</sup> December 2014

|                                  | Neither past due<br>nor impaired | Past due but<br>not impaired | Individually<br>impaired | Total                |
|----------------------------------|----------------------------------|------------------------------|--------------------------|----------------------|
| Trade Receivables (Note 17)      | 2,262,954,777                    | 869,158,834                  | 666,089,500              | 3,798,203,111        |
| Cash and bank balances (Note 19) | 3,603,323,285                    | Nil                          | Nil                      | 3,603,323,285        |
| <b>Total Financial Assets</b>    | <b>5,866,278,062</b>             | <b>869,158,834</b>           | <b>666,089,500</b>       | <b>7,401,526,396</b> |

#### Cash at Bank and Short-Term Bank Deposits

|              | 2014<br>Rs.          | 2013<br>Rs.          |
|--------------|----------------------|----------------------|
| AA+(Ika)     | 3,603,323,285        | 1,635,802,874        |
| <b>Total</b> | <b>3,603,323,285</b> | <b>1,635,802,874</b> |

## 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.

(b) Arbitration proceedings referred by late A.S.K Fernando of Floorshine Service against the Company demanding Rs.80 Mn for termination of contract is laid by until his testamentary proceedings are concluded.

Other than the above, there were no material contingent liabilities outstanding at the balance sheet date.

## 28. Commitments

### 28.1 Capital Expenditure Commitments

|   | 2014<br>Rs.          | 2013<br>Rs.          |
|---|----------------------|----------------------|
| Contracted but not provided for                 | 699,400,000          | 406,526,000          |
| Authorized by the Board, but not contracted for | 1,643,000,000        | 4,256,974,000        |
|   | <b>2,342,400,000</b> | <b>4,663,500,000</b> |

### 28.2 Financial Commitments

There are no any other financial commitments other than those disclosed under borrowings (Note 22).

### 28.3 Operating Lease Commitments

There are no any operating Lease Commitments.

## 29. Key Management Compensation

|                     | 2014<br>Rs.       | 2013<br>Rs.       |
|---------------------|-------------------|-------------------|
| Emoluments and Fees | 22,215,319        | 12,125,756        |
|                     | <b>22,215,319</b> | <b>12,125,756</b> |

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 since the date of the statement of Financial Position that require adjustments to, or disclosure in the Financial Statements.





# CORPORATE INFORMATION

|                               |  |
|-------------------------------|--|
| Company Registration Number   | : PV 7931 ( Companies Act No. 7 of 2007 )  |
| Date of Incorporation         | : 23 <sup>rd</sup> February 1982   |
| Legal Form                    | : Limited Liability Company  |
| Board of Directors            | : G H Ananda Wimalasena ( Chairman )<br>H M S L Wijeratne ( Vice Chairman )<br>Ruvini Dias Bandaranayake ( Executive Directress )<br>S R Attygalle<br>D J G S Edirisinghe<br>R Ketawalage<br>S K Cyril<br>L W A De Soysa   |
| Company Secretary             | : M C G Mahipala ( Ms)   |
| Registered Office             | : Bandaranaike International Airport, Katunayake   |
| Other Locations of Operations | : • Mattala Rajapaksa International Airport, Mattala<br>• Colombo Airport, Ratmalana<br>• Civil Aviation Training Centre,<br>64, Kandawala Road, Ratmalana<br>• HF Transmitting Station , Attidiya Road , Ratmalana<br>• Radar & Communications Centre, Pidurutalagala Peak ,<br>Nuwara Eliya<br>• HF Receiving Station, Seetha Eliya , Kandapola. |
| Vat Registration Number       | : 1040827697000  |
| Auditors                      | : PricewaterhouseCoopers, 100, Braybrooke Place, Colombo 2   |
| Bankers                       | : Bank of Ceylon PLC   |



Designed & Produced by : AASL  
Digital plates & Printed by :  
Printel (Pvt) Ltd



  
Airport & Aviation Services  
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