

JETTING AHEAD



Airport & Aviation Services (Sri Lanka) Limited

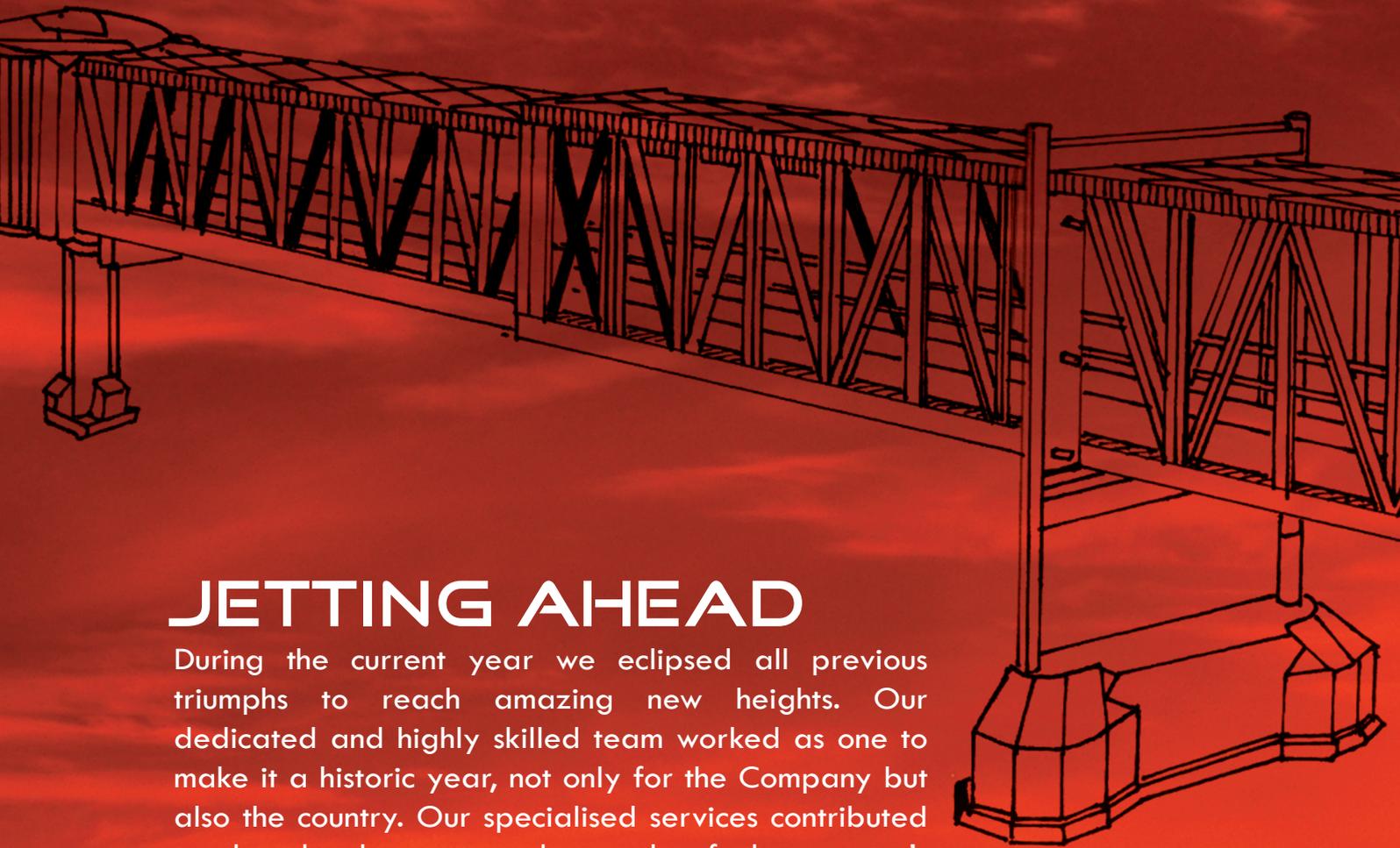
Annual Report 2013

Vision

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

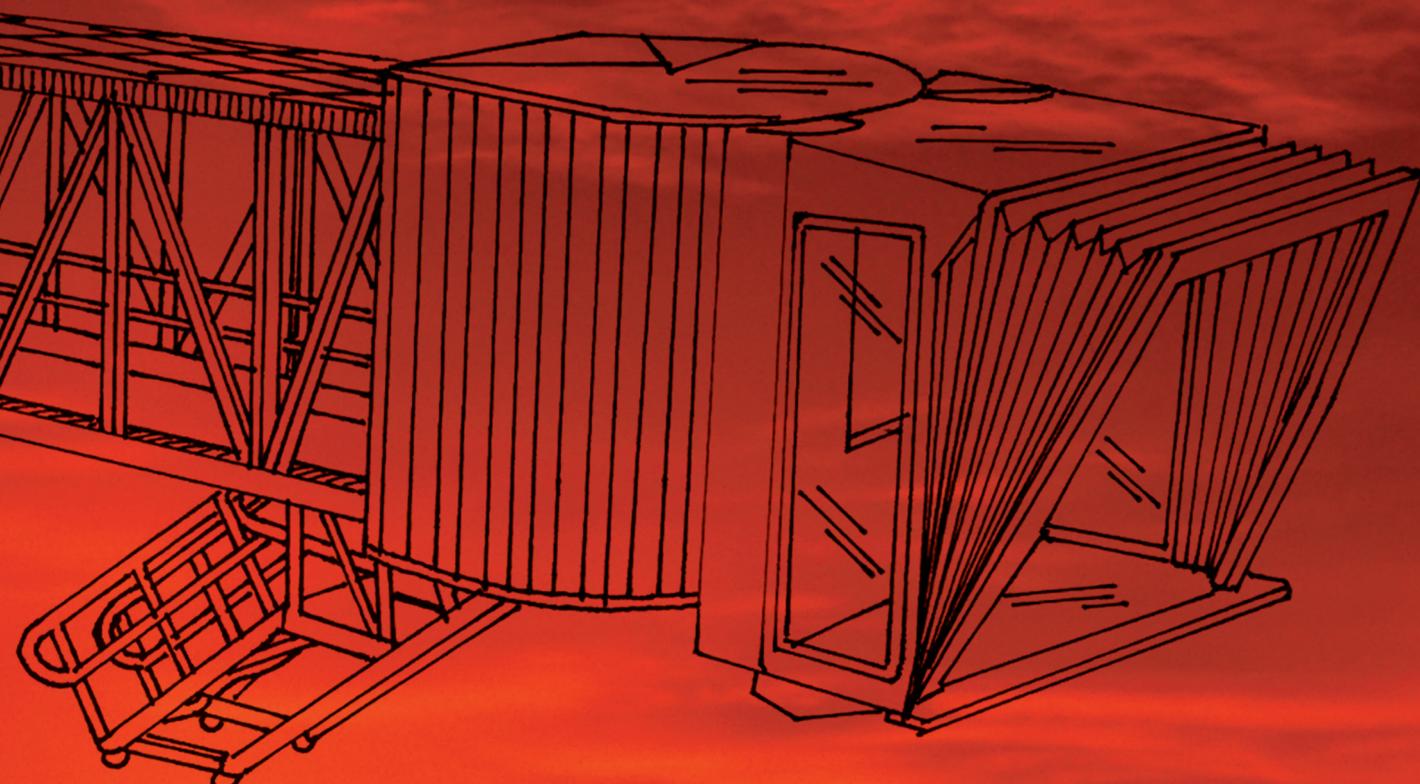
Mission

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



JETTING AHEAD

During the current year we eclipsed all previous triumphs to reach amazing new heights. Our dedicated and highly skilled team worked as one to make it a historic year, not only for the Company but also the country. Our specialised services contributed to the development and growth of the country's tourism, industries and other service sectors, and also put Sri Lanka in the world map by enhancing the country's image internationally. Our achievements during the year, including the successful launch of the country's second international airport, speak volumes regarding our capabilities, skills and our management efficiencies, placing the Company among the best air traffic and airport service providers in the region.



CONTENTS

Financial Highlights	02	Risk Management	58
Performance Highlights	03	Annual Report of the Board of Directors on the affairs of the company	64
Event Highlights	04	Auditors' Report	71
Chairman's Review	08	Statement of Comprehensive Income	72
Board of Directors	12	Balance Sheet	73
Senior Management	14	Statement of Changes in Equity	74
Management Discussion & Analysis	18	Statement of Cash Flows	75
Financial Review	38	Notes to the Financial Statements	76
Human Resource Management	43		
Sustainability Report	50		
Corporate Governance	53		

FINANCIAL HIGHLIGHTS

	2013	2012	+/- %*	2012	2011	+/- %
	Rs. Mn.	Rs. Mn.		Rs. Mn.	Rs. Mn.	
Turnover	12,110	11,114	9%	11,114	9,290	20%
Operating expenses before depreciation	7,468	5,214	-43%	5,214	4,598	-13%
EBITD	4,642	5,899	-21%	5,899	4,693	26%
Depreciation of fixed assets	1,751	1,011	-73%	1,011	1,135	11%
Net Finance costs/ (income)	(1,855)	1,030	280%	1,030	1,417	27%
Profit Before Taxation	4,746	3,859	23%	3,859	2,141	80%
Income Tax	1,192	1,121	6%	1,121	751	49%
Profit After Taxation	3,554	2,738	30%	2,738	1,390	97%
Profit attributable to equity shareholders	3,554	2,738	30%	2,738	1,390	97%
Dividends	500	-	100%	-	2,106	100%
Cash and Cash Equivalents as at 31st December	4,031	4,425	-9%	4,425	4,215	5%
Key Financial Ratios						
Return on equity	47.8%	64.9%	-29%	64.9%	109.0%	-40%

* subject to rounding differences

+ = Favourable

- = Adverse

PERFORMANCE HIGHLIGHTS

		2013	2012	2011	2010
Financial Highlights					
Total Revenue	Rs. Mn	12,110	11,114	9,290	8,272
Net Profit Before Tax	Rs. Mn	4,746	3,859	2,140	*** 5,609
Shareholders Fund as at December 31st	Rs. Mn	7,441	4,217	1,274	1,877
Total Carrying Amount of					
Non-Current Assets as at December 31 st	Rs. Mn	47,193	42,044	25,647	15,607
Total Current Asset as at December 31 st	Rs. Mn	9,079	7,488	10,625	14,345
Total Current Liabilities as at December 31st	Rs. Mn	7,058	4,181	4,011	2,953
Total Capital Expenditure for the year	Rs. Mn	6,378	17,449	9,165	544
Cash & Cash Equivalents at the year end	Rs. Mn	4,031	4,425	4,203	7,020
Operating Highlights					
International Flight Movements	Nos.	52,178	48,416	43,454	34,088
Passenger Movement*	Nos.	7,348,006	7,079,920	6,145,532	5,259,648
Cargo Movement**	M.T.	194,039	186,618	168,577	167,130
Total no. of Employees as at 31st December	Nos.	3,674	3,445	3,306	3,179
Highlights in Ratios					
Net Profit Before Tax to Total Revenue	%	39	34.7	23	68
Net Profit Before Tax to Shareholders Fund	%	64	92	168	299
Total Revenue to Total Assets	Times	0.22	0.22	0.26	0.28
Total Assets per Employee	Rs'000	15,316	14,378	10,972	9,422
Total Staff Cost per Employee - Per Annum	Rs'000	1,135	1,020	942	888
Total Cost per Flight Handled	Rs'000	141	164	176	123
Revenue per Passenger	Rs.	1,648	1,570	1,512	1,573
Profit After Tax per Passenger	Rs.	484	387	226	929
Aircraft Movement per Employee	Nos.	14	14	13	11
Passengers per Aircraft	Nos.	141	146	141	154
Passengers per Employee	Nos.	2,000	2,055	1,859	1,654
Return on Net Assets	%	50	65	109	260
Return on Total Assets	%	7	6	4	16
Profitability Ratio	%	30	25	15	59
Earning Per Share	Rs.	17,768	13,688	6,943	24,441
Current Ratio	Times	1.29	1.79	2.65	4.86
Quick Assets Ratio	Times	1.24	1.73	2.58	4.78
Total Income to Total Expenditure	Times	1.64	1.53	1.30	3.11

* Passenger movements include arrival, departure, transfer and transit passenger. Transfer and transit passengers are counted twice

** Cargo movements include export, Import and transhipment (counted twice) cargo. Air mails is excluded

*** This includes prior year adjustment of Rs. 3.7 Bn arisen due to revision of depreciation rates and amalgamation of accounts as per SLFRS.

EVENT HIGHLIGHTS 2013

EVENT HIGHLIGHTS 2013



January



February



March



April



April



July



September



October

January

Historic test landing at Mattala Rajapaksa International Airport (MRIA)

An A330 Aircraft from the Sri Lankan fleet made a successful test landing at MRIA on 29th January, 2013. The flight took off from Bandaranaike International Airport (BIA) and arrived at MRIA by 9:45 am.

February

Turkish Airlines starts flights from Istanbul to Colombo

Turkish Airlines commenced flights from Istanbul to Colombo from 1st February, 2013. It will be operating five frequencies per week, on the flight route IST-MLE-CMB.

March

Sri Lanka's second International Airport is declared open

The MRIA was declared open by His Excellency President Mahinda Rajapaksa, on 18th March, 2013 when a special SriLankan Airlines flight carrying the President landed at Sri Lanka's newest International Airport. MRIA is one of the largest infrastructure

projects of Sri Lanka's history and Airport and Aviation Services (Sri Lanka) Limited (AASL) was involved in its planning stage and currently manages the airport as a developer, builder and a service provider.

April

Etihad Airways' Risk Assessment Audit (RAA) at MRIA

Officials from Etihad Airways conducted a RAA at the MRIA which is conducted for new stations to find out the suitability of commencing operations with MRIA.

British Airways (BA) join the BIA Flight Network

BA recommenced flights to the BIA on 15th April, 2013 following a lapse of fifteen years. BA which operated regular flights through Colombo up until the late 1990s, suspended operations mainly due to the social unrest in Sri Lanka that continued until 2009. With the resumption of operations, BA will operate Boeing 777-200 flights to BIA thrice weekly, on Sunday, Wednesday and Friday from London Gatwick through Male.

May

Expanding Air Navigation Facilities

The Air Traffic Message Handling System (AMHS), which was installed in 2012, was expanded to serve the MRIA. New AMHS terminals were added to the BIA, Civil Aviation Authority (CAA), Sri Lankan Airlines (UL) and the Sri Lanka Air Force, to address increasing demands of air traffic volume. The AMHS was also upgraded to a newer version by the Canadian supplier for compliance with the latest International Civil Aviation Organisation (ICAO) standards and greater reliability and sturdy solution.

June

Record breaking Air Traffic Statistics at half-year

BIA Air Traffic Statistics proved a historic performance with the best half-year performance to date, with a clear growth momentum projected for passenger, aircraft, cargo movements and Maximum Take Off Weight (MTOW) for the year.

July

New Blood for the Industry

The award ceremony was held for the second batch of students who successfully completed the 'Diploma in Aviation Studies' programme, at the Civil Aviation Training Centre (CATC) in 2012.

Third Intake of Aviation Students

The third intake of students for the Diploma in Aviation Studies, commenced at the CATC in July 2013.

August

First Enterprise Resource Planning (ERP) System

The signing off of the 'To-Be' phase of the first ERP System was concluded. This Rs. 250 Mn project is expected to commence its 'Go-Live' phase by the first quarter of 2014.



November



November



December

September

Upgrading facilities at MRIA

AASL entered into a contract on 6th September, 2013 with the China Harbour Engineering Company Ltd. (CHEC) for the design and construction of Maintenance Repair and Overhauling (MRO) facilities and upgrading of aerodrome facilities at the MRIA.

October

VVIP Lounge at BIA

The newly reconstructed VVIP Lounge of the BIA was ceremonially declared open by His Excellency President Mahinda Rajapaksa, on 27th October, 2013. The expansion and the refurbishment of the VVIP facility were done as part of the preparations for the Commonwealth Heads of Government Meeting (CHOGM) held in Colombo.

November

CHOGM

AASL was instrumental in ensuring the success of the first CHOGM held in Sri Lanka, being a crucial facility partner in coordinating arrival and departure formalities for hundreds of delegates from across the world.

The terminal building of the Colombo Airport, Ratmalana (RMA) was refurbished.

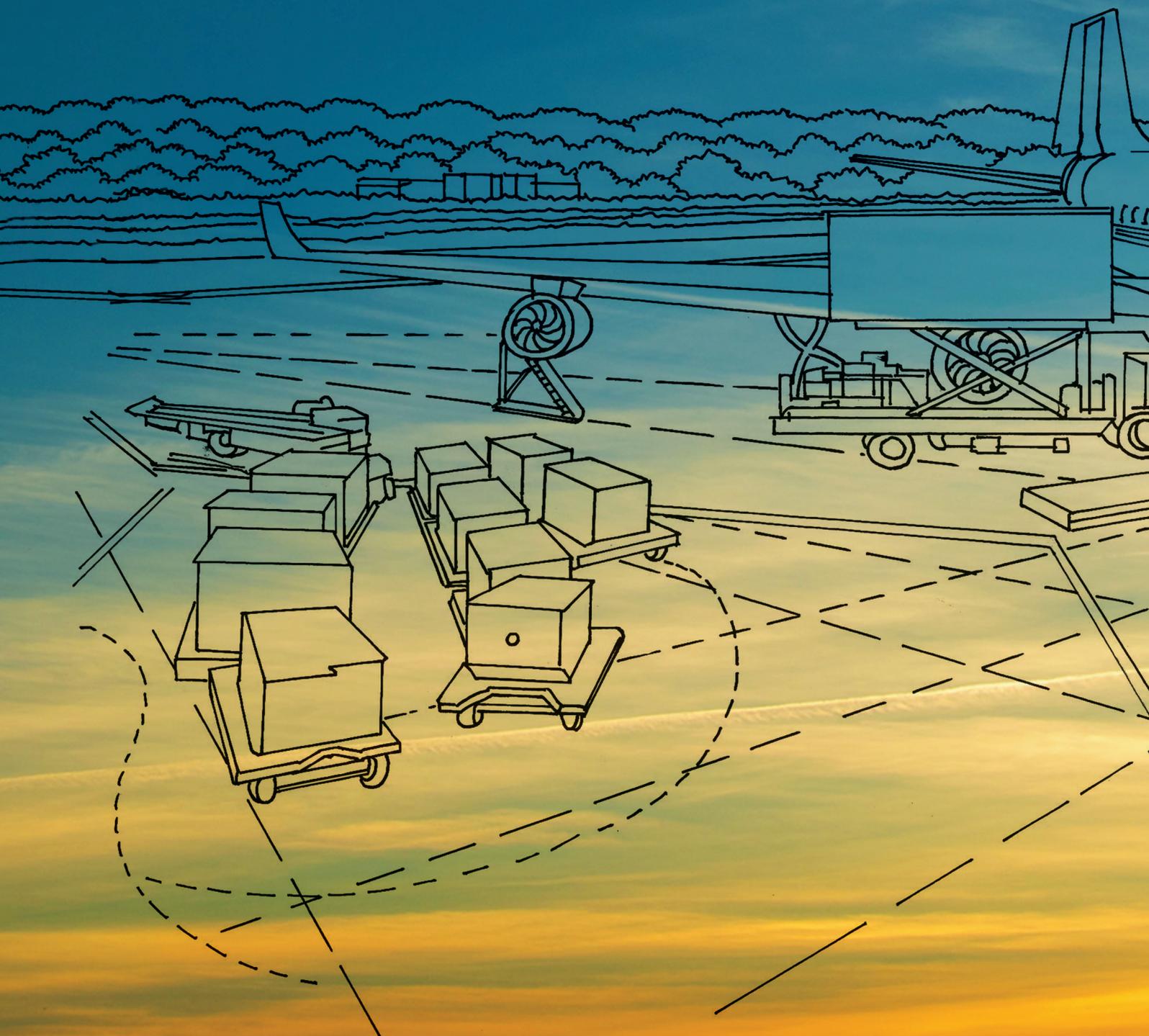
The refurbished terminal building, VVIP Lounge, new VIP Lounge and airport car park of the RMA, were ceremonially opened by His Excellency President Mahinda Rajapaksa, on 08th November, 2013.

December

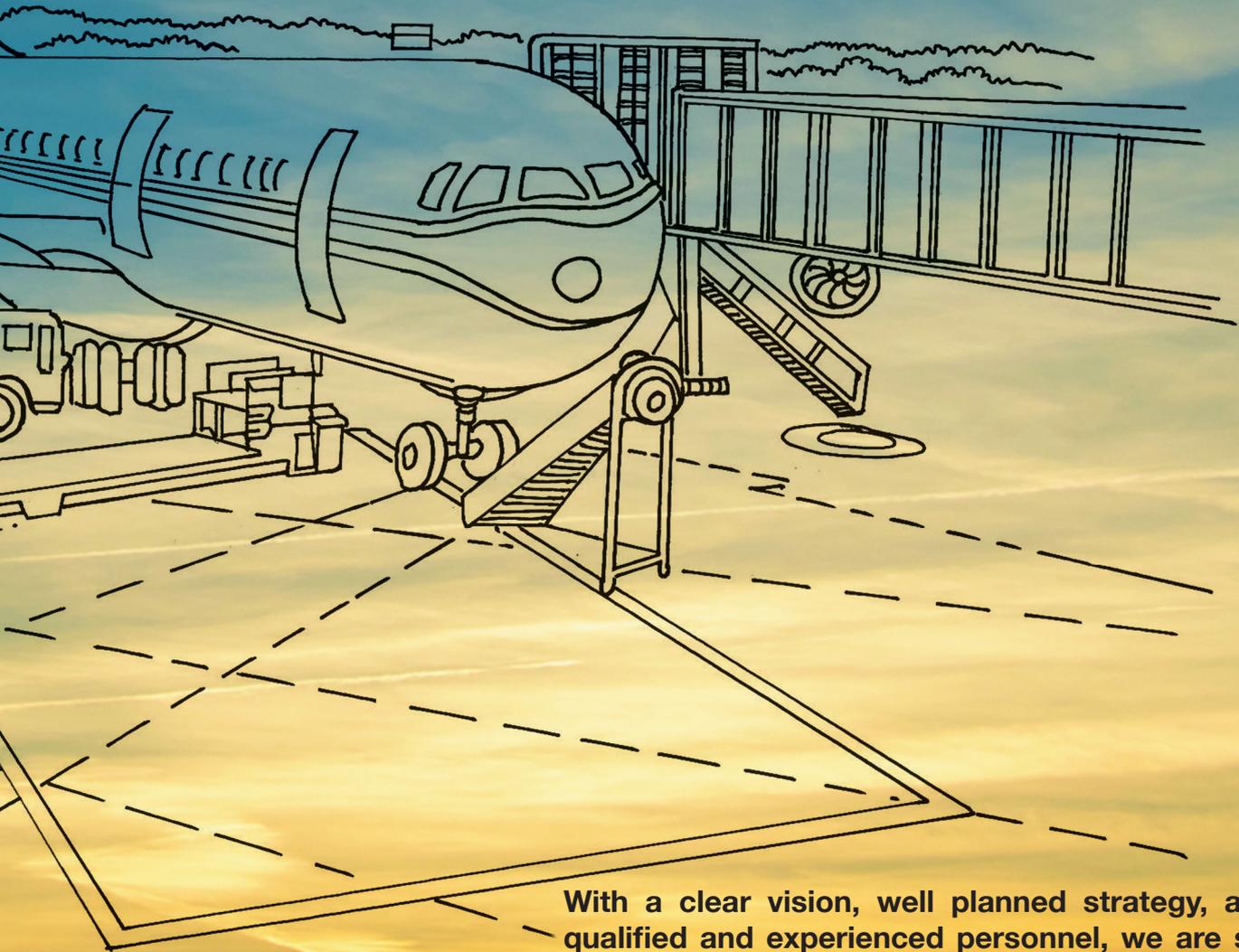
Christmas Shopping Festival

The BIA Christmas Shopping Festival commenced in December, until end January 2014, as part of the BIA's duty free sales promotion campaign.

NAVIGATING IN THE RIGHT DIRECTION



Management Reports



With a clear vision, well planned strategy, and qualified and experienced personnel, we are set to navigate successfully in the direction of growth.

CHAIRMAN'S REVIEW



Prasanna J Wickramasuriya WWW RWP RSP
Chairman

"We believe that one of the prime reasons for our turnover growth is our policy of strengthening our customer base as well our longstanding relationship with key customers. An interesting trend observed during the year was a shift to more non-traditional markets such as Korea, Turkey and Australia which were not ranked in our top 10 destinations of foreign operations' income growth earlier ".

Dear Shareholders,

The year under review was an eventful and a historic one for AASL as we focused on developing Sri Lanka into an internationally competitive commercial, tourism and aviation hub in the region. We had to be mindful of the fact that this will place enormous pressure on existing infrastructure and public utilities. In keeping with this development focus, the highlight of the year 2013 was the commencement of commercial operations at MRIA on 18th March, 2013, which was hailed as a great success.

This year, the CHOGM was hosted by Sri Lanka, the first time an Asian country was hosting the summit in 24 years. It is held every two years to enable leaders of Commonwealth countries to come together to discuss global and Commonwealth issues and to decide on collective policies and initiatives. It gives me great pride to state that as the Chairman of AASL, that we were a crucial facility partner in coordinating arrival and departure formalities of all Heads of Governments and that was accomplished in keeping with the highest standards and to the entire satisfaction of all parties concerned. In a nutshell, it was an excellent performance all round.

Operational Review

Though the global economy grew at a slower pace in 2013, with strong signs of increased economic activity towards the latter part of the year, our primary operating metrics - passenger, cargo volumes, and aircraft movements reached new heights during the year. This helped AASL to post a remarkable turnover of Rs. 12.1 Bn in 2013 in comparison to Rs. 11.1 Bn in the preceding year, generating top line growth of 9%.

Income from foreign airlines along with foreign duty free operators recorded Rs. 6,074 Mn, which marked an 12% growth over the previous year. This comprised 50% of total operational revenue. The main contributing factor for growth was Sri Lanka's brand reputation

as a tourist destination. Tourism, which is one of the fastest growing sectors in the economy, requires a clear, market-driven strategy, as it aims to reach the ambitious target of 2.5 Mn tourist arrivals by 2016. The company has consolidated its status as a safe, efficient and friendliest airport service provider to airlines and passengers, tourists in particular. In this context, our second international airport is simultaneously proving its' importance as a viable alternative airport. Also, this gives enormous savings to airlines in carrying extra payload, which would otherwise have to carry extra fuel.

We believe that one of the prime reasons for our turnover growth is our policy of strengthening our customer base as well our longstanding relationship with key customers. The income earned from foreign operations reported continuous growth in the countries of Italy, India and UAE due to key concessionaires operated at BIA. An interesting trend observed during the year was a shift to more non-traditional markets such as Korea, Turkey and Australia, which were not ranked in our top 10 destinations of foreign operations' income growth earlier. The main reason for this was the commencement of Korean Airlines and Turkish Airlines during the year, while overflying movements in the recommenced Qantas Airways resulted in the upsurge of foreign currency income from Australia.

The Aeronautical income in 2013 grew by 12% to Rs. 3.05 Bn while Non-Aeronautical revenue recorded a growth of 15% to Rs. 9.2 Bn. It is also a great pleasure to bring to your notice, that due to the right management decision made to break the prevailed monopoly at the right time in the "core category duty free sales", AASL was able to increase its' share of Non Aeronautical income into 76% as a percentage of the total turnover. Expenses totalled Rs. 9.2 Bn, an increase by Rs. 3,028 Mn as compared to the operating expenses in 2012. The higher operating expenses were mainly attributable to higher business volume as BIA handled more passengers and aircraft movements during the year.

Chairman's Review Contd.

Second International Airport

The construction of MRIA also known as Hambantota International Airport Development Project was launched on 27th November, 2009. This considered one of the nation's most significant milestones and it was inaugurated in March 2013, well before the scheduled date of completion. I record the Board's thanks to the Consultants and Contractors who worked on the project and also to our employees who worked tirelessly and with great skill to deliver a successful project. It is a solid platform laid down by the MRIA and bright signs of its' business plans that MRIA operates flights to the international destinations from the day one of its' operations joining few other international airports in the world. The total cost of this project, which was the first phase, was US \$ 209 Mn, and was funded by a concessionary loan from the Exim Bank of China for US \$ 190 Mn and the remaining US \$ 19 Mn will be borne by AASL. The repayment of this entire loan will be borne by AASL without burdening the GoSL.

MRIA has the initial capacity to handle 1 million passengers per annum, 30,000 flights per annum and 45,000 Metric Tons of cargo per annum. Under the second phase, it will be expanded further to accommodate 5 million passengers per annum increasing the total passenger handling capacity into 6 million passengers per annum, 150,000 Metric tons of cargo per annum and 45,000 flights per annum. As a result, finally, both BIA and MRIA will be capable enough to handle total of 21 million passengers per annum by 2020. That will obviously be a great achievement towards our vision of "To be the Aviation Hub in the region".

In the past 2 years, the AASL Board of Directors, its' Management team, staff and related parties have relentlessly dedicated themselves to realizing the completion of the massive construction project of

Sri Lanka's new international airport and achieved its opening in a timely manner. Needless to say, implementation of preparatory plans assured a smooth and successful operation on opening day. In addition, Operational Readiness and Transfer (ORAT) Programs inclusive of operation simulations and trial runs on both domestic and international flights enabled operations to begin without a hitch. While the opening of MRIA has added a positive dimension to AASL, it also reflects Sri Lanka's potential economic growth.

Way Forward

In the coming years, we will be making substantial investments to increase the capacity of both BIA and MRIA. It is, therefore, important that AASL has a thoroughly sound Balance Sheet because AASL has not only to repay the loans obtained through the treasury, but also to present external funding agencies such as Japan International Cooperation Agency (JICA) from whom we have obtained direct loans.

As far as BIA is concerned, the Stage 2 of Phase 2 of BIA, a major development project, will enhance the passenger handling capacity by another 9 Mn per annum and is scheduled to be completed by 2016 and the runway overlaying project also scheduled to be completed by 2016. These are two of our massive projects in the pipeline. Further, Memorandum of Understanding (MOU) was signed with China Harbor Engineering Company Ltd on 13th November 2013 at the Commonwealth Business Summit for investment, construction and an operation of a resort and associated property development at BIA as well as MRIA. Under the above arrangement, it has been planned at BIA to build an entertainment centre, shopping arcade and a multi-stored car park. The earmarked location will be the newly-purchased 7.5 -acre land adjoining BIA (which can also be considered as another

Total Revenue

Rs. 12.1 Bn. by \uparrow 9%

PAT

Rs. 3.5 Bn. by \uparrow 30%

Total Equity

Rs. 7.4 Bn. by \uparrow 76%

Total Assets

Rs. 56.3 Bn. by \uparrow 13%

impressive achievement made in terms of investing in a property with high market value). In accordance with the above MOU, a resort, golf course, duty free shops and an entertainment centre are also planned at MRIA as well. Further, at MRIA, AASL is now in the phase of design and construction of a well equipped building with all related infrastructure facilitating Maintenance Repair and Overhauling (MRO) of aircrafts to be operated by Sri Lankan Airlines in collaboration with a foreign investor. Further it has also been planned to build a "Flying Training Academy" at MRIA for Sri Lankan Airlines.

During the year under review, completion of major milestones of our first ERP system, could be viewed as a remarkable achievement of information technology and we are confident that the scheduled 'Go-Live' in 2014 will accrue significant benefits to AASL in the years to come.

Looking to the future, BIA, which is at the maturity stage of the Industry Life Cycle (ILC); and MRIA, which is at growth phase of ILC; as well as RMA, which serves domestic and private jet operations with a high potential for growth, are anticipating greater demand for capacity in terms of new products, services and infrastructure. With this in mind, there are several development projects on the drawing board. These are explained in further detail under the Management Discussion & Analysis under the title 'Projects planned for the next 5 years'.

Moreover, bilateral agreements were signed with 5 Countries and new airlines, namely, Turkish Airways, Korean Airlines, Maldivian Airlines, Abu Dhabi-based airline Rotana Jet and Air Asia X Berhad commenced operations, while British Airways recommenced operations to and from Colombo. The two airlines, namely, Fly Dubai and Air Emirates, partnered with us from Day One of MRIA operations with scheduled flights in addition to our national carrier and budget airline, Mihin Lanka. The negotiations are underway to expand our flight network focusing both airports. Our long term objective is to make the BIA a passenger transit hub in the Asia region, while increasing the passenger handling capacity to 15mn by 2016 along with a steep increase in passenger number and increase the volume of cargo airlifted through Colombo.

We are a service provider backed by a highly qualified and competent work force which has been offered competitive remuneration, unmatched training and development opportunities in the industry. It's a great pleasure to me

to state that we were able to open doors for employee carrier development schemes through implementing new promotional avenues. Our employees' gratuity liability of Rs.2 Bn has been secured via investing in a separate fund identified for the purpose. We have carried out many corporate social responsibility projects (CSR) over the years which in the year 2013 amounting to Rs. 18 Mn. Our CSR practices are in adherence to AASL sustainability policy and schools and hospitals renovation projects, financial donations to built houses for disable soldiers were in focus as in many other previous years.

In Conclusion....

To the AASL team, who performed wonderfully, I congratulate all staff wholeheartedly for delivering yet another year of splendid performance. I look forward to your continued commitment, dynamism and effort as we move into challenging times ahead.

I thank our customers for their valuable patronage and the valuable and meaningful relationship built up with us. To maintain the customer relationship and retain their trust is of utmost importance to us.

As the airport service provider, we are honored and touched by the confidence that the other airport partners placed on us. Your confidence in both BIA and MRIA inspires us to improve continuously.

I also wish to extend my sincere appreciation to my fellow directors of the board who worked with utmost diligence to enhance value to our shareholders and to the Senior Management team for the support and guidance.

Finally, I would like to extend my sincere appreciation to the Government of Sri Lanka for their unfailing vision, support and leadership. AASL is proud to be playing a key role in supporting the economic development of Sri Lanka as one of the key five hubs given in "Mahinda Chinthanaya Development Manifesto".



Prasanna J Wickramasuriya WWW RWP RSP
Chairman

18th June, 2014

BOARD OF DIRECTORS



Left to Right:

Mr. S P Senaratne - *Director*, Ms. M C G Mahipala - *Company Secretary*, Mr. Yoga Perera - *Director*,
Mr. J R U De Silva - *Director*, Mr. Kamal S Ratwatte - *Vice Chairman*, Mr. Prasanna J Wickramasuriya - *Chairman*,
Mr. Kosala Wickramanayake - *Director*, Ms. Shanika Gopallawa - *Director*
Mr. Yohanne Jayaratne - *Executive Director*, Mr. Ananda Goonatileke - *Director*

SENIOR MANAGEMENT TEAM





Left to Right:

S P R Manukulasuriya - Acting Head of Marketing

M Ratnasinghe (Mrs.) - Head of Legal

L Dahanayake - Head of Finance

Lt. Col. K H C Kumarasinghe - Head of Security Services

U J Lokuarachchi - Acting Head of Information Technology

H P L Sirimanne - Acting Head of Supply Chain Management

Wg. Cdr. S M D Wijesooriya - Acting Head of Safety

W Wimalshanthi - Head of Electronics & Air Navigation Engineering

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

S M R Rafeek - Head of Projects

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

H S Hettiarachchi - Head of Airport Management



Left to Right:

D P Karunaratne - Chief Executive Officer/MRIA

G Withanage - Head of Civil Engineering (Planning & Designs)

R W Wijesinghe - Senior Mechanical Engineer/Oversee the functions of Head of Mechanical Engineering

M C G Mahipala - Head of Human Resources/Company Secretary

Dr. S D A S Nishantha - Company Medical Officer

H A A K M Seneviratne - Head of Civil Aviation Training

W C Tissera (Ms.) - Head of Air Navigation Services

W M G Karunaratne - Head of Commercial & Properties

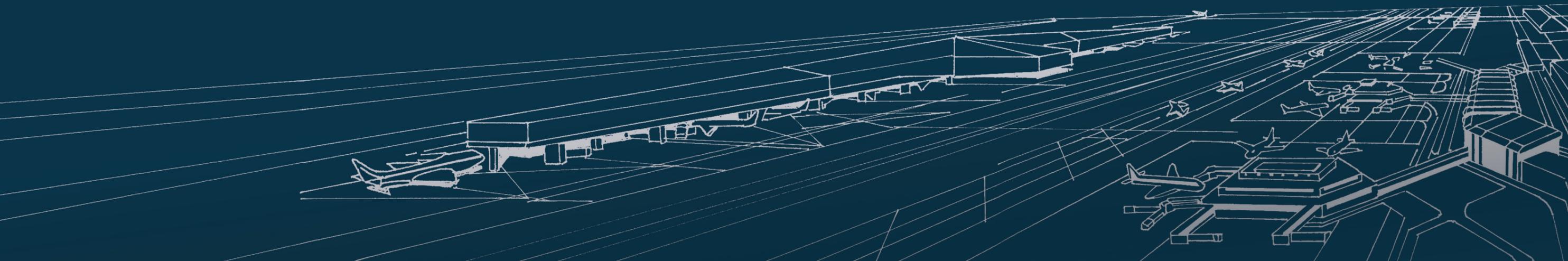
W G Cyril - Head of Internal Audit & Quality Assurance

J M A U Jayamanne - Acting Head of Electrical Engineering

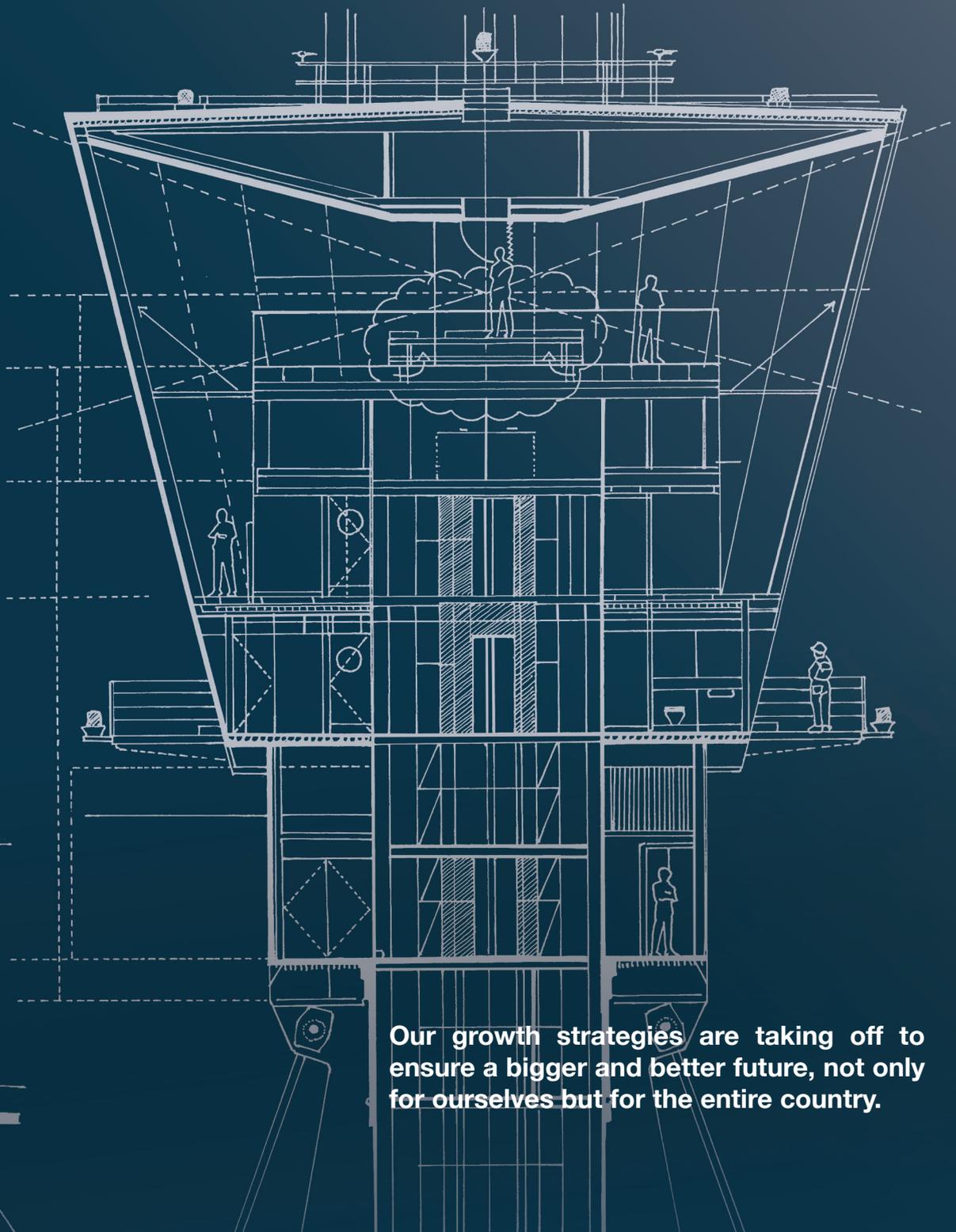
Not in the Picture

U S Jagoda - Senior Civil Engineer/Attending to the duties of Head of Civil Engineering (Maintenance)

PLANNING FOR A BETTER FUTURE



Management Discussion & Analysis



Our growth strategies are taking off to ensure a bigger and better future, not only for ourselves but for the entire country.

MANAGEMENT DISCUSSION & ANALYSIS

AASL is an airport operator managing three airports in Sri Lanka, namely, BIA, MRIA and RMA. The newest airport MRIA, commenced full commercial services for both international and domestic flights on 18th March 2013.

In the fiscal year 2013, AASL served 31 scheduled airlines. The volume of BIA was 50,802 flights, a 5% increase compared to the last fiscal year. BIA served 7,311,869 passengers, a 3% increase compared to the last fiscal year. There are various reasons for such a growing number of international tourists visiting Sri Lanka, which reflects an exponential growth coupled with the large number of visitors who touched down on the island's shores for the 2013 CHOGM, hosted by Sri Lanka in the fourth quarter of the period under review. The air traffic volume of Low Cost Carriers (LCCs) also witnessed a rise of 19% with 4,079 movements in the year under review. Total cargo and mail amounted to 193,975 MT and 1,811 MT respectively, an increase of 4% and Nil respectively.

The volume of MRIA was 1,376 commercial aircraft movements, 36,137 total passengers.

The volume of RMA was 5,986 domestic flight movements with 7,435 domestic passengers. This is a slight decrease in domestic movements compared to 6,128 flight movements and 11,100 passenger movements recorded in 2012.

Current Market Outlook

Industry Overview

Infrastructure Investment Remains Crucial

Sustained investment in aviation infrastructure is crucial for the continued growth of commercial aviation. Airports, national airspace management agencies and airlines share challenges and opportunities of aviation growth. Boeing Analysis indicates that congestion at certain airports around the world will increase over the next 20 years as commercial air traffic growth drives demand for take-offs and landings to reach or surpass airport capacity. The world's busiest airports, such as London's Heathrow, have already reached their limits for hourly airplane movements, even with slot controls. Many airports have the capacity to meet projected traffic growth. Other airports have the capacity to handle demand efficiently during off-

peak hours, but are constrained during morning and/or evening hours when demand is highest. Continued infrastructure investment is particularly important in regions such as China, Northeast and Southeast Asia, India and Latin America, where aviation growth outpaced planned infrastructure development.

Capital Improvements

Airport authorities around the world are investing in large capital projects, including new or improved runways, terminal expansions and entirely new airports. These investments can significantly increase airport capacity, but are substantial in scope and therefore development times typically extend to more than a decade from initial planning to completion of construction. Community noise and environmental concerns often stretch development times further and may limit the scope of expansion.

Airlines have implemented a number of approaches to manage airport crowding. In particular, airlines have replaced smaller airplanes such as regional jets with larger single-aisle airplanes, helping to ease demand for take-off and landing slots during peak periods. Creating secondary hubs and expanding service to secondary airports can also ease congestion at the busiest airports. Airline alliances have proven effective in allowing airlines to expand route systems without duplicating services that would otherwise add to congestion. In sum, although airports and governmental air services agencies will need to continue investing in infrastructure improvements and airlines will need to evolve strategic responses at some airports, congestion will not be a major limiting factor in commercial air traffic growth during the forecast period.

Global Economic Environment

Worldwide economic activity is the most powerful driver of commercial air transport growth and the resulting demand for airplanes. The global Gross Domestic Product (GDP) is projected to grow 3.2% per year for the next 20 years, driving both air passenger traffic and air cargo traffic to average 5% annual growth worldwide over the same period.

Global Growth Spurred By Emerging Economies

Emerging economies are projected to grow by 5.2% per year over the next 20 years, outpacing established

It will be our endeavour not to promote MRIA at the expense of BIA, but as a holistic promotion of all Civil Airports of Sri Lanka, taking the country towards achieving the aviation hub status.

economies, which will average 2.1% growth. Emerging and developing economies will account for 60% of global growth between 2012 and 2032. Their share of real global GDP will increase from 31% to 45% over the same period. We operate in one of the world's most dynamic economies. The annual global GDP rate is expected to average 4.5% over the next 20 years in the Asia Pacific region, the region which we operate in, while Latin America and the Middle East have projected a 4% and 3.8% GDP growth respectively.

Household income will grow and consumption patterns will change as educated labour force expands; investment in physical and social infrastructure increases; urbanization progresses and the relative importance of economic sectors shifts within the world's emerging economies. Following urbanization, the labour force will shift toward the industrial and service sectors, which will spur medium income to converge toward the income levels of developed economies. The emerging global middle class will expect to enjoy standards of living comparable to those in developed economies. As demand for international goods and services rises and leisure time increases, appetite for travel will grow.

(Source: Current Market Outlook 2013-2032 by Boeing)

BIA's Flight Network

BIA offered flights to 32 westbound destinations and 15 eastbound destinations throughout the entire reporting year. In 2013, a total of 31 scheduled airlines were represented at BIA. SriLankan Airlines, the national carrier, is the largest customer with 55% of the total passenger volume (2012 – 55%) followed by Emirates with 9 % of the passengers. BA, which recommenced flights from April 2013 and Turkish Airlines, Korean Airlines and Air Asia X Berhad which commenced operations from February, March and September 2013 respectively, are the four airlines added to the BIA's flight network during year. Sri Lanka's geographical location as an island in the Indian Ocean, its high safety record maintained for Colombo

Passenger Traffic by Airline

	2013	Change in %	Share in %
1 SriLankan Airlines	4,018,543	2.7	54.96
2 Emirates	675,589	8.7	9.24
3 Mihin Lanka	504,789	40.5	6.90
4 Qatar Airways	318,035	1.0	4.35
5 Fly Dubai	164,391	58.8	2.25
6 Jet Airways	164,298	-42.0	2.25
7 Cathay Pacific	156,436	16.7	2.14
8 Air Arabia	149,265	19.0	2.04
9 Singapore Airlines	138,475	-6.0	1.89
10 Malaysian Airlines	126,286	31.8	1.73
Other	895,762	-8.8	12.25
	7,311,869		100.00

Flight Information Region (FIR) and the high quality services offered at BIA are all important success factors. This makes BIA an ideal transfer hub for flights between Europe/Middle East destinations and Southeast/Asia Pacific destinations.

Driving Indicators of the Business

The most important indicators for measuring success of an airport's core business are the volume of passengers, MTOW and the number of flight movements.

The tariff calculation differentiates between passenger-related and aircraft-related tariffs. In the first case, every airline collects a tariff which is called as 'Embarkation Levy' from each departing passenger other than transit passengers, infants (children below 2 years of age) and persons prescribed by Director General of Civil Aviation (DGCA). The tariff is then passed on to the airport operator through the CAA of Sri Lanka. In this way, number of passengers as well as tariff have a direct influence on airport revenues. In the second case, the MTOW and the number of flight movements are the main factors. The MTOW is defined by the manufacturer and airlines for each type of aircraft; it is used as a parameter to calculate the landing tariff for the individual flight movements. The other major aircraft -related tariffs are the air-side infrastructure tariff (which is charged as aerobridge tariff) and parking tariff.

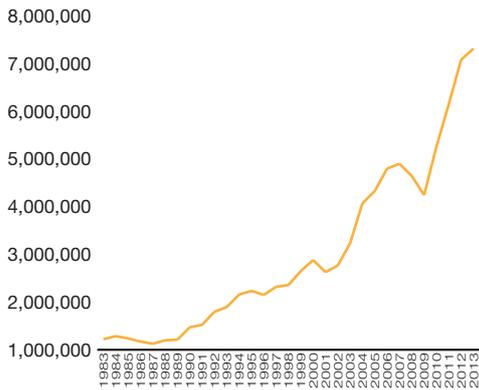
The optimal combination of these factors to BIA is high MTOW and passenger volume, that is, larger aircraft and/or higher seat occupancy – coupled with a smaller increase in flight movements and the resulting optimal use of runway capacity. In 2013, there was an increase of 5%

Management Discussion & Analysis Contd.

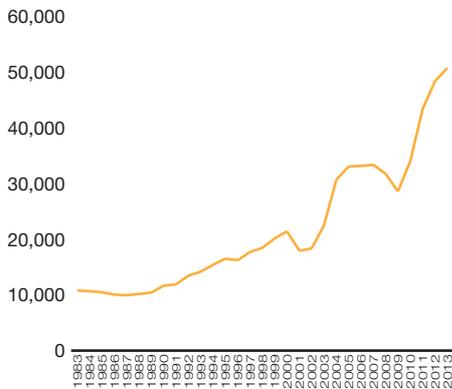
flight movements from 48,416 to 50,802. The MTOW per aircraft has been improved to 140 per aircraft from 137 recorded for the past 2 years.

Phenomenal Achievement in Air Traffic Growth at BIA

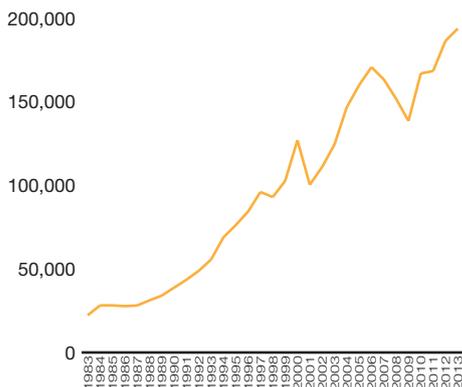
Passenger development at BIA since 1983



Commercial aircraft development at BIA since 1983



Airfreight / Cargo at BIA since 1983



Passenger Growth

7,311,869 passengers used the Bandaranaike International Airport with 1,274,593 tourists surpassing both passengers and tourist forecasts for the year. This is the first time in BIA history that the passenger count exceeded 7.3 Mn and tourist count surpassed the 1.2 Mn level. Destinations in India and the United Kingdom (UK) recorded the highest increase. Strong growth was recorded on routes to South Asian and the Western Europe region.

Aircraft Movements

The total commercial flight movements handled at BIA surpassed the 50,000 limit for the first time, recording 50,802 movements, inclusive of 48,646 of scheduled movements. In addition to the four new scheduled airlines mentioned under "BIA's Flight Network" above, which commenced and recommenced during the year; non schedulers, namely, Cinnamon Air, Alpha Air Solutions and Ethiopian Airlines commenced operations during the year.

Cargo Movements

The annual increase in cargo movements saw a marginal increase of 4% of 2012 with 193,975 MT of Cargo. This is the highest movement recorded at BIA. The export cargo increased by 5% and import cargo by 2%. An increase in capacity and flight frequencies by existing cargo services as well as cargo flights have contributed to cargo growth.

Encouraging Air Traffic Statistics Recorded at MRIA

In the first full year of commercial operations at MRIA, 1,376 flight movements were recorded with 36,137 passengers and 10,938 transfer passengers.



Transit passengers at the MRIA Transit Lounge

New charter flight operators, new budget carriers and legacy carriers, new frequency increases of existing budget carriers and legacy carriers are entitled for

a special promotional discount from the date of commencement for a period of 5 years for landing and parking tariff of MRIA. Further, a 10% waive off on landing tariff for a duration of 6 hours or part thereof in excess of first three hours of parking tariff is also on offer as a discount. Other than landing and parking tariff, all other charges at MRIA are no different to BIA.

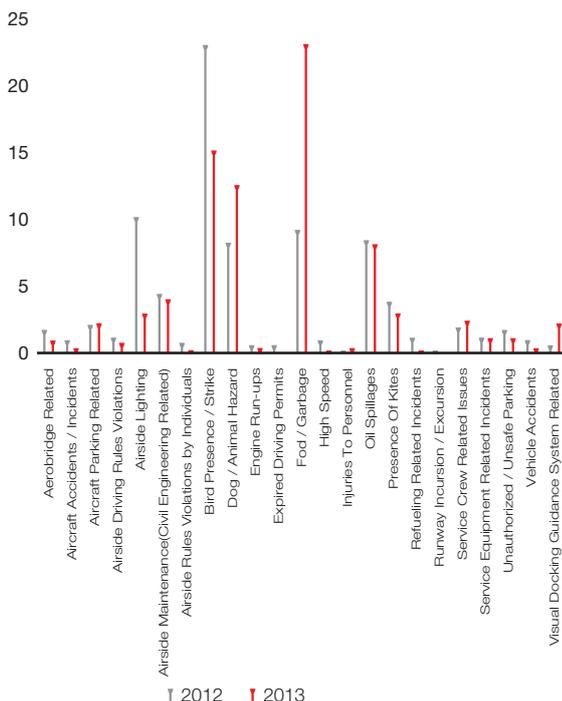
Key Success Factors

High Safety Record at BIA

It is noteworthy that the accident/incident rate at BIA is well within the tolerable region. There have been no major safety issues despite increased passenger and aircraft movements during the year. This achievement is a result of continuous monitoring of all operations, adherence to procedures, regular inspections, timely corrective/preventive action and regular awareness programmes. The High Safety Performance Standards at BIA has nurtured an enormous degree of confidence among airline operators and other stakeholders.

The graph below shows the Safety Performance Standards in terms of accidents/ incidents/ failures related to aerodrome operations at BIA in 2013 in comparison to 2012. For calculation of safety indicators, the total number of aircraft movements were taken as 54,037 which is inclusive of commercial and military movements.

**Aerodrome Related
(per 10,000 aircraft movements)**



Consolidating BIA as a Regional Aviation Hub of South Asia

Due to the lack of land connectivity to the Indian subcontinent, the BIA functions as the only practical passenger gateway that affords a range of connectivity options. It can easily achieve greater success as a regional hub, connecting South Asian passengers to South Eastern and Western Asia. In addition, BIA plays a key role in servicing businesses and industries with advanced transportation needs to meet their market demand, both locally and internationally. A hub airport is one that has a high proportion of transit passengers (and/or) freight. It is used as one of the most common parameters to measure hub airports.

The steady growth in passenger volume boosted by the increase in tourist arrivals in the recent past confirms BIA's position as a strategic transit hub and a premier tourist destination. The BIA's significantly higher 'Transit Ratio' during the year 2013 indicates the potential to emerge as a preferred 'Transit Point' in the Indian subcontinent. The 'Transit Ratio' is the ratio of transit passengers to total passengers for a given period of time. It has been found that every 1 out of 5 passengers arriving at BIA uses it as a transit point as evidenced by the total transit/connecting passenger numbers, which exceeded 1Mn.

Focus on Security

Ensuring safe and smooth airport operations at all civil aerodromes we operate, especially related to two international airports, is a top priority. The necessary security related duties are carried out by the AASL security teams.



Security check of passengers at the boarding gate

Approximately 800 employees (25% of the entire workforce) are engaged in aviation security functions, forming the largest operational division in the organization. Our staff is trained to comply with International

Management Discussion & Analysis Contd.

Civil Aviation Organisation (ICAO) Standards and Recommended Practices for providing Aviation Security in the areas of passenger and cabin baggage, hold baggage, cargo, mail, catering and other goods. Our screening agents are certified by the appropriate Authority for Civil Aviation in order to ensure the safety and security of passengers, crew, ground personnel and the general public, in addition to the aircraft, airport, and navigation facilities. We have complied with ICAO Standard Recommended Practices and use the best possible means to mitigate security risks and vulnerabilities at our airport through the use of technology and experts at all screening points and surveillance units at the airport.

Close Customer Ties

In addition to the airlines as traditional airport customers, passengers in their dual roles as customers and consumers are also a focal point of AASL as the airport operator. Today, the expansion of airport capacity that is required to meet the growing market for air travel can no longer be financed by flight operations alone. The fast expansion and improvement of the offering for passengers, visitors, employees and neighbouring residents will play an important role in the economic development of the airport in the future. AASL is concentrating on the steady expansion of its non aviation business. For example, the shopping mall planned for the period of 2016-2018 will add 10,000 m² of shopping area. The airport hotel will cater to various categories of occupants with 250 rooms. These projects are planned outside the terminal and with these investment opportunities, AASL has created profitable areas of business as a supplement to the traditional airport business.

Service Performance in 2013

1) Passenger Processing Time

Departure Passenger Processing Time

% of passengers completing security screening, check-in, Emigration formalities within 23 minutes



Arrival Passenger Processing

% of passengers cleared by immigration, claim baggage and cleared by the customs within 22 minutes from disembarkation.

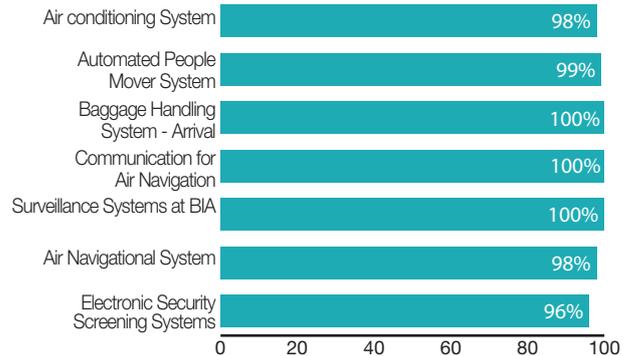


2) Avoidance of aircraft incidents in the Colombo FIR

Maintain number of aircraft incidents in Colombo FIR per 100,000 aircraft movements below 3



Serviceability of Systems



The immigration clearance in passenger processing



Automated Walkways

Airport Marketing; The Current Role and The Way Forward

Established on 1st November, 2011 the Marketing Division of BIA plays a prominent role in solidifying MRIA's position on the world aviation map and helps continued growth. It conducts ongoing promotions to differentiate the offer.

The year under review consisted of an extremely active calendar of events for the Marketing Division, as it contributed massively towards MRIA promotional events, working tirelessly by initiating and organizing programmes in order to educate teams consisting of foreign delegates, heads of missions, representatives of organizations on upcoming events and marketing tasks.

The key officials of the Marketing Division took part in the 19th World Route Forum at Las Vegas, USA, in 2013. The World Route Forum is the largest global aviation event that brings together all the route development professionals from around the globe to determine the future of air services. The team also participated in the Arabian Travel Market 2013, which was held in Dubai in May 2013. The AASL stall was under the umbrella of Sri Lanka Tourism Promotion Bureau (SLTPB), among many other representatives in the hospitality and travel industry in Sri Lanka, who operated stalls under SLTPB umbrella. We were able to spread widespread awareness among travel industry through these international exhibitions.



The CEO of MRIA is delivering a presentation on MRIA at Arabian Travel Market 2013 which was held in Dubai in May 2013

AASL was one of the core sponsoring partners for the tour and a gala night organized for the Miss France competition, which took place from 16th-21st November during the year under review. The Miss France contingent's tour of Sri Lanka was made possible by the country's leading hospitality brand, Cinnamon Hotels & Resorts, together with the national carrier of Sri Lanka. AASL sponsored the event as part of AASL's marketing

strategy in promoting Sri Lanka's brand value and BIA's brand value.



Contestants who arrived for the Miss France beauty pageant with AASL and UL staff at the CIP Lounge (arrival)

One of the annual, periodic, direct revenue targeted marketing event was the BIA Christmas Shopping festival 2013. The programme spanned a two-month period from December 2013 running into January 2014. A record number of outlets participated in this promotion with a galaxy of prizes ranging from cars to cash prizes and daily instant prizes.

AASL embarks on a multi-fold approach in its Marketing Strategy from 2013 onwards, especially after the inauguration of MRIA in March 2013; the extension of the capability of RMA, to accommodate International Private, Business & Corporate Jet Aircraft beyond her traditional domestic aviation domain and; of course, the upward trend in the demand for BIA as the main gateway to Sri Lanka.

AASL adopts a distinct Marketing Strategy for each of the above Civil Airports in Sri Lanka that would be non-conflicting but rather complementing each other to earn positive dividends on its way towards achieving Aviation Hub status for Sri Lanka.

The existing target market(s) of BIA will be secured and further promoted whilst niche markets will be explored and exploited for the benefits of MRIA and RMA.

In this endeavour, all international flights having specific business reasons to conduct operations to BIA will continue to be entertained at BIA, while any International Private, Business & Corporate Jet aircraft having specific business interests to conduct operations within the proximity of Colombo City/Western Province will be attracted to the Ratmalana Airport. All other types & categories of flights will be offered to operate through

Management Discussion & Analysis Contd.

MRIA, complemented with attractive discounts & incentives on airport charges and other infrastructure & logistics, such as hangar space. Any additional flight frequencies requested for BIA by airlines will be considered only if these airlines agree to operate a similar number of flight or sectors to MRIA. Thus, it will be our endeavour not to promote MRIA at the expense of BIA, but as a holistic promotion of all Civil Airports of Sri Lanka, taking the country towards achieving aviation hub status.

Furthermore, the vast airspace allocated to Sri Lanka by ICAO, known as Colombo FIR, will also be exploited for increased revenue in foreign exchange on over-flying charges by attracting more over-flights across the FIR through the provision of efficient Air Navigation Services (ANS).

Non-Aeronautical Revenue, through airport-related concessionaires is marked towards improving the revenue of the company, with a target of increasing average passenger spending on duty free areas by 100% within the next 5 years.

Accordingly, this Marketing Plan envisages to promote the following business aspects of AASL:

- Airport Services at BIA, MRIA & RMA
- Air Navigation Services within Colombo FIR
- Renting out Commercial Space for Stakeholders at Airports

Opportunities in the Retail and Properties Segment

BIA's gross retail sales stood at Rs. 14.9 Bn, which is slightly lower than Rs. 15.2 Bn recorded in year 2012. The concession income earned from net retail sales at the BIA duty free is the second-largest revenue component in AASL's revenue structure. The largest contributor at BIA's duty-free is the segment comprising of Liquor, Tobacco, Confectioneries & Perfume, which posted a minute decline of (0.31%) in the year 2013 in US\$ terms comparative to the previous year. However, the third-largest segment, that is, the food and beverages segment recorded a 139% growth, negating the 9% decline recorded in the Electrical, Electronic & Home appliances sector, which contributes to 30% of the total turnover as the second-largest contributor.

The next few largest contributors in terms of the turnover at BIA duty free have changed their ranks in 2013 compared to 2012. The Sri Lanka Handicraft sector has become the highest performing sector among all the sectors, recording a galloping 728% growth in turnover



'World duty Free' - the pioneer player in the BIA's largest sector of duty free. i.e: Liquor, Tobacco, Confectionaries & Perfume sector

The second entrant to Liquor, Tobacco, Confectionaries & Perfume sector to BIA duty free 'Fleming' since 2011

(Rs.191 Mn turnover in 2013 as opposed to Rs. 107 Mn turnover in 2012). The reason was a new entrant to handicraft segment commencing operations at departure duty free, increasing the total departure handicraft shop count to nine numbers.



'Coffee Bean and Tea Leaf' at Departure Terminal. One of the gastronomy outlets at BIA

The Clothing and Accessories sector recorded a marginal growth of 1% in turnover; Gem & Jewellery sector depicted an increase of 13% in turnover, whilst Tea & Coffee segment reflected a drop of 34%. It was found that transit passengers opt to travel via the BIA in order to avail themselves of the opportunity to purchase world renowned Sri Lankan Gems, Jewellery, Tea and handicrafts. However, Gifts, Writing Instruments & Watches and Reflexology segments have shown a major decline of 49% and 31% in growth respectively.

Timex, Rolex, Citizen, Montblanc, Cross, Rayban, Envoy, Sony, Panasonic, Rado, Omega, Parker, Roberto Cavalli, Calvin Klein, Puma, Nike, Adidas, Barista and Coffee Bean are the international brands available among the rich brand portfolio at BIA.

AASL's net retail income per passenger dropped by 3% from Rs. 424 to Rs. 411.

Tourist Arrivals* by Country of Residence - 2007 to 2013

Country of Residence	2007	2008	2009	2010	2011	2012	2013
NORTH AMERICA	28,355	24,311	24,948	40,216	49,057	59,236	65,616
Canada	11,869	10,258	10,707	21,123	24,671	29,329	30,926
U.S.A.	16,486	14,053	14,241	19,093	24,386	29,907	34,690
LATIN AMERICA & THE CARIBBEAN	3,962	3,739	617	620	1,036	1,626	3,166
WESTERN EUROPE	194,448	167,187	170,123	256,861	315,210	373,063	421,037
Austria	3,580	2,651	2,409	3,925	6,262	7,991	11,300
Belgium	4,669	2,378	2,617	5,398	10,122	11,323	9,138
Denmark	1,796	1,320	1,362	4,393	6,582	8,323	9,845
Finland	497	468	738	1,950	3,649	4,840	2,471
France	8,091	10,594	15,886	31,285	48,695	56,863	64,388
Germany	35,042	30,625	29,654	45,727	55,882	71,642	85,470
Italy	11,451	9,126	7,514	11,423	13,527	15,871	17,982
Netherlands	17,526	13,030	11,291	17,861	23,966	26,754	22,281
Norway	2,304	1,613	1,666	3,955	4,977	7,703	8,573
Spain	2,484	2,282	2,387	4,461	5,886	8,319	8,183
Sweden	4,851	3,711	3,560	7,096	10,937	13,775	12,597
Switzerland	4,917	5,326	6,331	9,427	14,110	20,054	19,141
U.K.	94,060	81,331	81,594	105,496	106,082	114,218	137,416
Others	3,180	2,732	3,114	4,464	4,533	5,387	12,252
EASTERN EUROPE	25,573	29,440	26,310	35,517	49,249	72,401	125,695
Russia	13,621	15,797	11,834	13,278	21,385	28,402	51,235
Ukraine	524	952	2,577	5,703	9,967	22,348	38,607
Czech Republic	1,880	2,555	2,814	4,204	5,548	5,877	8,881
Poland	3,761	4,960	5,138	6,613	5,817	5,806	9,688
Others	5,787	5,176	3,947	5,719	6,532	9,968	17,284

Management Discussion & Analysis Contd.

Country of Residence	2007	2008	2009	2010	2011	2012	2013
MIDDLE EAST	13,554	16,776	23,741	37,540	57,501	56,169	80,509
Saudi Arabia	3,861	3,456	6,685	9,301	15,081	19,423	23,753
UAE	814	2,469	5,974	9,825	17,664	11,083	8,471
Israel	2,648	2,596	1,901	3,919	6,164	7,212	8,545
Kuwait	831	1,011	1,123	2,303	2,812	3,245	7,427
Oman	515	499	727	1,359	2,177	2,602	7,634
Others	4,885	6,745	7,331	10,833	13,603	12,604	24,679
AFRICA	2,712	2,141	1,549	2,308	3,614	5,045	8,081
South Africa	933	756	779	1,415	1,962	3,048	3,366
Others	1,779	1,385	770	893	1,652	1,997	4,715
EAST ASIA	52,854	44,944	48,329	68,430	96,194	132,730	183,097
China (P.R.)	11,949	9,812	8,550	10,430	16,308	27,627	54,288
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	17,295
Japan	14,274	10,075	10,926	14,352	20,586	26,085	31,505
Korea (South)	4,870	4,300	3,695	4,426	5,485	7,838	12,207
Malaysia	6,704	5,188	6,850	13,367	16,094	21,776	19,181
Philippines	2,162	1,693	1,421	1,391	2,047	5,687	14,616
Singapore	5,688	5,802	7,808	11,875	15,953	17,273	15,546
Thailand	2,467	3,583	3,208	3,684	5,880	7,897	9,608
Taiwan (P.C)	2,553	1,907	2,715	5,277	7,010	12,703	3,931
Others	597	890	786	1,055	2,583	3,265	4,920
SOUTH ASIA	149,626	128,098	126,205	175,694	237,647	247,559	326,556
Bangladesh	1,665	1,564	1,294	1,954	4,726	4,646	10,037
India	106,067	85,238	83,634	126,882	171,374	176,340	208,795
Maldives	29,539	31,564	31,916	35,791	44,018	47,572	79,474
Nepal	885	860	676	753	826	1,038	2,019
Pakistan	10,204	7,885	7,373	9,148	14,724	16,056	25,336
Others	1,266	987	1,312	1,166	1,979	1,907	895
AUSTRALASIA	22,924	21,839	26,068	37,290	46,467	57,776	60,836
Australia	20,241	19,536	23,239	33,456	41,728	51,614	54,252
New Zealand	2,627	2,240	2,672	3,487	4,212	5,641	6,174
Others	56	63	157	347	527	521	410
Total	494,008	438,475	447,890	654,476	855,975	1,005,605	1,274,593

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

** This figure is included under China in 2013.

Civil Aviation Training Centre (CATC)

In 2013, the Company made considerable investments in developing the training facilities of the CATC. Six classrooms were modernized, an Information & Communication Technology (ICT) laboratory and a new language laboratory were commissioned, and the construction of the new main building comprising a new auditorium and an information resource centre was completed. Procurement was initiated for state-of-the-art ATC 3D Tower Simulator equipment.

CATC earned an approximate income of Rs. 2 Mn during 2013, 34% of which represents the income from overseas training participants. During the year, CATC's total trainee throughput was 555 trainees, which included 10 foreign trainees and 15 local commercial trainees.

The second batch of students who successfully completed the 'Diploma in Aviation Studies' programme at the CATC was awarded their diploma at a ceremony held in July 2013.

First Enterprise Resource Planning System

AASL is expected to launch its first web-based Enterprise Resource Planning (ERP) system by the first quarter of 2014. The 'Oracle EBS' ERP system will be integrated with the 'Airport 20/20' billing system and the 'hSenid' HR system to cater to the unique requirements of the aviation industry. This international aeronautical billing software is expected to simplify the collation and billing of all flight and non-flight related revenue, while effectively integrating with the Oracle ERP system. During the year, key important milestones of the project, namely, the documentation of the 'To-be' phase, User Training and User Acceptance Testing (UAT) were completed.

Commencement of Commercial Operations of MRIA marking the History of Aviation

MRIA was formally inaugurated on 18th March 2013 by Sri Lanka's President His Excellency Mahinda Rajapaksa. His Excellency the President arrived on board the 'City of Magam Ruhuna' SriLankan Airline UL226 with First Lady Shiranthi Rajapaksa and other dignitaries. The President, arriving as the first passenger to the new airport, declared open the MRIA by unveiling the plaque to mark the opening and signed the golden book as the first visitor. Thereafter, the President inspected the airport accompanied by ministers and other officials.

The airport is designed to handle upto 1 Mn passengers and over 30,000 aircraft movements per year and will help ease some of the capacity pressures facing Sri Lanka's congested main gateway, BIA, in the capital city Colombo. United Arab Emirates (UAE)'s low-cost carrier Air Arabia was the first foreign airline to serve MRIA with a twice weekly link from its Sharjah International Airport base from 18th March, 2013 increasing to a four times weekly schedule from 19th May, 2013.

The total cost of this project which was the first phase is US\$ 209 Mn. It was funded by the loan from Exim Bank of China for US\$ 190 Mn and the remaining US\$ 19 Mn was borne by AASL. Discussions are underway for obtaining funds for the additional work to the First Phase amounting to US\$ 120 Mn from the China Exim Bank.

Runway, Taxiway and Apron Development

The runway of this airport can handle Code 4F (A380) type of aircraft. The length and width of this runway is 3,500 m & 75 m respectively. The apron consists of 10 aircraft parking stands. There are two stub taxiways connecting runway to the apron at 1.0 km and 1.5 km distance from the 22 end of the runway.

Passenger Terminal Building (PTB)

This state-of-the-art energy efficient PTB is equipped with all facilities of any international PTB such as boarding bridges, baggage handling system, passenger and baggage screening system, lifts, escalators, flight information system and terminal equipment. The present 1 Mn passenger handling capacity per year has been built, leaving provision for future expansions.

Air Traffic Control Tower & Navigational Aids

The 45 m high Air Traffic Control Tower is one of the key elements of this airport. All air-to-ground and air-to-air communication and navigational equipment, surveillance and Weather Observation systems are installed, commissioned and calibrated for the purpose of safe aircraft movements. Its digital voice communication systems are specifically designed and targeted to meet requirements of heavy air traffic situations while integrating all ATC Control Centres operated at other civil airports through the island.

Communication, Navigation and Surveillance Services at MRIA

The E & ANE sections at MRIA provide round-the-clock Navigational Communication and Surveillance services for



HE the president unveiling the plaque to mark the opening of MRIA

air traffic handling and passengers, while meeting ICAO standards defined for each and every system at MRIA.

MRIA includes a future-proof Ground Communication System using IP architecture, which is designed for mission critical multi-agency use. MRIA, being a multi-agency network, consists of Fire, Security and Airfield etc. Its Ground Communication System can support close co-operation between all relevant agencies, thus helping them to manage day-to-day operations as well as to operate in any emergency situations. It offers powerful features tailored to the needs of airport agencies, which gives the highest level of support to maintain airport efficiency and safety.

MRIA includes a CAT I (Category1) Instrument Landing System for Runway 23, which consists of Localizer, Glide Path and Middle Marker. DVOR/DME (Doppler Very high frequency Omni Range / Distance Measuring Equipment) installed at MRIA provides en-route navigation for aircraft operating to MRIA as well as passing through Colombo FIR.

Recognizing the need for a sustainable solution, the MRIA Navigational system adapts easy upgrading from a Category I to Category II/III based on the steady increase in traffic at MRIA, ensuring a safe investment for future while supporting long-term growth success.

Passenger and aircraft security is ensured by Explosive Detection Systems and X-ray Screening Systems. Automatic baggage screening and handling system is

a new experience for the Sri Lankan aviation industry.

The Instrument landing system for Runway 05 direction is proposed under the MRO project, which is explained under 'Projects planned for the next 5 years' in this review. It also includes Runway Visibility Range measuring equipments in order to improve the airport services to our customers.

Cargo Building

It consists with 50,000 MT Cargo handling facilities per year. Plant and animal quarantine facilities and cold stores are available within the cargo building.

Fire Building

A two-storied modern Fire Station was constructed which includes the Fire Watch Tower and parking facilities for 5 fire engines. MRIA has fire fighting facilities to Category 10.

Other Facilities

A 30 m height conical shaped water tower to store 300 m³ of water, 200 m³ capacity ground sump, waste water and solid disposal system was built.

Medical Unit

A fully-fledged Medical Centre with a Medical Officer present 24x7 was set up from the very inception of MRIA. This medical facility caters to the medical needs of all stakeholders including SriLankan Airlines and its passengers, Sri Lankan Catering, all other airlines, government and private institutions based at MRIA.



Aerial View of MRJA



Courtyard at MRJA. A Blend of SriLankan architecture and Landscaping expertise

Prior to the Commencement - Operational Readiness and Transfer (ORAT) Programme

The successful commissioning of new airport facilities was greatly assisted by the development and implementation of a comprehensive programme - ORAT - for operational readiness, testing, training and transfer of operations. The goal of such a programme was to ensure that a diverse range of equipment, systems and operating procedures are tried, tested and fully ready for smooth and efficient operation on the day each phase of the facility opens to airlines and the travelling public.

The inaugural test flight landed at the airport on 16th October, 2012 in a measure to test air travel control instruments installed at MRJA. The first plane was a Hawker Beechcraft B200 registered as AP-CAB in Pakistan. The second test plane to land at MRJA was an A330 aircraft from the national carrier, SriLankan, on 29th January, 2013 to test the readiness of the airport for commercial operations and official landing in March. The flight took off from BIA and arrived at MRJA.

The total movement was smooth and all navigational systems at the MRJA were in order, as confirmed by the highly qualified staff of SriLankan Airlines, our national carrier. They were highly satisfied with the flight operations and confirmed MRJA to be ready for commercial flight operations from the pilots' point of view. The DGCA also confirmed this decision.

Ratmalana Airport

Domestic and International Operations

RMA, has become a domestic aviation hub in Sri Lanka. Since 1968, all international operations handled by RMA were shifted to BIA. At present, the domestic flights are operated by the airline operators, namely, Fits Air, Heli Tours, Millennium Airlines, Cosmos Aviation, Senok

Aviation, Asian Aviation and Daya Aviation. In 2013, a new Airline Operator, that is, Lakwin Aviation, has entered into an agreement with AASL for utilization of hangar space to commence domestic operations at Ratmalana Aerodrome.

Having well-established infrastructure facilities such as Ground handling, Customs, Emigration & Immigration and all other related services, RMA is now open to handle international corporate jets. In the year 2013, AASL entered into a ground handling agreement with SriLankan Airlines, which agreed to provide ground handling facilities to all international corporate jets arriving at RMA.

Pivotal Role at CHOGM - 2013

The CHOGM was held in Sri Lanka in November 2013 for the first time. It was the second largest summit of world leaders to gather in Sri Lanka since the country gained independence, behind the Non-Aligned Summit in 1976. The Government of Sri Lanka hosted CHOGM 2013, a milestone in the nation's history.

AASL was a core stakeholder who was responsible in providing seamless passenger facilitation in arrivals as well as departure at the airport.

As a preliminary step to issuance of passes for the CHOGM operation, about 4,800 passes were issued for service providers at various duty points of arrival and departure of BIA, RMA and MRJA, by collecting and processing details by identifying all relevant stakeholders connected to the CHOGM event 2013.

AASL initiated many projects in connection with the above summit. The VVIP building of BIA was completely refurbished after its inception in 1984 and extended at a cost of Rs.150 Mn within a record time of 2 ½ months, while a temporary luxury marquee was fabricated to facilitate the arrival and departure formalities of CHOGM

Management Discussion & Analysis Contd.



Refurbished VVIP building

VIP and VVIP delegates. RMA was refurbished at a cost of Rs. 100 Mn and further details are explained under the title 'projects completed during the year'.

Roads in and around BIA and RMA were overlaid and additional car parks constructed. At BIA, the car park was constructed in the BOI Area adjacent to the Main Entrance with washroom facilities and special parking facilities for differently able people. The car park has 191 parking slots for light vehicles, 4 nos. for coaches and 3 nos. for people with different abilities. The carpark provides a ticket office and electronically-operated drop-arm barriers. At RMA, the new car park was constructed with washroom facilities and 83 parking slots for light vehicles.

Prior to the event, necessary Training and Awareness Programmes were conducted for identified staff of AASL and other respective agencies, who were directly involved with CHOGM operations with the ultimate aim of delighting the participating delegates at the airport. Branding of counters, additional signage, Public Address (PA) and Information Systems to disseminate effective and current information, enhanced facilitation services by agencies operated at the airport and establishment of additional information counters were all improved facilities offered for CHOGM.

Pre-CHOGM, induction, familiarization and facilitation sessions were also undertaken for the foreign delegates who visited Sri Lanka and the airport as part of their pre-CHOGM visits, while training and rehearsals were conducted on pre-planned dates prior to CHOGM with the participation of all required stakeholder parties to ensure smooth operations.

Projects Completed during the year 2013

1) MRIA

The biggest project completed by us is now written in the books of Sri Lankan history – the MRIA. The details are disclosed at the beginning of this review and under Chairman's Statement too.

2) Refurbishment of RMA

Parallel to CHOGM, the old Terminal Building of RMA, which was built in 1939, has been renovated for the first time since its inception and given a new facelift, while protecting the historical view at a total cost of approximately Rs. 100 Mn.

The new Terminal building has been modernized with more spacious new areas in order to cater to demands of passengers at passenger holding area, outer porch and canopies stretched upto the airside. A new VIP Lounge was constructed, while the VVIP Lounge & VIP Lobby was enhanced to handle any kind of special movement at any given time. The airport restaurant also was refurbished with improved facilities. PAPIs have been installed at both runway ends (04/ 22) to upgrade the safety of existing airside operations. A new car park was constructed with over 100 parking slots to eliminate the passenger inconvenience so far had with parking.



Refurbished Ratmalana airport

3) Implementation of New Air Traffic Management (ATM) System at Colombo Area Control Centre (ACC)

New ATM system commissioned in April 2013 ensures that Sri Lankan aviation becomes the safest, most efficient Air Navigation Services Provider in the Asian Region by staying par with technological advancements in air traffic management and safety.

The ATM installed at the ACC at RMA, encompasses all the systems that assist aircraft to enter and depart from the Colombo FIR. The capability of the system to handle new surveillance and communication technologies such as Automatic Dependent Surveillance - Broadcast (ADS-B), ATS Inter-facility Data Communication (AIDC), AMHS and migration of ADS-CPDLC connection from X.25 to IP, accomplishes the operational and technical objectives of modernization of former Communication Navigation Surveillance (CNS)/ ATM system. The new ATM also provides Air Traffic Flow Management (ATFM) and Air Navigation Services statistics and automatic billing information generation.

The Electronic Flight Strip facility enhances the efficiency of air traffic controlling while reducing the cost on paper flight strips. In addition to these features, air traffic controllers can manoeuvre more aircraft than before as a result of the improved capacity of the system and re-sectorization of air space.

Furthermore, the MRIA control tower is equipped with two Controller Working Positions (CWP) of the new ATM system to assist in tower control as an extension of ATM system installed at RMA.

4) Installation of new Instrument Landing System (ILS) for Runway 22 at BIA

Since the early stages, the BIA provided the service of an ILS for Runway 22. The E & ANE division holds the responsibility for the operation and serviceability of this ILS for BIA Runway 22.

An ILS provides lateral and vertical guidance for an aircraft coming to land on the runway. It consists mainly of two major equipment for this purpose, namely, Localizer (LLZ) and Glide path (GP). The LLZ helps the aircraft to get aligned with the centre-line of the runway whereas GP provides the information about the angle at which the aircraft should descend for a smooth landing. As such, ILS comprising of LLZ and GP is identified as one of the navigational aids that ensure safety of passengers. The continued serviceability and a higher rate of reliability of the ILS are most critical since the aircraft navigation mostly depend on this system during landing.

The previous ILS that was installed in 1983 was decommissioned due to the fact that it could not be maintained with the expected quality of service. It had been in service for more than 25 years and hence

the equipment and the associated antenna systems were unreliable due to the aging of the equipment. Subsequently, a major capital project was initiated by the E & ANE division to replace the ILS for Runway 22 with state-of-the art equipment at an estimated cost of Rs. 150 Mn as a measure of improving the safety and the reliability of the service provided. The installation of the new ILS equipment began in mid-2012. The LLZ, GP and the Distance Measuring Equipment (DME) were installed along with two marker beacon sites for the Middle Marker and the Outer Marker. DME was collocated with the GP equipment for providing the distance from its current location to the landing threshold for an aircraft lined up for landing. With this new installation, a far field monitoring facility was also established for the LLZ in order to ensure improved accuracy by monitoring its performance in the far field in addition to the other internal monitoring measurements.

The installed ILS is the latest version of the equipment produced by Normarc (Indra Navia AS) to-date. The same system is already installed at many airports all around the globe amongst which many of them are highly ranked based on the statistical figures for international passenger traffic. The installation was completed within a period of 2 months from the decommissioning of the older system. During its installation, the project had been carefully managed and coordinated so as not to disturb any international or domestic traffic at the BIA, because all the work was carried out inside an operational airfield.

Upon successful commissioning of the new ILS system, it was flight calibrated by the calibration team of the Pakistan Civil Aviation Authority. The commissioning flight calibration was performed to ensure that the system is commissioned in accordance with the ICAO recommended radio navigation parameters and thresholds for a Category II ILS. The system was declared fit for unrestricted use for Runway 22 by the calibration team and was subsequently put into service.

ILS has been in successful operation for more than a year from its initial commissioning. The efforts of the staff at the E & ANE division have made it possible to maintain a very high rate of availability of the equipment during this year as well. All the equipment pertaining to the ILS for Runway 22 were recently flight calibrated for the second time during the routine Flight Calibration carried out by the E & ANE division annually for all the Radio Navigational Aids. This

Management Discussion & Analysis Contd.

routine calibration was carried out in accordance with the ICAO recommended practices for routine calibration of Navigational Aids. The total system was once more found satisfactory and declared fit for unrestricted use.

5) Installation of New High Frequency (HF) Transmitters at HF Transmitting Station, Attidiya

The main function of the HF Transmitting Station is to broadcast aero-mobile ground to air voice messages originated from the Aeromobile Centre at Ratmalana. A large area of the Colombo FIR is covered by HF signals (from the boundary of the VHF coverage, 950 nm to the East direction and 700 nm to the South direction). The voice signals reach the Transmitting Station via a microwave radio link. These signals are then fed to the HF transmitters.

The Radio signals emitting from HF transmitters are utilized for exchanging useful information related to air navigation with aircraft by means of voice communication. The Transmitting Station also maintains the Non-Directional Beacon (NDB) for RMA.

The Transmitting Station is equipped with high power HF Transmitters and HF Antennas, namely, Dipole, Monopole, Bi-Conical & Conical monopole, which are erected in a large antenna field.

A major project for installation of three new HF Transmitters with antenna was completed in May 2012 at a cost of Rs. 134 Mn by replacing three of the old transmitters that were used for more than 26 years. The new transmitters were designed using state-of-the-art technology. Electricity consumption of these transmitting equipment is significantly lower compared to the old transmitters and a reduction of over 3200 kWh was observed.

The Conical monopole antennas are designed for easy maintenance. These antennas do not require heavy vehicular equipment and when repairing it is not required to lower the antenna-like earlier versions.

6) Implementation of BIA Ground Radio Communication System

Catering to the growing demands for communication systems, while maintaining the high reliability required for emergency, airfield and other critical airport operations was a challenge achieved through this implementation

while the following improvements were introduced over the previous implementation:

- More channels, more groups & more subscribers
- More reliable for critical communication with no congestion due to high configurability with multiple priority levels
- Less usage of frequency spectrum due to combined Time Division Multiple Access (TDMA) + Frequency Division Multiple Access (FDMA) operation
- Number of new value addition features (Global Positioning System (GPS), Automatic Vehicle Locator (AVL), Short Message Service (SMS), Etc.)
- Highly modularized and scalable architecture - enabling higher expandability
- Improved coverage - completely covering a circumference area wider than 25 km radius

Total cost of the Project was Rs. 61 Mn. Subscribers within AASL as well as other organizations such as SriLankan Airlines, Sri Lanka Air Force, Sri Lanka Army and Ceypetco have indicated their satisfaction with the service of new (European Aeronautic Defence and Space (EADS) Cascadian Ground Communication System since its deployment.

7) Expansion of AMHS

Subsequent to successful commissioning of AMHS in September 2012, with maximum effort and contribution of both E & ANE and ANS divisions, AASL now find themselves among the most technologically advanced Air Navigation Service Providers (ANSPs) in the region. This new AMHS provides maximum operational efficiencies on ground-to-ground air traffic services message routing with increase capacity, speed, accuracy and security of the message being transmitted.

The central message switching system of AMHS installed at RMA provides gateway services for the country via circuits connected to Singapore, Bombay and Male, while the advanced AMHS terminal solution gives users and operators highly comfortable access to aeronautical information such as Flight Plans, Meteorological messages, Flight regularity messages and Aeronautical Administrative messages.

In 2013, the system was further expanded to serve MRIA and provided new AMHS terminals to BIA, CAA, Sri Lankan Airlines and Sri Lanka Air Force to address increasing demands of air traffic volume and to maintain safety standards that will greatly assist the country with future operational challenges.

Furthermore, in May 2013, AMHS was upgraded to a newer version by the supplier from Canada to make it in line with the latest ICAO standards and provide a reliable and sturdy solution.

AASL plans to initiate the second stage of this project 'Implementation of Aeronautical Telecommunication Network Internet Protocol (ATN IP) Router' early 2014 and is expected to establish AMHS Ground to Ground links with Singapore, Mumbai, and Male for routing of Air Traffic Service messages worldwide.

8) Internet Protocol (IP) Migration of Future Air Navigation Systems (FANS)

FANS is an air/ground data link system used to provide reliable position-tracking of aircraft using Automatic Dependent Surveillance - Contract (ADS-C) and Controller-Pilot Data Link Communications (CPDLC) via satellite links, based on straightforward and standardized pre-formatted message elements between the pilot and the air traffic controller. In 2013, AASL successfully migrated to IP based FANS data link service by replacing the existing X. 25 network connection that is soon to become obsolete. This new connection is duplicated to ensure reliability through redundancy.

These data connections are being provided by Society of International Telecommunications for Aeronautique (SITA) as the communication service provider.

9) Establishment of Repeater Station at Nayabedda

With the establishment of MRIA, it was required to connect MRIA with BIA and ACC at RMA, for data and voice communication purposes. Establishment of a Repeater Station has become necessary as there is no line-of-sight between Pidurutalagala and Mattala for implementing a microwave communication link for this purpose. Therefore, there was a need for a suitable intermediate station between these two locations. In order to obtain the shortest radio paths possible, SLBC Nayabedda Station was selected as the repeater station. Since the completion of Nayabedda Repeater Station,

MRIA is connected to the rest of the AASL network for maintaining the relevant communication services.

In House Developments - Saving over Rs.160 Mn

1) In-house Development of Flight Plan Converter

The Flight Plan Converter (FPC) system is developed by E & ANE division in order to mitigate the interfacing issues with legacy Flight Data Processing (FDP) systems and to ensure smooth functioning of FDP systems during the transition phase of changeover to ICAO new Flight Plan format.

Having successfully completed the project within the limited time period and resources, a substantial financial benefit (approximately Rs. 160 Mn saving) to AASL was made possible.

2) Fabrication of New ATC Console for the Control Tower Ratmalana, by Electronics Workshop

In line with the modernization plan for ACC at RMA, a new console for the RMA Control Tower was fabricated, as the existing console was not specially designed for control tower requirements and additional space was not available for new equipment. The new console was compatible with the state-of-the-art equipment such as Air Situation Display Unit, AMHS Terminal, and Weather Information Display Unit while providing easy access to communication equipment such as Voice Communications Switching System (VCSS) panel, Emergency VHF transceiver, Ground Control Communication Unit and telephones. Provision has been made for future expansion work such as Visual Display Unit to monitor Runway 04 end. Most importantly, it was ergonomically suited for the requirements of tower controllers and was capable of working with two controllers simultaneously.

These were discarded old console parts used in air Radar Control Centre at Katunayake, which were kept as salvage items and lying idle at hangar storage facility at Ratmalana, which were re-used to fabricate the new ATC Console for Ratmalana.

The cost of a new console will be over Rs. 3 Mn. Since discarded salvage items were used in this project, the total cost of the newly fabricated console amounted to Rs. 0.2 Mn. Thus, the saving to AASL due to this project was approximately Rs. 2.8 Mn. International Standards for aviation systems as well as the technologies enabling those standards are evolving at a rate higher than ever due to the expanding global demands and aviation specialized

Management Discussion & Analysis Contd.

vendors seamlessly providing the solutions to cater the same. The only way to be synchronized with such evolution is to plan ahead of time, either to achieve the internationally published timelines or to meet the expected demand.



Fabricated New ATC Console

Projects Planned for the Next Five Years

1) BIA Runway Overlaying project

GoSL intends to upgrade and rehabilitate the surface of the runway and taxiway system at BIA by resurfacing with asphalt and to undertake improvements to associated works.

The Ministry of Finance and AASL as the employer called a meeting in 2013 with leading local contractors to invite proposals according to the Request for Proposals (RFP) document. According to the requirements of the RFP, the runway and taxiway will not be widened. There is a proposal being discussed for a total value of US\$ 105 Mn and if this has been approved and executed then the amount will be disbursed to the selected contractor over a period of 3 years.

2) BIA Development Project - Phase II Stage 2 (BIADP II - 2)

The Cabinet of Ministers directed to develop BIA to enhance its capacity to handle further 9 Mn passengers per annum. The project is to be funded by a Japanese Yen Loan. The loan agreement for funding for BIADP II-2 was signed on 28th March, 2012. On completion of the project in 2016, the total capacity of BIA would be 15 Mn Passengers per annum.

Agreement for the Design & Post Design Consultancy Services signed on 3rd March, 2014. The design period is 10 months. Construction works expected to commence in November 2014. Pier No. 2 is to be completed by end 2015 and the Main Terminal Building by end 2016 with associated works.

3) Resorts and Associated Property Developments at BIA and MRIA

A Memorandum of Understanding (MoU) was entered into with the CHEC on 13th November, 2013 at the Commonwealth Business Forum held in Sri Lanka for the investment, construction and a operation of a resort, entertainment centre, shopping arcade and a multi-storied carpark at BIA and a resort, golf course, duty free shops and an entertainment centre at MRIA.

The MoU is valid for a period of 6 months during which period the CHEC shall submit a detailed proposal for the consideration of AASL and thereafter to decide on a commercial model to move forward. The BIA resort will consist of 250 rooms for various categories of occupants. This will include a conference facility, meeting rooms, amusement area and so on. The shopping arcade is planned with segregated shopping facilities for tourists and passengers with approximate shopping area of 10,000 m² opposite the Arrival Terminal in the newly-acquired land. There will be a connecting passage from terminal to the shopping arcade. The estimated cost of the project is US\$ 400 Mn.

4) Aircraft Maintenance Hangar and Upgrading of Aerodrome Facility at MRIA

Following the successful delivery of MRIA, AASL entered into a contract on 6th September, 2013 with CHEC for the design and construction of MRO facilities and upgrading of aerodrome facilities at MRIA. Once the project is completed, the facility will be made available to the competent MRO operator to perform checks on aircraft and carry out regional business activities. Project scope includes a new Cargo Apron, a new MRO facility, Rapid Exit Taxiways (RET) and a portion of a new parallel taxiway. It is scheduled to complete this project within 18 months. The estimated cost of project is US\$ 80 Mn.

5) New ATM System for BIA

In order to eradicate the current problems faced by the existing ATM system, such as hardware obsolescence, compatibility issues with new flight plan format etc, the new ATM system for BIA is planned to be implemented in 2014. It will be fully compliant with latest ICAO flight plan format, equipped with ADS-B integration and processing capability, AMHS compatibility in addition to existing Aeronautical Fixed Telecommunication Network (AFTN), weather data integration capability, ATS Interfacility Data Communication (AIDC) handling capability and will improve

surveillance record and playback capabilities while improving traffic management tools.

6) AIS-AIM Transition - Phase II

According to the ICAO Asia Pacific regional agreement on Aeronautical Information Services (AIS) - Aeronautical Information Management (AIM) transition, it is required to implement the 2nd phase of AIM by the 2014/15 period.

The main objectives of global AIS-AIM transition,

- Enhance Global Civil Aviation Safety
 - o Aeronautical data quality can be massively improved by the data centric implementation of AIM as opposed to traditional product centric existing AIS practices
 - o Data sharing will be much more efficient and effective with AIM implementation and hence will enable the safe handling of increasing amounts of aeronautical information
- Foster harmonized and economically viable development of international civil aviation that does not unduly harm the environment

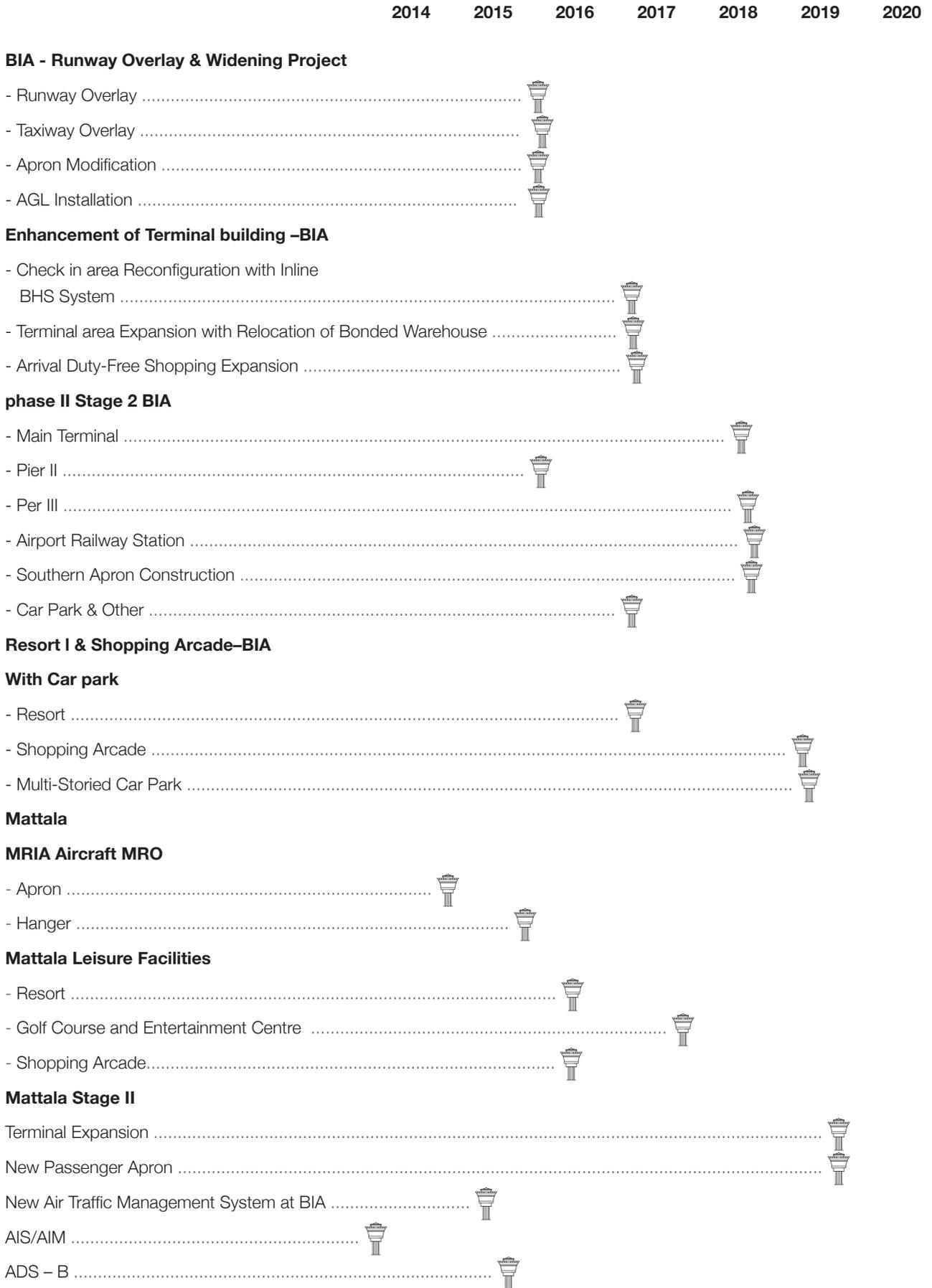
7) Implementation of Automatic Dependant Surveillance Broadcast (ADS-B)

Deployment of ADS-B Stations in Sri Lanka is planned for the year 2014 at an estimated cost of Rs. 225 Mn ADS-B needs to be implemented in Sri Lanka to keep in line with ICAO Asia Pacific regional ADS-B implementation plan and also as a supplementary for radar. Since significant numbers of aircraft are already equipped for ADS-B, the requirement arises for Sri Lanka to implement this surveillance technology. The numerous benefits that ADS-B can bring to Sri Lankan ATM processes are another reason to initiate this project. Enhanced safety, vastly improved situational awareness, precise position and velocity, runway incursion awareness (aircraft), cost effectiveness and improved coverage in low flight levels are some of the benefits that can be gained from implementing ADS-B.

The proposed project consist of 4 ADS-B receiving stations at BIA, MRIA, Radar and Communication Centre Piduruthalagala and in location within South Western region. A Central Processing Station is proposed at RMA to integrate data from all four stations and send to relevant ATM systems.

Management Discussion & Analysis Contd.

Plan Ahead – Prepared for Technological Challenges and Growing Demand



Awards and accolades received

National Business Excellence Awards

AASL was honored by a Silver Award at the National Business Excellence Awards (NBEA) 2013 by the National Chamber of Commerce (NCC), on 27th November, 2013 at Colombo Hilton. We competed under the "State Services" sector, where the Sri Lanka Ports Authority won the Gold award.



AASL Chairman receives the Silver award under State Services Sector at National Business Excellence Awards 2013



AASL Chairman and team at the National Business Excellence Awards 2013

Corporate Accountability Rating

AASL was rated 'Bronze' in the STING Corporate Accountability Index by STING Consultants in 2014 by assessing the two years 2012 and 2013. This is an index which is used to assess companies across six key areas which constitute the necessary components for holistic and integrated approach to corporate responsibility, sustainability and governance. (Biennial Index obtained for 2014 by AASL was 45.85 compared to 32.45 obtained in 2012).



Certificate issued for the STING Corporate Accountability Index

FINANCIAL REVIEW

Performance Overview

The 2013 financial year was a dynamic one for AASL with the growing and refreshing international business segments at BIA along with the opening up of a new route structure for the MRIA. Consequently, we recorded our best performance in all the key performance indicators in our primary air traffic statistics.

The company improved on its previous best Net Profit after Tax by over Rs. 0.82 Bn. When compared to the previous year, the increase in profit was 30%. However, AASL's Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) of Rs. 4,851 Mn represented a 15% decline over the preceding year.

The strong economic rebound in Sri Lanka and the region in financial year 2013, along with concerted efforts to market BIA and MRIA, contributed to an improved AASL financial performance.

The expansion of Low Cost Carriers (LCCs) was a key driver of passenger growth at BIA. Passenger traffic on LCCs grew significantly by 52%, while accounting for 15% of the total traffic in the year under review. This rise negated the slight decline registered by Full Service Carriers (FSCs) of 2% over the preceding year. However, FSCs continued to contribute the bulk of passenger traffic, accounting for 85% of the total at BIA.

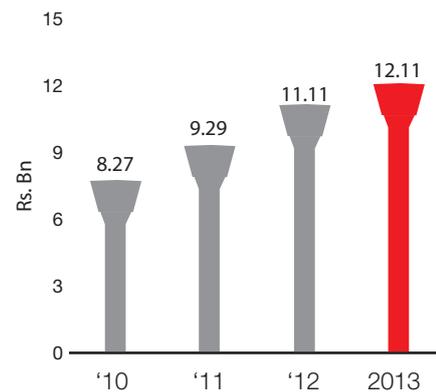
During the year, BIA welcomed 4 new airlines and established links with 9 new cities.

Turnover

AASL reported a consolidated turnover of Rs. 12.1 Bn for the year under review, marking an increase of 9% from the previous year. This increase is mainly attributable to increase in Non-Aeronautical income by 15% over the previous year which accounted for 76% of our total revenue.

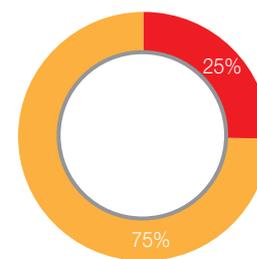
The Development of AASL consolidated turnover over a four year period is analyzed below:

Development of AASL Consolidated Turnover



AASL's key revenue segments and their share of contribution to the Company's Gross Revenue is highlighted below.

Company Revenue Structure 2013



- Aeronautical
- Non Aeronautical*

* Miscellaneous and Other Revenue which has a negative value is set off against Non-Aeronautical Revenue

The biggest contributor to AASL's turnover in the year under review was the Embarkation Levy, which accounted for 26% of AASL's turnover compared to 21% in the previous year. The Concession Income which recorded a marginal increase of 0.07%, recording 21% as, the second largest contributor to AASL's turnover. Other main contributors to the turnover were Rental income,

Out of total operational revenue, exactly 50% is earned out of foreign operations amounting to Rs. 6.074 Bn or US\$ 47 Mn. This is the totality of all the revenue earned from foreign airlines and foreign duty free operators irrespective of invoiced currency.

Landing and Parking income and Overflying income which contributed 17%, 16% and 6% respectively. They recorded a turnover growth of 11%, 11% and 19% respectively. Out of the major income sources, the only income source which recorded an exceptional decline of 114% was Domestic Landing and Parking income. This was due to waiving off Float Plane income which is a component of Domestic Landing and Parking Income for the previous accounting periods.

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 3,316,795 MT in 2012 to 3,561,167 MT in 2013, while overflying movements moved upwards by 15% (23,835 to 27,529 movements). 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.

Revenue Earned In Foreign Operations

Out of total operational revenue, exactly 50% is earned out of foreign operations amounting to Rs. 6.074 Bn (US\$ 47 Mn). This is the totality of all the revenue earned from foreign airlines and foreign duty free operators irrespective of invoiced currency. Out of this 6.074 Bn of revenue, Rs. 1.3 Bn was earned in US\$ and the rest is earned in LKR. Italy, India, UAE, Qatar, and Singapore are the top 5 countries which earn an income over US\$ 2 Mn (Rs. 250 Mn). In 2013 a double digit growth in turnover was recorded, while earning an income over US\$1Mn by UAE (32%), Qatar (20%) and Hong Kong (13%). This is mainly due to increase in frequencies of arrivals as well as overflying in our longstanding customers of Emirates, Qatar Airways and Cathay Pacific from respective three countries. Further, the UK entered into the top 10 country list who brings highest foreign operations revenue with the recommencement of British Airways during the year.

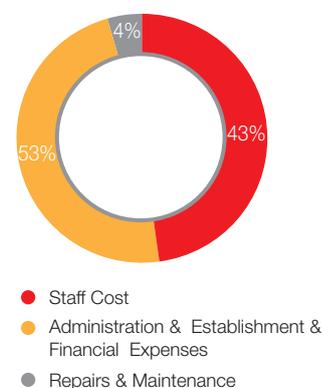
An interesting trend observed during the year was a shift to more non-traditional markets such as Korea, Turkey and Australia, which were not ranked in our top 10 destinations of foreign operations revenue growth before. The main reason for this was the commencement of Korean Airlines and Turkish Airlines during the year, while overflying movements in the newly recommenced Qantas Airways resulted in the upsurge in foreign operations revenue from Australia. The top 20 countries who account for our highest absolute revenue in the year 2013 & 2012 with their share of operational revenue, absolute revenue growth with percentage growth and the country's rank based on absolute revenue are listed down in the table shown in the page 40.

Operational Expenditure

Total expenditure grew by 23% to reach Rs. 9.8 Bn up from Rs. 8.0 Bn in 2012. This was after absorbing Rs. 1.2 Bn depreciation of MRIA after commencing commercial operations out of Rs. 1.7 Bn of total depreciation. Other Project Administration costs, Opening Ceremony expenses as well the advertising campaign launched, including print, digital and social media for the MRIA opening ceremony, all of which were the other key reasons for the increase in MRIA costs.

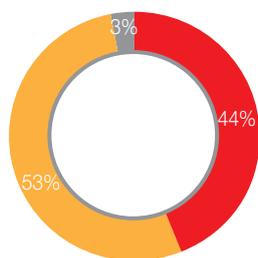
During the year the Staff Cost increased by 20% to reach Rs. 4.2 Bn up from Rs. 3.5 Bn in 2012. Repairs and Maintenance expenses increased towards the latter part of the year due to repair and refurbishment work undertaken for CHOGM, and was the main contributory factor for the increase in expenditure during the year under review.

Expenditure -2013



Financial Review Contd.

Expenditure -2012



- Staff Cost
- Administration & Establishment & Financial Expenses
- Repairs & Maintenance

Net Finance Cost

Finance cost mainly comprises of two cost components, namely, costs involved in Long Term Borrowing and Exchange Losses on Loan conversion. Comparative to last year, AASL experienced an Exchange Gain on Loan conversion of Rs 1.7 Bn as opposed to an Exchange Loss of Rs 1.4 Bn in the preceding year. The loan interest experienced a 94% increase compared to preceding year since MRIA loan interest of Rs. 377 Mn was added to existing BIA loan interest of Rs. 196 Mn during the year.

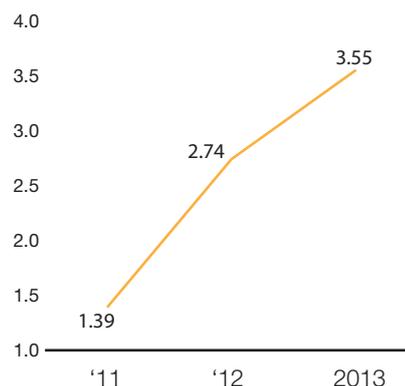
Revenue Earned In Foreign Operations

Country	2013		2012		Revenue Growth		Rank on Absolute Revenue	
	Revenue US\$	Share of Operational Revenue (%)	Revenue US\$	Share of Operational Revenue (%)	Absolute	%	2013	2012
Italy	11,228,609	12.0	11,924,962	14.0	(696,353)	(0.06)	1	1
India	10,206,471	11.0	9,576,807	11.0	629,663	0.07	2	2
UAE	10,178,851	11.0	7,685,466	9.0	2,493,384	0.32	3	3
Qatar	2,825,100	3.0	2,349,972	3.0	475,128	0.20	4	4
Singapore	2,219,071	2.0	2,034,128	2.0	184,943	0.09	5	5
Hong kong	1,740,484	2.0	1,545,844	2.0	194,639	0.13	6	6
Malaysia	1,550,743	2.0	1,412,015	2.0	138,728	0.10	7	7
Saudi arabia	1,049,414	1.0	1,404,352	2.0	(354,938)	(0.25)	8	8
Thailand	794,305	1.0	813,897	1.0	(19,591)	(0.02)	9	9
UK	769,592	1.0	384,691	0.5	384,901	1.00	10	15
Oman	725,006	1.0	641,161	0.8	83,844	0.13	11	10
Indonesia	499,550	0.5	553,180	0.7	(53,630)	(0.10)	12	11
Korea	418,480	0.4	1,552	0	416,928	268.57	13	39
Turkey	414,970	0.4	1,095	0	413,874	377.85	14	42
Kuwait	391,146	0.4	464,673	0.5	(73,527)	(0.16)	15	13
Jordan	347,584	0.2	434,824	0.5	(87,240)	(0.20)	16	14
Australia	220,973	0.2	83,020	0.1	137,953	1.66	17	20
China	206,726	0.2	159,904	0.2	46,821	0.29	18	17
South africa	182,700	0.2	184,192	0.2	(1,492)	(0.01)	19	16
Maldives	147,371	0.2	102,786	0.1	44,585	0.43	20	19
Others	539,151	0.5	1,233,343	1			Not Ranked	
Total	46,656,296	50	42,991,866	51				

Profitability

With the MRIA business model that is at its growth phase, AASL posted highest Profit Before Tax of Rs. 4.7 Bn and Profit after Tax of Rs. 3.6 Bn in AASL's history. It was a 30% and 27% YOY increase respectively. AASL's profit performance for the previous three years are analyzed below

Profitability Rs. Bn



Cash Flow

The operating profit before working capital changes decreased from Rs. 6,052 Mn in the previous year to Rs. 5,290 Mn in the year under review. Further, decrease in working capital resulted in a further improvement to the cash flow and has been resulted in a positive cash flow from operating activities amounting to Rs. 5,849 Mn. Cash outflow on account of capital expenditure amounted Rs 6,378 Mn and out of which Rs. 5,400 Mn was for MRIA. (Rs. 17,449 Mn in 2012 and out of which Rs. 16,355 Mn was for MRIA). The net decrease in Cash and Cash Equivalents during the year was Rs. 394 Mn compared to (net increase of Rs. 222 Mn in 2012)

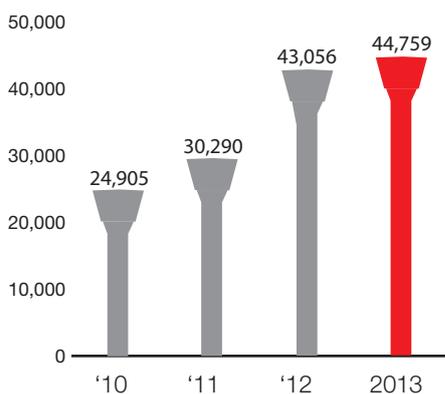
AASL possesses the necessary liquid assets to support its operations, cash generation from operations and available funds are adequate to finance working capital, capital expenditure, dividends and statutory payments.

Capital Structure

The AASL Capital Structure is briefly set out below:

Share Capital	Rs.	20 Mn
Reserves	Rs.	7,421 Mn
Retained Earnings	Rs.	37,317 Mn

Company Capital Structure in Rs. Mn



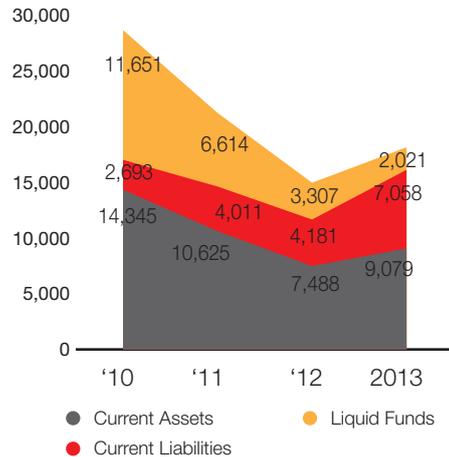
The Retained Earnings increased by 95% compared to the previous year. The Long Term debt has come down by 5% compared to 2012.

Gearing Ratio

The Gearing Ratio, which is calculated as a proportion of the Long Term Interest Bearing Borrowings to Total capital, which is an Indicative of the financial leverage of the company. This ratio has marginally dropped to 82% as at 31/12/13 compared to 89% in 2012. Although

this Gearing Ratio might make it seem as entity is highly geared, these loans are wholly obtained through Government of Sri Lanka (GoSL) for the development of BIA and MRIA airports under sovereign guarantee.

Company Working Capital Rs. Mn



Stakeholder's Wealth Maximization

Value Addition for the Year 2013

The company created a total value of Rs. 11.4 Bn, for the financial year ended 31st December 2013, a increase of 11% compared to the previous year.

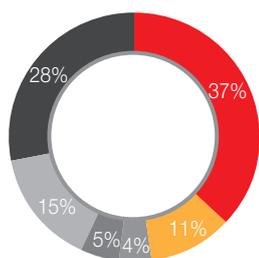
The following Statement of Value Addition shows how the total wealth was created and distributed among employees, the GoSL and the providers of debt and equity capital. Also shown the portion of wealth retained for reinvestment by way of depreciation and reserves.

Financial Review Contd.

	2013 Rs.000	2012 Rs. 000
Revenue	12,219,411	10,687,381
Other Income	(109,728)	426,332
Finance Income	2,428,407	704,524
Gain arising on changes in Actuarial assumption	170,790	205,038
	14,708,880	12,023,275
Administration Establishment & Marketing Expenses	(3,297,121)	(1,699,654)
Value Addition	11,411,759	10,323,621

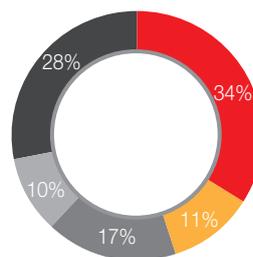
		%		%
Distribution of Value Added				
To Employees Remuneration & Benefits	4,170,302	37%	3,514,655	34%
To the Government Taxes	1,192,121	11%	1,121,112	11%
To Share Holders Dividends	500,000	4%	-	0%
To the Providers of Debt Capital Repayment	573,574	5%	1,734,681	17%
Retained within the business Depreciation	1,751,423	15%	1,010,595	10%
Retained within the business Reserves	3,224,340	28%	2,942,579	28%
	11,411,759	100%	10,323,621	100%

Distribution of Value Added
2013



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

Distribution of Value Added
2012



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

HUMAN RESOURCE MANAGEMENT

The overarching objective of AASL's Human Resource (HR) team is to ensure competent and performance driven employees focused on the achievement of the AASL's operational profits and business strategy.

Recruitment and Selection

Our recruitment is based on identifying candidates who are equipped with the talents demanded by the job and who have the best chance to succeed, on the prime assumption that trainable skills can be taught to a talented employee.

We usually test candidates using a number of different techniques to build up a broader and more objective picture of their capabilities. This is to ensure that wrong personnel are not elevated or recruited. These techniques include interviews, written tests, physical tests, role tests, voice and other aptitude tests, while the medical tests are mandatory for all potential recruits.

The high response rate for the jobs we advertise through the media hints that AASL becoming a much sought after employer in Sri Lanka.

AASL employs a diversified portfolio of people, ranging from people in unique disciplines such as air traffic control, airport fire services, aviation security, air navigational engineering, passenger facilitation, airport infrastructure development and maintenance to general disciplines such as Finance, Human Resource Management, IT and Legal. We invest heavy sums in the recruitment and selection as well as for Training and Development of our Human Resources. All these expenses result in putting pressure on our personnel bill. In fact, it has become the highest component in our expenditure structure.

Our total staff strength increased by 4% to 3,674 during the year. The net increase comprised of 221 new recruits, offset by the 21 who left us during the year. The ratio between the new recruits and the year end workforce is 6%. (In 2012, 409 employees were recruited and the cumulative recruits of 2012 and 2013 as a percentage of the year-end workforce of 2013 is 17%). The high intake of new staff was necessitated to off-set attrition as well as to support business growth and the new projects being undertaken by AASL such as MRIA.



BIA and MRIA (left) front line staff. MRIA employee is attired in the newly designed uniform for MRIA in 2013

Team Building Activities

Since teams bring better synergies to an organization, we inculcate team spirit in our employees.

The Outward-bound Training is planned as a team building exercise and our entire executive cadre was covered in the year 2010 and 2011, which develops the aspects of goal prioritization, strategizing, planning and organizing, delegation, communication, time management, conflict resolution and undertaking of risks. It is a planned event in our training curriculum periodically and planned again for 2014.



Team Building Activities are in the regular training schedule conducted by CATC for company employees

Our Training arm, CATC conducts 'Team Building' courses, in their training curriculum as regular courses which is vital for organizational success. The 'Team work and Personality Development' and 'Theoretical and Practical Styles of Leadership' are two such regular courses which are very popular among and much looked forward to by the staff.

Human Resource Management Contd.

Knowledge Management

Since managing the knowledge of an organization has a deep link with the sustainability of the organization, the techniques of capturing, distributing and using the information, gain importance increasingly.

Delegate Authority

Our Executive Directors assign the task of attending important meetings that influence business development and decision making, and the projects that people and customers notice, down the hierarchy. Thereby, employees grow and develop new skills as they are motivated further with the opening of new opportunities for personal growth.

E-Library Portal

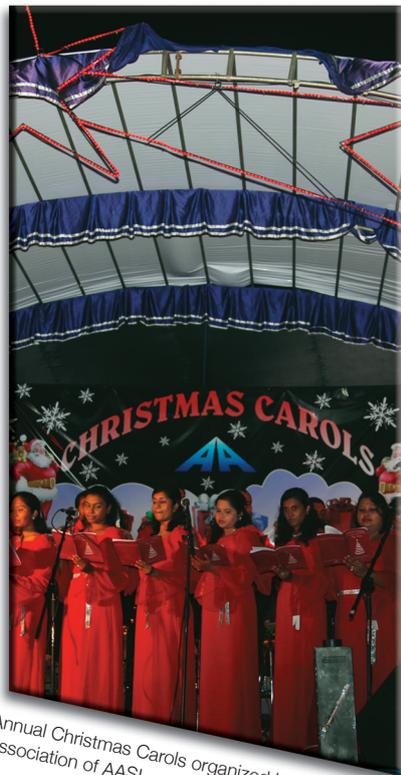
This is a electronic file directory where all study tools, publications and research material contained in a virtual library and are formulated by the employees themselves, drawing on their own learning experiences, thereby allowing all AASL employees an easily accessible, subject focused, practical knowledge enhancement tool.

The following benefits have been realized through this mechanism so far:

- When assessing the training needs for the forthcoming year, the previous course materials, recommendation and experience shared by participants of foreign training are accessed by HR and supervisors.
- Technical knowledge is disseminated when tender documents are prepared where foreign suppliers are invited to quote and when the equipment are specialized in nature.

TRAINAIR PLUS

Membership in the TRAINAIR PLUS Programme of the ICAO provides the company access to an international pool of high quality training courses developed by member training centres of the programme. In addition to contributing courses to this ever growing pool, members have the option of adapting and delivering any course in this pool at their own centre thus eliminating the duplication of expensive and rigorous course development effort.



Annual Christmas Carols organized by the Christian Association of AASL



Annual Pilgrimage organized by the Buddhist Association to Anuradhapura. Approximately 1200 pilgrims who were employees and their family members took part and one whole train was reserved for the pilgrimage

We successfully launched the recruitment drive for the MRIA and currently it runs with a blend of experienced and new staff as part of our training strategy.

Our CATC was a member of the former TRAINAIR programme, enabled through an ICAO/UNDP project. When ICAO implemented an upgraded version of the programme called TRAINAIR PLUS, our CATC immediately took action to become an Associate Member in the new programme. A project is underway to become a full member.

The goal of the TRAINAIR PLUS program is to improve the safety and efficiency of air transport through the establishment and maintenance of high standards in training for aviation personnel globally. Its training policy states that "mutual assistance among contracting states in the training of aviation personnel should be encouraged and facilitated, particularly in those matters where the lack of adequate training may adversely affect the safety or regularity of International Air Navigation".

Welfare and Rights of Employees

Concern towards employee welfare and employee rights is part and parcel of our HR policy. Proven and well-established welfare systems and procedures at AASL have immensely helped to attract and retain a more loyal, motivated team that is committed towards the company's success and is willing to adapt to changing business trends.

AASL respects the right of employees' freedom for association. We have established genuine dialogue with freely chosen workers' representatives and over the years have built a strong mode of communication to mutually understand the employees and employer problems and find ways of resolving them amicably. There are employee unions that represent the different professions within AASL, while the Sports and Recreation Club, Seva Vanitha Unit, Buddhist Association and Christian Association promote the interests of employees in the areas of sports, development of women in employment and religious activities.

Various other perquisites are available to all our employees including staff transport, meal allowance, staff loans,

housing loans (partial reimbursement of interest), personal accident insurance scheme, death gratuity scheme and health insurance schemes.

AASL also invests in uplifting the work-life balance of employees and promotes recreational and stress management activities among employees. The gymnasium and outdoor games facilities are available for employees who are inclined to engage in sports and recreational activities.

For the children of employees, a personality development program called 'Abiyoga Jayaganimu' was conducted for the first time in 2013. Scholarships are awarded for the employees children when the Aviation Diploma Course is opened for enrolment for public by CATC and airport visits are organized during school vacation for company employees' children by the Media Unit. An exclusively tailor-made educational programme is shared, which consists of lectures, site visits and video clips which pave the way to acquire knowledge in all aspects of airport operations.

Building up of Employee Capabilities Training and Development

Our team is empowered through comprehensive Training and Development (T & D), designed to fulfill the needs of a constantly changing business and industry environment. T & D thrives on both internal and external facets, with in-house training at company and divisional levels being the primary features. While highly skilled in-house trainers undertakes all our refresher courses and many of the training programmes, external resource persons are also engaged to conduct the necessary training programmes whenever the need arises.



In-House Training conducted for Managerial categories using External Resource Personnel

Human Resource Management Contd.

Compared to the 1,751 staff who received local and foreign training in 2012, we were able to extend such opportunities to 2,377 staff during the year 2013. The total investment for training and development of staff for the year 2013 was Rs. 64 Mn (this is exclusive of training cost included in special projects such as ERP). During the year, the company facilitated 145 employees to attend foreign training in 21 overseas countries inclusive of Singapore, Malaysia, Hong Kong, Australia, United Kingdom, USA, Japan, China, Canada and Philippines. They were trained in the various technical aspects of Marketing Management, Commercial Management, Aviation Medicine, Instructional Techniques, Enterprise Resource Planning, Electronics, Air Navigational Services and so on.



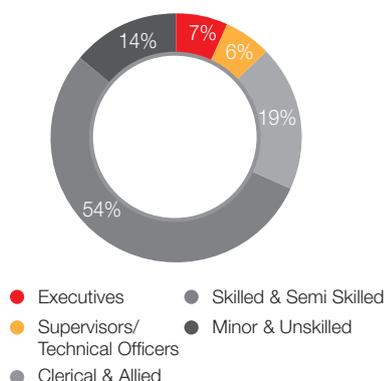
Staff learn more about AASL's ERP system at this kind of interactive sessions had with the ERP solution provider

The total training endeavour of the CATC for the year 2013 was 37,032 training hours, 60% of it represents the training given for the company employees and rest 40% represents the commercial training.

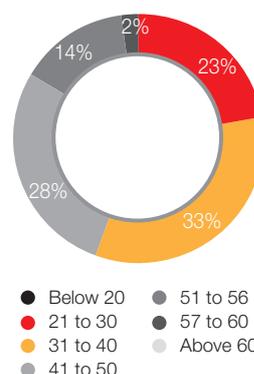
Breakdown of training conducted by CATC is as follows:

Areas	Number of Training Hours
Soft skills development	1,308
Training for new recruits	5,952
Programmes leading to career development	12,336
Instructional training	126
Awareness programmes	2,466
Training for external parties	14,844
Total	37,032

Company Classification 2013



Age Analysis 2013



Promotions

During the year, 128 line promotions and 133 lateral promotions took place, which led to upliftment and enlargement of jobs.

Counselling

With the view of increasing overall productivity across AASL, a Counseling Unit was formed in 2008 at AASL and is still in existence successfully with the support of consultants. Special emphasis is paid on emotional stability, conflict resolution, stress management, change management and so on. Poor performers are referred to counsellors in two ways, that is, through direct intervention of the supervisor and direct approach by the employee.

Performance Management

AASL currently tests and develops the Performance Management System and the Performance Related Pay System in parallel. Therefore, our current focus on rewarding performance is largely towards non-monetary mechanisms because we believe that it is wider than just

We have no doubt that our firm commitment towards developing an integrated, broad based HR module enveloping all the core HR elements, would greatly magnify the internal challenges to the organization, in the future.

financial recompense. We place a greater emphasis on opportunities for training and development, promotion and praise.

Further, AASL is reputed for being a fair wage maker and the minimum salary scales of employees are far ahead compared to the majority of industries in Sri Lanka. The wage range from minimum to maximum is also comparatively narrow and hints that all our employees are reasonably remunerated to satisfy their material needs.

However, AASL has kept no room to completely ignore the performance element of salary even at its embryonic stage, due to strong objectivity associated with the practice in the areas of employee motivation, performance culture, linked to corporate objectives and so on. Therefore, performance related pay will be systematically introduced in phases in the upcoming years with the comprehensive implementation of the Performance Management System at AASL. Currently, the measurements are developed upto divisional level and not for individuals.

Performance Evaluation

We do adopt a Top-Down Approach of evaluating the individual performance.

For the Executive /Managerial categories, a new system is implemented as a pilot project by linking the divisional targets and individual targets to the Corporate Objectives.

The criteria under the new scheme will ensure that employee goals are aligned to key organizational objectives and that rewards and recognition are linked directly to performance. Under the proposed scheme, each employee is expected to inculcate into their own character, a set of core behavioural competencies that act as key navigators in creating a new performance driven work ethic. Employees are required to embody the core behavioral competencies through a proactive, customer

focused framework building on innovation and effective communication through a results oriented platform while maintaining individual integrity, upholding corporate values and adherence to the Corporate Code of Conduct.

This is not yet implemented in its full force as AASL currently tests and develop the Performance Measurement System. Since AASL understood the difficulty of measuring individuals performances from its introductory year of performance indicators monitoring in 2007, it is currently in the process of introducing divisional performance measurements linking to the Corporate Objectives. We heavily capitalize our energies in improving this area through the proposed ERP system as it will provide us a good platform to monitor the divisional targets linking with the divisional performances and individual performance appraisal scores by linking the Divisional Dashboards with Performance Appraisal results.

Path Ahead

As a progressive organization in the forefront of the Sri Lankan economy, the AASL has been beset with a multitude of challenges over the years. Through our clear vision and prudent outlook, we have successfully triumphed over these obstacles and have emerged as a business powerhouse and a force to be reckoned with, in the modern commercial context, in Sri Lanka. We have no doubt that our firm commitment towards developing an integrated, broad based HR module enveloping all the core HR elements, would greatly magnify the internal challenges to the organization, in the future. Until the last year, AASL has only been confronted with the challenge of servicing the requirements of the BIA, however, we believe our greatest challenge in the immediate future is to source and develop adequately, the manpower requirement to service Sri Lanka's 2nd International Airport, MRIA which is in a growth momentum. We successfully launched the recruitment drive for the MRIA and currently it runs with a blend of experienced and new staff as part of our training strategy. Further, as explained above, linking the Divisional Dashboards with Performance Appraisal results are expected for better Goal Congruence.

CARING MADE US A SUCCESS



Sustainability Report



We care about safety of all airport users and quality of service. Caring is at the heart of all our achievements, and has been the driver of our sustainability.

SUSTAINABILITY REPORT

Sustainability Management

In the past few years, the concept of 'Corporate Sustainability' has evolved considerably to appear at the forefront of 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 into a healthier triple bottom line philosophy that places importance on people, planet and profits.

As the single service hand of building, operating and managing the International Airports of the country, we are well aware that the practices we execute irrespective of our reputation as a responsible corporate citizen has a considerable impact on part or on the entire globe.

Commitment to the Environment

The aviation sector has a long and distinguished record of environmental achievements. Relative to other industries that emit global Green House Gases (GHG), aviation's contribution represents only 3% of GHG emissions. Technological advancement has significantly reduced aircraft fuel consumption and emissions on a per passenger basis over the last 30 years, and the industry is committed to improving this record. But there is a real challenge in the Arabian Sea and Indian Ocean region to remain within the target limits, as air transport activity is expected to continue to grow steadily throughout the region.

ICAO formally established the Arabian Sea Indian Ocean User Preferred Routes (UPR) Geographic Zone in October, 2013. Colombo FIR is a significant portion of the Arabian Sea Indian Ocean UPR Zone. This is a significant step forward by both ASIOACG* and INSPIRE**, and is a notable contribution to the global effort to minimize the environmental impact caused by aviation. Airlines are benefited by way of fuel savings and reduction of emissions to the environment. AASL's ANS Division was actively involved in partnering with the working group of INSPIRE. Further, INSPIRE was awarded the Global Air Traffic Excellence Award 2013 for 'Carbon Dioxide emission reduction for the joint efforts carried out by our air traffic controllers collectively with the INSPIRE Group'.

*ASIOACG - Arabian Sea Indian Ocean ATS Coordination Group. Here, ATS stands for Air Traffic Services.

**INSPIRE - Indian Ocean Strategic Partnership to Reduce Emissions

Reduction of Carbon Emissions in Colombo FIR

The Air Navigation Services Division is continuously contributing towards the management of carbon emissions in Colombo FIR. Controller awareness and application of CO₂ reduction techniques are progressing every year. The Air Traffic Controllers in Sri Lanka have extended this process to Chennai, Trivandrum, Maldives and Australia too, in terms of coordination for more direct routes which reduces the track miles of each flight. Colombo FIR is using the following methods to achieve the above objective:

- a. Direct routes in the Colombo FIR and beyond for over flights.
- b. Accepting arrivals via the shortest routes from Chennai and Trivandrum and facilitating Continuous Descent Operation (CDO) for arrivals in to BIA/MRIA
- c. Continuous Climb Operation (CCO) and Direct routes beyond Colombo for departures.
- d. Flexible routes and User Preferred Routes for selected airlines.
- e. Joining the other countries in the region for joint efforts to reduce CO₂ emissions like INSPIRE programme which supports ICAO environmental & strategic objectives and initiatives.

On average, 12,700 kg of fuel is saved per day while 18 tonnes of CO₂ per day is offset by applying above techniques on arrival, departures and overflying traffic. The Colombo airspace has become very user friendly in relation to the above practices.

Compliance to Environmental Standards

Our Sewerage Treatment Plant (STP) and incinerator comply with all Central Environmental Authority Standards and we implement mechanisms to conserve energy and water. The practices explained under this point were elaborated in our 2011 and 2012 annual reports.

Minimizing the Carbon Footprint

Our first Carbon Footprinting Report, which released the results pertaining to the year 2011, was compiled and released in the first quarter of year 2013. This report calculates the organisation 'GHG' inventory or carbon footprint for BIA, Sri Lanka in 'kg of carbon dioxide equivalents' and 'tonnes of carbon dioxide equivalents' for a 'one year' period spanning January 2011 to December, 2011. Since '2011' is the first year for which BIA's carbon footprint has been calculated, it is considered the 'baseline year' for the GHG inventory.

BIA Carbon Indicators for 2011

	1. Carbon Index in kg CO ₂ eq/flight movement = 391
	2. Carbon Index in kg CO ₂ eq/passenger = 2.94
	3. Carbon Index in kg CO ₂ eq/full time employee = 5,427

By gaining a better understanding of how energy is consumed at the airport and implementing initiatives that help BIA be more energy efficient, we are able to effectively grow our business without dramatically increasing our energy needs.

Renovation of Chilaw Hospital

The Ward No. 18 of the Chilaw Hospital was refurbished during the year. The floor was tiled; one set of toilets was completely refurbished while another set was replaced; walls and ceilings were painted; existing wiring, light fittings and ceiling fans were replaced; nurses and doctors' rest rooms were relocated and washroom facilities were added.

School Project at Ampara District

In line with the Deyata Kirula Exhibition, Walgampura Vidyalaya in Weranketagoda, Ampara was renovated and refurbished since its inception in 1956 with the participation of AASL employees. Under this project, the main hall and the water-well of the school were refurbished. An open-air classroom in the form of a summer hut according to the new educational reforms was also constructed for the school.

Provider of Industrial Training for Undergraduates and Students

As the national service provider for Air Navigation and Air Traffic Management, AASL highlights E & ANE Division as one of the best institutions to facilitate the Industrial training in the Electronics & Telecommunication discipline. This division along with Information Technology,



Renovation work is being carried out at the Walgampura Vidyalaya in Weranketagoda



The refurbished new ward at the Chilaw hospital

Sustainability Report Contd.

Mechanical, Electrical divisions shoulder the responsibility of development of Engineering and Management skills of academic apprentices, who aspire to serve the country in future.

AASL has already accommodated undergraduates and students of Faculty of Engineering, Institute of Technology, University of Moratuwa, Faculty of Engineering, University of Peradeniya, University of Ruhuna, Wayamba University of Sri Lanka, Open University of Sri Lanka, Institute of Engineering Technology, Sri Lanka Institute of Information Technology (SLIIT) and South Asian Institute of Technology and Medicine (SAITM) who have completed their Industrial Training Programmes successfully.

In gratitude to our Security Forces

AASL donated Rs. 2.5 Mn for the “Api Wenuwen Api” fund facilitating welfare of war heroes and their families. This was the fifth year we made financial donations to this fund across the Ministry of Defence and the total sum donated upto 2013 was Rs. 38.5 Mn. 35 house units were constructed and given ownership to war heroes utilizing this donation.



Secretary Defence and Urban Development Mr. Gotabaya Rajapaksa receiving the cash cheque presented by AASL Chairman

Participation at the Deyata Kirula Exhibition

Communication, Navigation and Surveillance systems used by AASL to aid in Air Traffic Management and Visual Aid Lighting System for aircraft were demonstrated using appropriate models, scale models and simulations to educate the public about the functioning and principles involved in the related equipment.



AASL shares knowledge on aviation with general public by participating at 'Dayata Kirula' Exhibition

Cultural Concern

It is well accepted that tourism is a key contributor to passenger arrivals to the country and sets the trend for many other industries in Sri Lanka. Our rich cultural heritage is one of the best attractions in promoting Sri Lanka as a tourist destination and we have supported this through our donations for the most popular peraharas in Sri Lanka while executing the following projects:

Infrastructure

- Construction of toilet blocks at Kataragama, Kiriwehera
- Construction of a new “Dharmashala” building at Badulla Royal Temple.

Arts and Culture

- Construction of a gateway structure between Kataragama Dewalaya and Kiriwehera
- Donation to the Colombo Navam Maha Perahara
- Contribution to “Ruhunu Maha Poson Perahara Mangalya” – Tissamaharama Raja Maha Viharaya
- Sponsorship of the Annual Esala Festival of the Ruhunu Maha Kataragama Dewalaya-2013.
- Contribution to “Sri Dalada Perahara” – Sri Jayawardenapura Kotte Rajamaha Viharaya – Kotte
- Contribution to “Kanda Udarata Esala Perahara” 2013, Kandy.

Other Projects carried out

- Erection of two bus shelters at Mawalgama in Colombo- Ratnapura route.
- Vendor carts for king coconut sellers who were around the Attidiya Transmitting Station.

CORPORATE GOVERNANCE

AASL views good Corporate Governance (CG) as the underlying principle behind Organizational Competitiveness, Growth and Long Term Sustainability. The widely accepted definition classifies 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.

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.

Section	Applicable Rule	Compliance
The Board of Directors		
3.2	Board Composition	<p>The Directors are appointed by the Minister of Civil Aviation as mentioned in clause 71 of the Articles of Association.</p> <p>The Board is comprised of nine Directors including the Chairman and of which three are Executive Directors work full-time in office. One Non-Executive Director is appointed from the General Treasury.</p> <p>None of the directors have close family members serving on the Board which does not affect their independence in discharging their duties.</p>
3.3, 3.5 and 3.6	The Responsibilities of the Board	<p>Responsibilities of the Board (Expressed under two capacities)</p> <p>In its Leadership Role</p> <ul style="list-style-type: none"> • Determine the Mission of the company and how best it could serve the interests of its shareholders and other stakeholders • Ensure that legal requirements are fulfilled and the enterprise operates in accordance with the provisions of the Incorporation Act/Memorandum and Articles of Association. • Frame policies for implementation by Management • Review Public Policy Objectives periodically and provide strategic direction, to formulate long-term goals and objectives for future growth. (Directors of AASL Board are actively involved in its Strategic Planning Process from its Brain Storming Sessions organized to analyze the external environment and to identify external synergies.) • Ascertain that finances needed to meet goals and objectives are generated or obtained on a timely basis without interruptions for smooth functioning. • The Executive Directors go through the Annual Budgets thoroughly and spend time with divisions before the budgets are submitted to the Board. • Ensure proper accountability by maintaining adequate records and books of Accounts. The LRPMU (Long Range Plan Monitoring Unit) is a mechanism introduced for monitoring and accountability by comparing the adaptation of strategy implementation with the long range plans.

Corporate Governance Contd.

Section	Applicable Rule	Compliance
		<p>In its Oversight Role</p> <ul style="list-style-type: none"> • Ensure that Board policies are executed in the same spirit as it was framed and in the best interest of the institution and the public at large. • Monitor the activities of Management by means of Management Information reports and evaluate performance. • Take remedial actions without delay to ensure that goals are achieved; in case of deviation from desired expectations. • Appoint competent personnel as Managers and ensure that there is proper delegation and team spirit amongst the senior management, by providing a conducive environment to carry out their respective functions independently and in a responsible manner. • Report to shareholders at Annual General Meetings/attend Committee on Public Enterprises (COPE) meetings.
4.1 and 4.2	Directors Decision making	The Board meetings as the highest decision making mechanism serve as the most important forum for taking strategic decisions. The Board regularly discusses and makes decisions collectively.
3.7.1	Chairman	Is appointed by the Minister of Civil Aviation. The present Chairman who continuously serves in the Board for nearly 6 years from his appointment as the Vice Chairman plays an executive role by providing leadership and strategic direction to the Board in a dynamic and professional manner.
3.8	Company Secretary	<p>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.</p> <p>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.</p>
Accountability		
2.2	Accountability to the Government	<p>The Board's direct accountability to the Government as the key shareholder / is executed by adopting relevant mechanisms pertaining to each of the following bodies and the details are shown below.</p> <ul style="list-style-type: none"> • To the Parliament • To the Cabinet of Ministers • To the relevant Minister /Ministry • To the Auditor General
6.3	Board's Responsibility for the Financial Statements	The Directors confirm that the financial statements maintained by AASL have been prepared in accordance with the Sri Lanka Financial Reporting Standards and the Companies Act No 7 of 2007. The related declaration is shown under the Report of the Directors.
Chapter 7 - Systems Control and Committees		
7.1	Control Mechanisms	The Audit & Management Committee (AMC) assists the Board in implementing a sound system of Internal Control and Risk Management System which are in accordance with the best practices appropriate to the company and to periodically review the adequacy and effectiveness of the internal controls by the Board.

Section	Applicable Rule	Compliance
7.4.1	Audit Committee	Please refer the details of AMC underneath.
7.4.3	Tender Board (TB)	<p>Adherence to the guidelines on Government tender procedures when dealing with all procurement of goods and services minimizes the room for corruption and conflict of interest when the related parties are involved through the transparency in making decisions via the tender procedure, while the laws applicable to procurement actions in the country are followed.</p> <p>Based on the value of the item/contract the award recommendation / determination take place by referring to the relevant tender board.</p> <p>The authority limits of different types of procurement committees are as follows.</p> <p>Rs. 1 Mn - 5 Mn - TB 2 Rs. 5 Mn - 50 Mn - TB1 Rs. 50 Mn - Rs.100 Mn - MPC (Ministry Appointed Procurement Committee)</p> <p>Above Rs.100 Mn CAPC (Cabinet Appointed Procurement Committee) (<Rs. 100,000 is approved by Head of the Division and Rs. 100,000 to Rs. 1 Mn is approved by the Chairman).</p>
Relationship with Stakeholders		
	Institutions and Regulatory Bodies	Company recognizes 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.
	Employees	While the Organization's Vision, Values, Corporate Objectives are communicated to all employees, Divisional Objectives are cascaded down, individual objectives are also communicated to appropriate levels in order to ensure goal congruence of the company. The employees are updated with true position of corporate operations and financial performance. A competitive remuneration package with acceptable welfare measures along with a safe work environment is offered to all employees to remove barriers from meeting basic human needs. The code of ethics is communicated to all employees and there is an internal circular for imposition of punishments for listed down acts of misconduct.
	Environment	The Board is highly committed to the sustainability of the environment and therefore ensures that the company pursues and adheres to the recommended standards so as to protect and promote the eco system. The practices adopted by the company are explained under Sustainability Management. With the "Sustainability Policy" approved by the board our business plans are directed towards the elements identified by the policy for value enhancement of stakeholders.

Corporate Governance Contd.

AMC

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 COPE.

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 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 are Dr. D S Jayaweera (Chairman) and 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. AMC meetings were held three times during the year and members' attendance on AMC meetings is shown in the following table.

Name of the Member of AMC	Position held in		Attendance
	AASL	AMC	
Dr. D. S. Jayaweera	Director/Treasury Representative (Ministry of Finance)	Chairman	3/3
Mr. J. R. U. de Silva	Director	Member	3/3
Mr. Yoga Perera	Director	Member	3/3
Mr. S. M. Chandrapala	Chief Accountant- (Ministry of Aviation)	Member	3/3
Mr. C. Wannigama	Head of IA & QA	Member/Convener	3/3

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 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, there were no COPE meetings.

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. Two PCC meetings were held during the year under review.

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 Jayaweera, 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 and Accounts
4. Development activities undertaken during the year
5. Matters arising from meetings of the COPE

RISK MANAGEMENT

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.

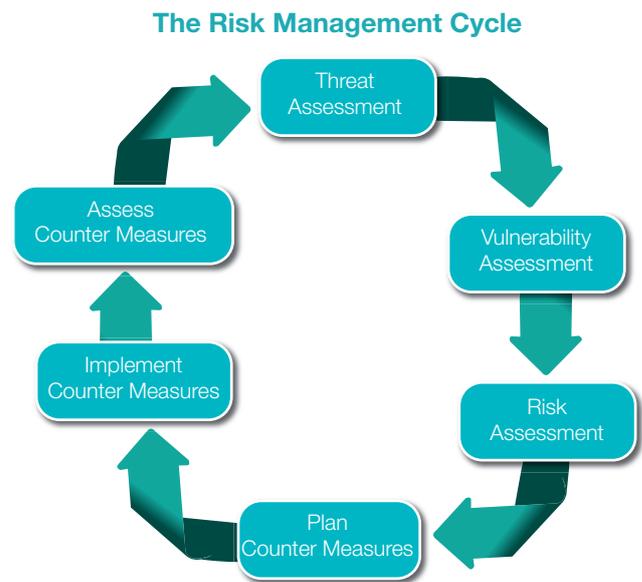
Over the years, AASL transformed itself through the belief that Sustainability Management is a holistic Risk Management Process and we need to anticipate potential issues that could arise in the future and preempt them before they emerge.

The aircraft, passengers and cargo, irrespective of their country of ownership, come under the purview of the Air Traffic Handler (AASL) upon crossing over to the FIR of Sri Lanka. Within this context, a number of key operational areas and a wide spectrum of aviation assets can be identified as vulnerable to threats as listed below.

- Airport / Airline / Freight Customers
- Airport / Airline / Industry Employees
- Stakeholders of the Airport and Airlines
- Property owned by the Company (e.g. Airline Offices)
- Intellectual Property
- Airport and Airline Contractors (eg: Ground Handling Agencies)
- Tangible (eg: airport facilities) and Intangible assets (eg: image)

Timely, adequate intervention and accurate assessment are the underlying values of our Risk Management Policy.

Since Risk is a direct result of a threat combined with a degree of vulnerability, the threat and vulnerability assessment components are part and parcel of our Risk Management Cycle which is shown below.



Whilst we are in a position to adequately assess the known risks faced by our company, the growing complexity and dynamism of the environment in which we operate means that we must also remain vigilant with respect to the direction and representation of new and emerging risks.

The noteworthy counter measures adopted by AASL in minimizing our exposure to risk are tabulated below.

Industry/Country Risks
<p>Description/Nature of Risks</p> <ul style="list-style-type: none"> Air Traffic Volume Growth Rate AASL's business operations are dependent on the volume and growth of air traffic, which are significantly affected by tourism industry in the country which is considered as fragile and other factors, and are subjected to seasonal fluctuations. AASL derives the primary source of revenue from passengers, airlines, concessionaires and tenants that use AASL's airports. The volume of air traffic and the number of passengers at airports under AASL are affected by a myriad factors including overall business conditions, the state of the economy, health and the political climate in the country, relative attractiveness of the island as a tourist destination compared to countries in the world/region, availability of flights and the capacity of AASL's airports and its infrastructure. <p>Counter Measure/(s)</p> <ul style="list-style-type: none"> AASL is unable to control most of the above risk factors. The only cushion exists when the particular revenue sources have no dependency on volume of air traffic.
<p>Description/Nature of Risks</p> <ul style="list-style-type: none"> Loss or damages to Aviation Assets <p>Counter Measure/(s)</p> <p>In addition to the appropriate safety and fire protection measures emergency plans are rehearsed on a regular basis. Transference of risk to third parties through insurance policies is considered a mandatory practice.</p>
<p>Description/Nature of Risks</p> <ul style="list-style-type: none"> Market Development Risk for the second International Airport Brand new airports often carry the risk of client-base. The MRIA is not an exception to that common formula. <p>Counter Measure/(s)</p> <p>The newly formed Marketing Division of AASL from its inception entirely focused on identifying and expanding the market potential for MRIA. It was necessary to align the interests of different stakeholder parties and therefore many site tours and discussions were held during the year. Scenario Analysis and Forecasts, Traffic Forecasts, Route Forecasts, Catchment Area Analysis were all vital steps carried out by the Marketing Team throughout the year in addition to the promotional activities undertaken with the bodies collectively in the Tourism and Aviation Cluster.</p>
Legal Risks
<p>Description/Nature of Risks</p> <ul style="list-style-type: none"> Risks associated with deaths/damages to passengers and public using the BIA, MRIA and the RMA. <p>Counter Measure/(s)</p> <ul style="list-style-type: none"> The Liability Insurance Policy was introduced to cover accidents within the terminal buildings and the adjacent areas. The Public Liability Insurance Policy was made mandatory in the Agreements of Airline Operators, Duty Free Shops and other Concessionaires to cover the legal risks associated with deaths/damages to third parties within their contracted areas. 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. 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.

Risk Management Contd.

Description/Nature of Risks

- Non-Compliance to Environmental Standards

Counter Measure/(s)

- The required Environmental Protection Laws applicable to the area may also cause certain Legal Risks. AASL works to counter these risks in all applicable areas as explained under Sustainability Management, by adhering to the Environmental Standards required by the Central Environmental Authority. The exchange of information is done with the involvement of local citizens in the mediation process or through neighbourhood advisory board.

Operational Risks

Description/Nature of Risks

- Wilful Damages to Computer Systems and Risks

Counter Measure/(s)

- To combat the risks of hackers and viruses to our confidential, sensitive and safety related information, an effective Firewall Mechanism is in place. Also in operation are the Advanced System Authentication Controls with special focus on Network Access Control, intrusion and detection in addition to safeguards introduced for the prevention of hackers and unlawful interferences, to the system.

Description/Nature of Risks

- Exposure to high level of Operational Gearing due to large Capital Investments

Counter Measure/(s)

- All major investment decisions are made following a Project Feasibility Evaluation. The most widely used techniques include CFROI, Payback period, NPV, EVA and IRR.
- 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. 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.

Description/Nature of Risks

- Frauds, breakdown of Internal Controls, Processes and Procedures

Counter Measure/(s)

- A stringent system of Internal Controls is in operation such as Standardized Financial Procedures and ISO certified Quality Management System Audits (Compliance Audits).
- Periodic Reviews and implementation of effective Internal Controls by the IA & QA are supplemented by regular Management Audits carried out by internal teams within the organization.

Description/Nature of Risks

- Failure of Systems

Counter Measure/(s)

- Pre Monitoring Mechanisms as well as Post Monitoring and Detection Systems are in place to prevent and minimize system failures. The Central Fault Monitoring System is such a Pre Monitoring System which displays the current status and faults graphically and warns of future collapses. Fire Detection Systems and contingency plans are in place to ensure the prompt detection of faults while minimizing the loss or damage.
- Data Centre at airport support advanced technologies like Network Virtualization, Server Virtualization & Consolidation and Storage Virtualization
- AASL is currently discharging the business continuity services enabling minimization the Machine Down Time of IT systems from the Disaster Recovery (DR) Centre located in BIA, Katunayake. The modular architecture of the current DR site provides greater flexibility in relocating to MR1A in future.

Description/Nature of Risks

- Interruption in Utility Services at BIA

Counter Measure/(s)

- Improvement of the Ground Water Harvesting System through additional bore wells in order to reduce the overdependence on the Main Water Supply System to ensure an uninterrupted supply of water to the BIA
- A sufficient number of generators with the required capacity have been deployed as the back-up plan in case of electricity failure.

Security Risks

Description/Nature of Risks

- 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.

Counter Measure/(s)

- 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 the above occurrences to a minimum.

Description/Nature of Risks

- Risks associated with Sourcing

Counter Measure/(s)

- The strict adherence to tender guidelines prevent us from exposure to most of the frequently found risks.
- The suppliers' capacity to do business with us is evaluated through vigilant checks carried out by the appointed Technical Evaluation Committees (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. The contract agreements are the key to controlling the risk associated with outsourcing, continuous supply, timely delivery and after sales service.
- 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. 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.

Safety Risks

Description/Nature of Risks

- Aircraft Incidents/Accidents in the Colombo FIR

Counter Measure/(s)

- Utmost care is taken by our controllers in executing the Air Traffic Control Function to continuously reduce possible accidents with the ultimate goal of achieving a Zero Accidents Record. 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 Bird Hazard Control Unit carries out the recommendations set out by the Field Ornithology Group of Sri Lanka attached to Department of Zoology of University of Colombo as per the study done in 2009 and is carried out to minimize the risk of bird hazard and possible airside incidents/accidents.

Risk Management Contd.

Financial Risks

Description/Nature of Risks

- Adverse Exchange Rate fluctuations and Liquidity Risks

Counter Measure/(s)

- Internal hedging through Matching Technique (Equating Assets and Liabilities in foreign currencies wherever possible)
- 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.

Description/Nature of Risks

- Adverse Interest Rate Fluctuations

Counter Measure/(s)

- We aim to minimize Interest Rate Risk and improve yields by purchasing a number of bonds along the short to long term maturity spectrum. All our overnight balances are automatically transferred to an interest earning Call Deposit Account

Description/Nature of Risks

- Risk of Default by Debtors

Counter Measure/(s)

- Prior to permitting or extending a credit line, AASL obtains bank guarantees from all their debtors, based on predetermined limits of credit which adequately cover the risk of default. AASL has further legal provisions in place to terminate the contract for the provision of services or commercial space at the airport if there is a risk of the debtor moving beyond the stage of recovery
- 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 liquidated damages, penalties, duration and settlement procedures.

Human Resources Risk

Description/Nature of Risks

- Loss of Trained and Skilled Employees and Brain Drain

Counter Measure/(s)

- The Fair and Equitable Remuneration Structure provides special allowances for professional, academic and technical qualifications, in order to retain the portion of professional cadre.
- Foreign Employment and Exposure Opportunities are granted on no-pay terms and combined with bonded contracts.

Description/Nature of Risks

- Risk of inability to attract skilled staff with required competencies to fill the vacancies at second International Airport MRIA and the risk of running a shortage of essential staff at BIA due to staff transfers to MRIA from its commencement of commercial operations in 2013 and for its preparedness activities in the year under review.

Counter Measure/(s)

- As similar International Standards have to be maintained, the experienced AASL staff currently employed at BIA, Katunayake will be initially employed in the first few years at MRIA, while the newly recruited staff for MRIA will be based at BIA to give them On The Job Training in operational areas. Our training wing, Civil Aviation Training Centre (CATC), commenced training for newly recruited operational staff in a phased out manner from 2011 onwards. Therefore, there will be a blend of new recruits and experienced staff at MRIA from the first year of operations and gradually this mix will be changed.

Description/Nature of Risks

- Inappropriate Labour Union Actions

Counter Measure/(s)

- Maintaining cordial relationships with the labour unions through effective dialogue and negotiations for mutually beneficial solutions.
- Transparent awareness campaigns in case of changes that take place within the organization that affect the people aspect.
- Talent engagement and development initiatives explained under HRM enables to effectively counter the adverse labour union actions within AASL.

Reputation Risks

Description/Nature of Risks

- Perceptions and misconceptions of stakeholders may ruin the reputation.
- Customer dissatisfaction
- Adverse publicity

Counter Measure/(s)

- AASL believe that, reputation of AASL is the greatest asset we possess although it is not shown in the Balance Sheet. We believe that it is greatly linked with sustainable business management, because, if implemented effectively, it minimizes the risks faced by the organization by constantly seeking to understand stakeholder expectations while there will be less room for misconceptions, wrong perceptions and dissatisfaction by stakeholders.
- 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 to liaise with the media to handle the adverse publicity.

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 4th November, 2010, AASL continued to fulfill its role as the sole statutory service provider of the following aeronautical services;

- I) The development, operation and maintenance of the BIA, MRIA and the RMA.
- II) The provision and Maintenance of Search Rescue & Fire Fighting Services and Aviation Security Services at the Aerodromes specified above.
- III) 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 Colombo FIR.

Sri Lankan Aviation Industry

In 2013, Sri Lanka's aviation sector expanded with the opening of MRIA in Mattala. The construction activities of the first phase of Sri Lanka's second international airport in Mattala, Hambantota was successfully completed during the year under review, under the supervision of AASL and was ceremonially opened by His Excellency, President Mahinda Rajapaksa, on 18th March, 2013.

Review of Operations

A review of operational and financial performance, the future plans of the Company are described in detail in the Chairman's Statement and MDA. These reports together with the audited Financial Statements of the Company reflect the respective state of affairs of the company.

Directors' responsibility for the Financial Statements

The Directors fully understand their responsibilities pertaining to the Financial 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 page 72 to 99 give a true and fair view of the state of affairs of the Company.

Auditors' Report

The Auditors Report on the Financial Statements of the Company is given on page 71.

Significant Accounting Policies

There are no significant changes of any accounting policies during the year 2013. During the year 2012 the Company has adopted revised Sri Lanka Accounting Standards, (LKAS/SLFRS) and the prior year figures have been reinstated in compliance with the transitional changes stated in the Sri Lanka Financial Reporting Standards No 01 on "First Time Adoption of Sri Lanka Financial Reporting Standards.

The Significant Accounting Policies are given on pages from 76 to 85.

Amalgamating Voted Funds and Retained Revenue Accounts with the Company

In the year 2012, the process of first time adoption of SLFRS/LKAS, in order to ensure true and fair presentation of the affairs of Company, on recommendation of the External Auditors, M/s PricewaterhouseCoopers (PWC), and approval of the Board of Directors, Voted Funds and Retained Revenue Accounts have been incorporated into the Company Accounts. In the year 2013 the external Auditors, PWC have carried out the entire audit including Voted funds which was audited by the Auditor General up to the previous year. This was one of the very significant milestones at AASL in terms of Presentation of its Financial Statements.

Corporate Social Responsibility (CSR)

The total contribution for CSR by AASL during the year amounted to Rs. 18.2 Mn. This includes Rs.8 Mn spent on public relations.

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 53 to 57.

Future Developments

The proposed capacity expansion of BIA in terms of further 9 Mn. passengers per annum (ppa), overlay of the BIA runway and the enhancement of infrastructure, resorts and associated property development projects at both BIA as well as MRIA along with a construction of a building for aircraft Maintenance, Repair and Overhaul (MRO) facilitation for Sri Lankan Airlines 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. 12.1 Bn. A detailed analysis of turnover and profit are presented in the Financial Review.

Operating Results

The Company reported the highest ever PBT and PAT, amounting to Rs. 4.7 Bn. and Rs. 3.5 Bn respectively, for the year 2013, which is an increase of 23% and 30% respectively compared to the previous year.

The below table shows, how comprehensive income is derived from the PBT for the year 2013 compared to the preceding year.

	2013 Rs.Mn	2012 Rs.Mn
PBT after payment of all operating expenditure and provision for depreciation	4,745.7	3,858.7
Less : Taxation	1,192.1	1,121.1
PAT for the year	3,553.6	2,737.5
Other comprehensive income	-	-
Gain/loss arising from changes in actuarial assumption	170.7	205.0
Total comprehensive Income	3,724.3	2,942.6

Revenue Reserves

The reserve for the company has been increased by 95% to Rs. 6,428 Mn as at 31st December, 2013 from Rs. 3,304 Mn in 2012, as a result of increase in retained earnings. The movement in reserves of the Company is shown in the Statement of Changes in Equity on page 74.

Dividends

The dividends paid in 2013 amounting to Rs. 500,000,000, as shown in the statement of changes in equity, includes the final dividends paid in respect of the year ended 31st December 2012 of Rs. 250,000,000. The balance dividend represents interim dividend paid in respect of the year ended 31st December 2013.

Property Plant and Equipments (PPE)

The Net Book Value (NBV) of PPE of AASL as at 31st December 2013 amounted to Rs. 43.9 Bn compared to that of Rs. 39.2 Bn as at 31st December 2012.

The capital expenditure of the Company was Rs. 6,378 Mn in the year under review, compared to Rs. 17,449 Mn in 2012. The movements in property, plant and equipment during the year is set out in note No. 05 of the financial statements.

Events after Balance Sheet Date

No material events that require adjustments 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

Annual Report of The Board of Directors on the Affairs of the Company Contd.

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.

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 31st December, 2013 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	

Contingencies and Commitments.

Information with regard to contingent liabilities and capital commitments as at 31st December, 2013, are given in notes 24 & 25 on page 97 to 98 of the Financial Statements.

Information on the Board of Directors and Board Subcommittees

Directorate

The names of the nine Directors who held office at the end of the financial year are given below. Those who ceased to hold office during the year are given in parenthesis. The appointment of the Chairman (Article 79) and Non-Executive Directors (Article 82) have been done as per the terms shown in parenthesis of the Articles of Association of AASL.

Mr. Prasanna J Wickramasuriya	-	Chairman
Mr. Kamal S Ratwatte	-	Vice Chairman
Mr. Yohanne Jayaratne	-	Executive Director
Mr. Kosala R Wickramanayake	-	Director
Mr. Ananda Goonatilleke	-	Director
Mr. Yoga Perera	-	Director
Ms. Shanika Gopallawa	-	Directress
Mr. J R U De Silva	-	Director
Mr. S P Senaratne	-	Director
(Dr. D S Jayaweera)	-	Director

Dr. D S Jayaweera resigned from the Board with effect from 1st December, 2013.

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 Dr. D S Jayaweera, Mr. J R U de Silva and Mr. Yoga Perera served in this committee during the year under review. The Chief Accountant of the Ministry of Civil Aviation and the Head of Internal Audit & Quality Assurance were the other members.

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 31st December 2013.

Directors' Remuneration and Other Benefits

There were three Executive Directors and a Non-Executive Directress (as per clause 77 of the Articles of Association) who were paid Rs. 12.1 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. 400,100/- being the cost of travelling 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

Messers Price WaterhouseCoopers, 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. 1,395,775. (2012: Rs. 670,728) the fees paid to the auditors for non-audit services for the year is Rs. 315,840 (2012: Rs. 552,450)

Annual General Meeting

The Annual General Meeting is scheduled to be held on 30th June, 2014, at the board room of AASL at 2.30 pm

Acknowledgement

The Board of Directors wishes to congratulate the management team for their encouragement, professionalism, and constructive criticism and wisdom, which contributed towards the achievement of greater triumphs by Company.

They also 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.

Our gratitude goes to the all AASL staff for their commitment, integrity, imagination, tolerance and hard work. We consider our staff to be our most valuable intangible asset.

BY ORDER OF THE BOARD

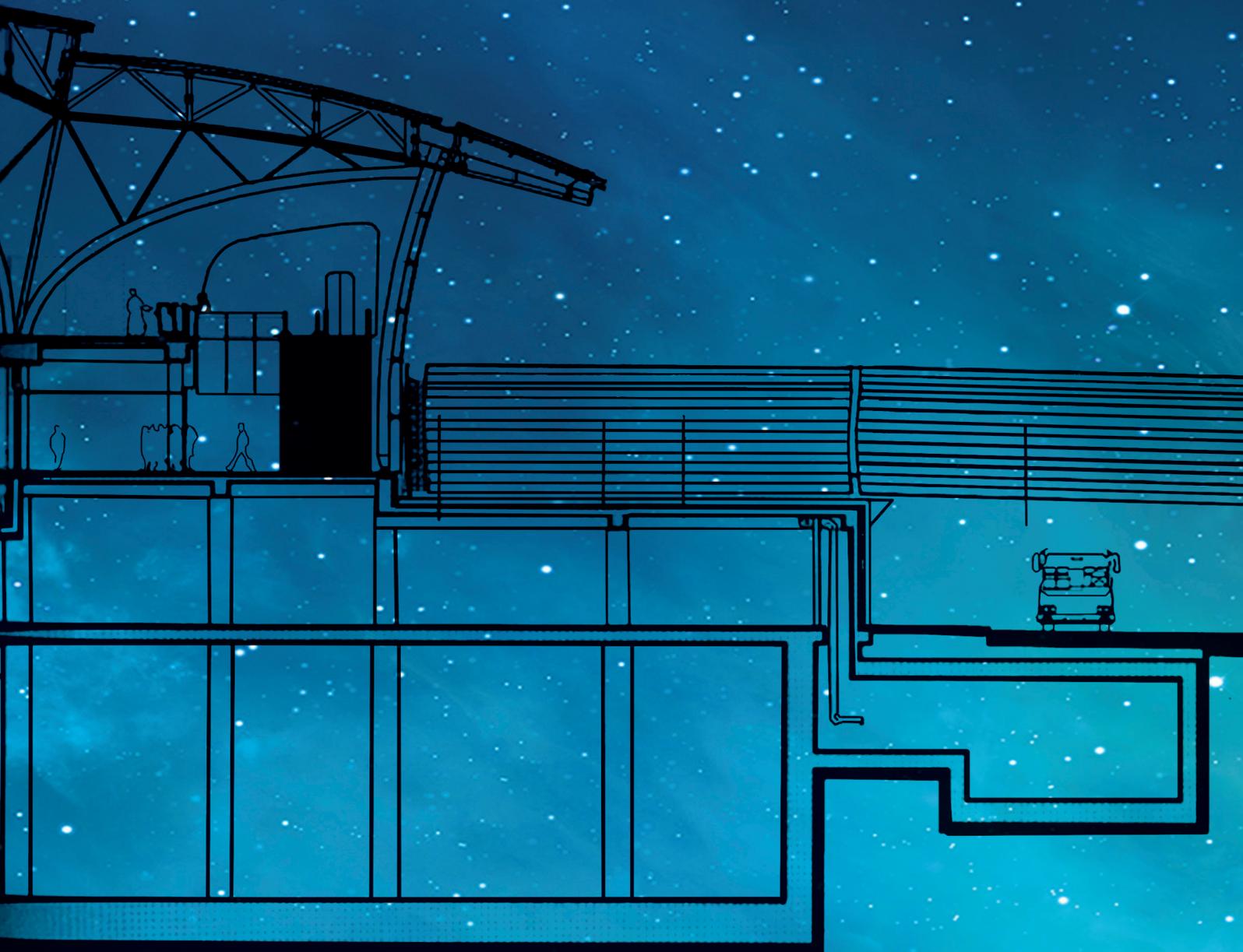


Prasanna J Wickramasuriya WWW RWP RSP

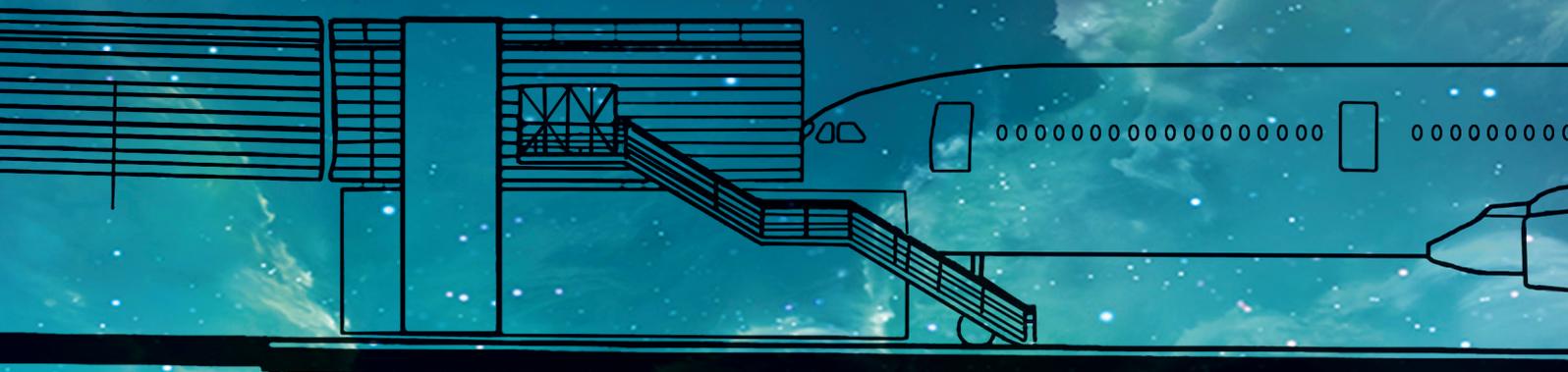
Chairman

18th June, 2014

TIMELESS DEDICATION ALL THE TIME



Financial Information



We are dedicated towards maintaining a culture of absolute compliance, true and fair presentation and utmost transparency in our financial statements.

Financial Contents

Auditors' Report	71
Statement of Comprehensive Income	72
Balance Sheet	73
Statement of Changes in Equity	74
Statement of Cash Flows	75
Notes to the Financial Statements	76

INDEPENDENT AUDITOR'S REPORT



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

Report on the Financial Statements

1 We have audited the accompanying Financial Statements of Airport and Aviation Services (Sri Lanka) (Private) Limited, which comprise the Balance Sheet as at 31st December 2013, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a Summary of Significant Accounting Policies and Other Explanatory Notes as set out on pages 76 to 99.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

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 plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provide a reasonable basis for our opinion.

Opinion

4 In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31st December 2013 and the Amalgamated Financial Statements give a true and fair view of the Company's state of affairs as at 31st December 2013 and its Profit and Cash Flows for the year then ended in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS).

Emphasis of Matter

5 Without qualifying our opinion we draw attention to the following :
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.

Report on Other Legal and Regulatory Requirements

6 These financial statements also comply with the requirements of Section 151 (2) of the Companies Act, No. 07 of 2007.

CHARTERED ACCOUNTANTS

19th June 2014
COLOMBO

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**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**

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

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31st December	Note	2013 Rs.	2012 Rs.
Revenue	14	12,219,410,804	10,687,381,356
Other Income	15	(109,727,814)	426,332,095
		12,109,682,990	11,113,713,451
Administration and Establishment and Marketing Expenses	16	(9,218,845,692)	(6,224,903,211)
Finance Income	17	2,428,406,945	704,524,415
Finance Cost	17	(573,573,582)	(1,734,681,104)
Net Finance Cost		1,854,833,363	(1,030,156,689)
Profit Before Tax		4,745,670,660	3,858,653,552
Income Tax Expenses	18	(1,192,120,540)	(1,121,112,099)
Profit for the Year		3,553,550,120	2,737,541,453
Other Comprehensive Income			
Gain/ (loss) arising from Changes in assumptions on computing retirement benefit obligation	11	170,789,838	205,037,774
Total Other Comprehensive Income		170,789,838	205,037,774
Total Comprehensive Income		3,724,339,958	2,942,579,227
Basic Earnings Per Share	19	17,767.57	13,687.57

The accounting policies and notes on pages 76 to 99 form an integral part of these financial statements.

Report of the Independent Auditor on page 71.

BALANCE SHEET

As at 31st December	Note	2013 Rs.	2012 Rs.
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	5	43,864,073,935	39,237,879,476
Deferred Tax Asset	18.2	729,040,167	633,221,297
		44,593,114,102	39,871,100,773
Long Term Investments			
Investments in Debentures	6	2,550,000,000	2,300,000,000
Loans to Company Officers	8	49,486,091	37,322,790
		2,599,486,091	2,337,322,790
Current Assets			
Inventories	7	367,704,670	274,910,750
Trade and Other Receivables	8	4,288,154,564	2,750,239,347
Income Tax Receivable		392,812,336	-
Treasury Bills / Bonds Repurchase Agreements and Short term Bank Deposits	20	3,641,320,794	4,009,746,027
Cash at Bank and in hand	20	389,358,998	415,329,515
		9,079,351,362	7,450,225,639
Total Assets		56,271,951,555	49,658,649,202
EQUITY AND LIABILITIES			
Equity Attributable to Equity Holders			
Stated Capital	9	20,000,200	20,000,200
Reserves	10	992,726,769	892,726,769
Retained Earnings		6,428,657,042	3,304,317,084
		7,441,384,011	4,217,044,053
Non-Current Liabilities and Deferred Income			
Borrowings	21	36,569,711,285	37,574,198,744
Retirement Benefit Obligation	11	2,336,496,517	2,160,743,758
Deferred Tax Liability	18.2	1,258,999,351	127,436,683
Deferred Government Grants	12	1,607,202,584	1,398,500,574
		41,772,409,737	41,260,879,759
Current Liabilities			
Trade and Other Payables	13	6,310,379,612	2,281,092,148
Borrowings	21	747,778,194	1,265,000,000
Income Tax Payable		-	634,633,242
		7,058,157,806	4,180,725,390
Total Liabilities		48,830,567,544	45,441,605,149
Total Equity and Liabilities		56,271,951,555	49,658,649,202

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



L Dahanayake

Head of Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. These Financial Statements were approved for issue by the Board of Directors on 18th June, 2014.



Prasanna J Wickramasuriya

Chairman



Yohanne Jayaratne

Executive Directors

Signed on behalf of the Board on 18th June, 2014

The accounting policies and notes on pages 76 to 99 form an integral part of the Financial Statements.

Report of the Independent Auditor on page 71.

STATEMENT OF CHANGES IN EQUITY

	Note	Stated Capital Rs.	Other Reserves Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 1st January 2012		20,000,200	892,726,769	361,737,857	1,274,464,826
Dividend Paid	23	-	-	-	-
Profit for the Year		-	-	2,737,541,453	2,737,541,453
Other Comprehensive Income		-	-	205,037,774	205,037,774
Balance as at 31st December 2012		20,000,200	892,726,769	3,304,317,084	4,217,044,053
Balance as at 1st January 2013	23	20,000,200	892,726,769	3,304,317,084	4,217,044,053
Dividend Paid		-	-	(500,000,000)	(500,000,000)
Profit for the Year		-	-	3,553,550,120	3,553,550,120
Transfer to Reserve Account		-	100,000,000	(100,000,000)	-
Other Comprehensive Income		-	-	170,789,838	170,789,838
Balance as at 31st December 2013		20,000,200	992,726,769	6,428,657,042	7,441,384,011

The accounting policies and notes on pages 76 to 99 form an integral part of the Financial Statements.

Report of the Independent Auditor on page 71.

STATEMENT OF CASH FLOWS

Year ended 31st December	Note	2013 Rs.	2012 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		4,745,670,660	3,858,653,552
Adjustments for			
Depreciation	5	1,751,422,590	1,010,594,589
Exchange (Gain) / Loss		(1,710,553,888)	1,439,583,076
Income from Investments		(704,800,969)	(693,098,267)
(Profit) / Loss on Sales of Property, Plant and Equipment		(1,504,067)	(40,050,005)
Amortization of Deferred Government Grants	12	208,702,010	(159,553,262)
Finance Cost		573,573,582	295,098,028
Provision for Retirement Benefit Plan	11	427,394,184	340,486,491
Operating Profit before Working Capital Changes		5,289,904,103	6,051,714,201
(Increase)/ Decrease in Inventories		(92,793,920)	20,340,578
(Increase)/ Decrease in Trade and Other Receivables		(1,539,200,432)	3,327,929,418
Increase /(Decrease) in Trade and Other Payables		4,029,287,464	472,725,424
Cash generated from Operations		7,687,197,216	9,872,709,621
Defined Benefit Plan Costs Paid	11	(80,851,587)	(135,148,748)
Interest Paid		(573,573,582)	(295,098,028)
Income Tax Paid		(1,183,822,320)	(867,440,719)
Net Cash generated from Operating Activities		5,848,949,727	8,575,022,127
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property, Plant and Equipment		(6,378,383,278)	(17,448,810,535)
Investment in Debentures	6	(250,000,000)	-
Proceeds from Sale of Property, Plant and Equipment		2,270,297	41,254,836
Staff Loans Granted		(59,444,451)	(46,977,462)
Staff Loans Received		48,566,363	45,379,395
Interest Received		704,800,969	693,098,267
Net Cash used in from Investing Activities		(5,932,190,100)	(16,716,055,499)
Cash Flows from /(Used in) Financing Activities			
Dividend Paid		(500,000,000)	-
Loan Receipt	21	1,320,557,033	10,164,192,115
Loan Repayment	21	(1,131,712,410)	(1,768,888,004)
Repayment to the Treasury during the year		-	(32,548,588)
Net Cash generated from/(used in) Financing Activities		(311,155,377)	8,362,755,523
Net Increase/(Decrease) in Cash and Cash Equivalents		(394,395,751)	221,722,151
Cash and Cash Equivalents at the beginning of the year	20	4,425,075,543	4,203,353,392
Cash and Cash Equivalents at the end of the year	20	4,030,679,792	4,425,075,543

The accounting policies and notes on pages 76 to 99 form an integral part of the Financial Statements.

Report of the Independent Auditor on page 71.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2013

1. CORPORATE INFORMATION

1.1 General

Airport and Aviation Services (Sri Lanka) (Private) 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) (Private) Limited for the year ended 31st December 2013 were authorised for issue in accordance with a resolution of the Board of Directors on 29th April 2014.

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 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.

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

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 December 2013.

2.1.2 Statement of Compliance

The Balance Sheet, Statements of Comprehensive Income, Changes in Equity and Cash Flows, together with accounting policies and notes, ('Financial Statements') of the Company as at 31st December 2013 and for the year then ended together with the comparative information 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 issued but not effective for the financial year beginning 1st January 2012 and not early adopted.

SLFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of Financial Assets and Financial Liabilities.

SLFRS 9 replaces the parts of LKAS 39 that relate to the classification and measurement of financial instruments. SLFRS 9 requires Financial Assets to be classified into two measurement categories: those measured as at Fair Value and those measured at Amortised Cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For Financial Liabilities, the Standard retains most of the LKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in Other Comprehensive Income rather than the Income Statement, unless this creates an accounting mismatch. The Company is yet to assess SLFRS 9's full impact and intends to adopt SLFRS 9 no later than the accounting period beginning on or after 1st January 2015.

SLFRS 13, 'Fair Value Measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across SLFRSs. The management is yet to assess the full impact of this standard.

There are no other Standards, amendments and interpretations that are not yet effective that would be expected to have a material impact on the Company.

2.2 Foreign Currency Translation

(a) Functional and Presentation Currency

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

(b) Transactions and Balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the 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'.

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.

Notes to the Financial Statements

Translation differences on non-monetary financial assets and liabilities such as Equities held at fair value through profit or loss are recognised in Profit or Loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in Other Comprehensive Income.

2.3 Current and Deferred Income Tax

The tax expense for the period comprises Current and Deferred tax. Tax is recognized in the 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.

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

Deferred Income Tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. However, Deferred Tax Liabilities are not recognized if they arise from the initial recognition of goodwill; Deferred Income Tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred Income Tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the 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.

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

Deferred Income Tax Assets and Liabilities are offset

when there is a legally enforceable right to offset Current Tax Assets against Current Tax Liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority.

2.4 Inventories

Inventories are stated at the lower of cost and net realizable value after making due allowances for obsolete and slow moving items.

Spare parts and consumables for fire equipment brought before 31st December, 2003 are valued based on a valuation and thereafter on weighted average basis.

The cost incurred in bringing inventories to its present location and conditions are accounted using the Weighted Average Basis other than fuel which is valued at First-in, First-out (FIFO) basis.

Company has made allowances for all inventories which are non-moving for more than 10 years.

2.5 Trade and Other Receivables

Trade Receivables are initially recognized at fair value and subsequently measured at amortized cost using the Effective Interest Method, less provision for impairment.

Other Receivables are recognized at cost less Allowances for bad and doubtful receivables.

2.6 Cash and Cash Equivalents

Cash and Cash Equivalents are defined as cash in hand, demand deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of Cash Flow Statement, Cash and Cash Equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.7 Property, Plant and Equipment

All property, plant and equipment is initially recorded

at cost and stated at Historical Cost less depreciation. Historical Cost includes expenditure that is directly attributable to the acquisition of the items and also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All Repairs and Maintenance Costs are charged to Income Statement during the financial period in which they are incurred.

Cost of Long Term Capital Projects are carried forward in Capital Projects Work-In-Progress until the projects are completed and the related assets are available for use.

Depreciation begins when an item of property, plant and equipment is available for use and will continue until it is derecognized, even if during that period the item is idle. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their costs to their residual values over their estimated useful lives.

The useful lives of the assets is 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 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

Notes to the Financial Statements

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

Defined Benefit Plan – Gratuity

Gratuity is a Defined Benefit Plan. The Company is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the Balance Sheet, equivalent to an amount calculated based on full month's salary of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service.

The liability recognized in the Balance Sheet in respect of Defined Benefit Plan is the present value of the defined benefit obligation at the date of the balance sheet with adjustments for unrecognized post service costs.

The Company annually measures the present value of the promised retirement benefits for gratuity, which is a Defined Benefit Plan using the Gratuity Formula in Appendix E of LKAS No 19, Employee Benefits (Revised 2006) which is based on the Projected Unit Credit Method as discussed in the said Standard.

Gains and Losses arising from changes in assumptions used are recognized immediately in the Statement of Comprehensive Income.

Defined Contribution Plans – Employees' Provident Fund & Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Company contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

2.14 Grants and Subsidies

The monetary grants related to assets are recognized as cost and deferred in the Balance Sheet and credited to the Income Statement over the useful life of the asset.

2.15 Impairment of Non Financial Assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An Impairment Loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.16 Financial Assets

2.16.1 Classification

The company classifies its Financial Assets in the following categories: at fair value through profit or Loss, Loans and Receivables, available for sale and held to maturity. The classification depends on the purpose for which the Financial Assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

- (a) Financial Assets at Fair Value through Profit or Loss
A Financial Asset is classified into this category if acquired principally for the purpose of selling in the short term designated by Management. Assets in this category are classified as Current Assets if expected to settle within 12 months; otherwise, they are classified as Non - Current Assets. Derivatives are also categorized as Financial Assets at fair value thru Profit or Loss unless they are designated as hedges.

(b) Loans and Receivables

Loans and Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. Loans and receivables of which maturity greater than 12 months classified as Non - Current Asset. The company's Loans and Receivables comprise "Trade & Other Receivable and Cash & Cash Equivalent" in the Balance Sheet.

(c) Available-for-Sale Financial Assets

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.

(d) Held to Maturity Investments

Held to Maturity Investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

2.16.2 Recognition and Measurement of Financial Asset

Regular purchases and sales of Financial Assets are recognized on the trade-date – the date on which the company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all Financial Assets not carried at Fair Value through profit or loss. Financial Assets carried at fair value through profit or losses are initially recognized at fair value, and transaction costs are expensed in the 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.

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

Notes to the Financial Statements

within Other Gains/(Losses) – net, in the period in which they arise.

Dividend Income from Financial Assets at fair value through Profit or Loss is recognized in the Income Statement as part of Other Income when the Company's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in Other Comprehensive Income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the Income Statement as 'Gains and Losses from Investment Securities'.

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.

2.17 Impairment of Financial Assets

(a) Assets carried at Amortized Cost

The Company assesses at the end of each reporting period whether there is objective evidence that a Financial Asset or group of Financial Assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the Asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the Financial Asset or group of Financial Assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulties, default or delinquency in interest or principle payment, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that co- relate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the 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.

2.18 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.

2.19 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 Lanka 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 Lanka Rupees, are affected by foreign exchange fluctuations through both translation risk and transaction risk. Changes in foreign currency exchange rates may affect the company's profits or losses. For example, weakening of the Sri Lanka Rupee against the United States Dollar can have adverse effects on the company's profitability through its impact on repayment of loans taken by foreign currencies through Department of Treasury.

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

(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.

(a) Credit Risk

The credit Risk arises from Trade and Other Receivables from outside parties.

Notes to the Financial Statements

Sensitivity of the Exchange Rate of USD against LKR

	2013		2012	
	Increase in Profit (LKR)	Decrease in Profit (LKR)	Increase in Profit (LKR)	Decrease in Profit (LKR)
10% increase	-	67,433,604	-	110,022,263
10% decrease	67,433,604	-	110,022,263	-
15% increase	-	101,150,406	-	165,033,394
15% decrease	101,150,406	-	165,033,394	-
20% increase	-	134,867,208	-	220,044,525
20% decrease	134,867,208	-	220,044,525	-

Sensitivity of the Exchange Rate of Euro against LKR

	Increase in Profit (LKR)	Decrease in Profit (LKR)	Increase in Profit (LKR)	Decrease in Profit (LKR)
10% increase	-	4,058,639	-	410,640
10% decrease	4,058,639	-	410,640	-
15% increase	-	6,087,959	-	615,960
15% decrease	6,087,959	-	615,960	-
20% increase	-	8,117,278	-	821,281
20% decrease	8,117,278	-	821,281	-

Sensitivity of the Exchange Rate of Japanese Yen against LKR

	Increase in Profit (LKR)	Decrease in Profit (LKR)	Increase in Profit (LKR)	Decrease in Profit (LKR)
10% increase	-	236,754,049	-	31,514,270
10% decrease	236,754,049	-	31,514,270	-
15% increase	-	355,131,073	-	47,271,405
15% decrease	355,131,073	-	47,271,405	-
20% increase	-	473,508,098	-	63,028,539
20% decrease	473,508,098	-	63,028,539	-

(b) 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 table below analyses the Company's Non-Derivative Financial Liabilities into relevant maturity

groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

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 on 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 Gearing Ratio as at 31st December, 2013 was as follows:

	2013	2012
	Rs.	Rs.
Total Borrowings	37,317,489,482	38,839,198,744
Less – Cash and Cash Equivalents	(4,030,679,792)	(4,425,075,542)
Net Debt	33,286,809,690	34,414,123,202
Total Equity	7,441,384,011	4,217,044,053
Total Capital	40,728,193,701	38,631,167,255

Gearing Ratio **82%** 89%

The above loan wholly consists of loans obtained through General Treasury for the development of Bandaranaike International Airport and Mattala Rajapaksa International Airport under sovereign guarantee. The fair value of borrowings equals their carrying amount as the impact of discounting is not significant.

3.3 Fair Value Estimation

The Company had no financial instruments measured at fair value.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of Assets and Liabilities within the next financial year are outlined below:

(a) Defined Benefit Plan – Gratuity

The present value of the Defined Benefit Plan depends on a number of factors that are determined on an Actuarial Basis using a number of assumptions. The assumptions used in determining the Net Cost (Income) for Defined Benefit Plan include the discount rate. Any changes in these assumptions will impact the carrying amount of defined benefit plan. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to 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 11.

(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.

Notes to the Financial Statements

5. PROPERTY, PLANT & EQUIPMENT

	Land and Buildings Rs.	Plant and Machinery Rs.	Motor Vehicles Rs.
At 1st January 2012			
Cost or Revalued Amount	9,193,390,535	3,637,054,084	711,428,522
Accumulated Depreciation	(2,270,063,941)	(3,347,892,766)	(534,936,728)
Net Book Amount	6,923,326,594	289,161,318	176,491,794
Year ended 31st December 2012			
Opening Net Book Amount	6,923,326,594	289,161,318	176,491,794
Additions	-	56,982,986	16,318,845
Transfer from WIP	150,228,029	55,953,110	255,000
Transfers - Cost	-	-	-
- Accumulated Depreciation	147,027	703,655	39,329
- Corrections	-	-	-
- Written Off cost	(7,380,222)	(703,847)	(39,337)
Disposals - Cost	(3,178,013)	(2,368,931)	(3,458,063)
- Accumulated Depreciation	2,388,050	2,368,922	3,458,057
- Accumulated Depreciation Written back	-	-	-
Depreciation Charge (Note 16)	(169,368,486)	(49,379,830)	(56,863,193)
Closing Net Book Amount	6,896,162,978	352,717,382	136,202,431
At 31st December 2012			
Cost or Revalued Amount	9,333,060,329	3,746,917,402	724,504,967
Accumulated Depreciation	(2,436,897,351)	(3,394,200,020)	(588,302,535)
Net Book Amount	6,896,162,978	352,717,382	136,202,431
Year ended 31st December 2013			
Opening Net Book Amount	6,896,162,978	352,717,382	136,202,431
Additions	154,689,863	36,997,833	44,552,988
Transfer from WIP	8,370,137,706	959,547,261	311,068,464
Transfers - Cost	(817,842,549)	(58,602,404)	475,901
Transfers - Others	-	-	-
- Accumulated Depreciation	(804,781,374)	(59,499,735)	475,900
- Written Off - Cost	(2,677,732)	(689,076)	(255,000)
- Accumulated Depreciation	174,030	531,041	75,277
Disposals - Cost	(279,037)	(2,670,159)	-
- Accumulated Depreciation	117,437	2,666,587	-
Adjustment	(148,883)	1,631,494	(185,437)
Depreciation Charge (Note 16)	(287,635,950)	303,079,335	(75,191,070)
Closing Net Book Amount	13,507,916,490	1,535,709,559	417,219,454
At 31st December 2013			
Cost or Revalued Amount	17,037,088,580	4,681,500,856	1,080,347,318
Accumulated Depreciation	(3,529,172,090)	(3,145,791,298)	(663,127,865)
Net Book Amount	13,507,916,490	1,535,709,559	417,219,454

Furniture, Fittings and Office Equipments Rs.	Communication and Navigation Equipments Rs.	Other Equipments Rs.	Airport Infrastructure Rs.	Capital Work in Progress Rs.	Total Rs.
900,647,372 (727,715,663)	5,248,732,475 (3,435,387,027)	887,257,945 (760,991,328)	7,406,541,904 (3,549,343,298)	9,440,941,444 -	37,425,994,280 (14,626,330,750)
172,931,709	1,813,345,448	126,266,617	3,857,198,606	9,440,941,444	22,799,663,530
172,931,709	1,813,345,448	126,266,617	3,857,198,606	9,440,941,444	22,799,663,530
15,598,828	8,957,462	132,000,240	-	17,227,601,559	17,457,459,919
16,623,378	91,652,039	(78,231,428)	3,732,453	(240,242,582)	-
28,875,125	4,066,038	24,317,778	-	-	58,148,950
(28,882,692)	(4,009,746)	(24,332,780)	-	-	(65,348,624)
(7,083,958)	(569,301)	(4,803,705)	-	-	(21,461,972)
7,083,739	569,286	4,389,098	-	-	20,257,152
73,701	79,538	505,203	-	-	658,442
(54,941,277)	(381,487,362)	(33,788,373)	(265,669,400)	-	(1,011,497,921)
150,278,551	1,532,603,401	146,322,651	3,595,261,661	26,428,330,421	39,237,879,476
896,902,927 (746,624,376)	5,344,762,929 (3,812,159,528)	911,890,272 (765,567,622)	7,410,274,359 (3,815,012,698)	26,428,330,421 -	54,796,651,105 (15,558,771,629)
150,278,551	1,532,603,401	146,322,651	3,595,261,661	26,428,330,421	39,237,879,476
150,278,551	1,532,603,401	146,322,651	3,595,261,661	26,428,330,421	39,237,879,476
64,535,048	190,053,727	51,463,684	217,409,289	5,638,233,116	6,397,935,548
119,789,079	1,676,330,875	87,670,999	19,264,033,896	(30,788,578,280)	-
(19,953,715)	456,090,243	(47,654,063)	857,916,430	(370,429,842)	-
-	-	-	-	(14,101,389)	(14,101,389)
(15,788,766)	78,327,403	(46,647,230)	847,913,801	-	-
(450,148)	(824,082)	(554,843)	-	-	(5,450,881)
215,290	131,434	69,544	-	-	1,196,616
(15,217,334)	(6,434,983)	(52,782,219)	(28,229,274)	-	(105,613,006)
15,239,461	6,427,560	52,168,036	28,227,695	-	104,846,777
(1,145,918)	(94,384)	(232,390)	-	-	(175,518)
(81,778,802)	(571,166,768)	(42,789,518)	(996,960,915)	-	(1,752,443,688)
215,722,746	3,361,444,427	147,034,650	23,785,572,583	893,454,027	43,864,073,935
1,045,605,856	7,659,978,709	950,033,829	27,721,404,700	893,454,027	61,069,421,377
(829,883,110)	(4,298,534,282)	(802,999,179)	(3,935,832,117)	-	(17,205,339,941)
215,722,746	3,361,444,427	147,034,650	23,785,572,583	893,454,027	43,864,073,935

Notes to the Financial Statements

5. PROPERTY, PLANT & EQUIPMENT (CONTD.)

- 5.1 Land and building includes land amounting to Rs.940,412,498 as at 31st December 2013 (2012 - 795,033,468) which is located at Katunayake.

The construction of second International Airport at Mattala was completed during the year on a land leased out by the Government of Sri Lanka on a 99 year lease period. The base payments 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 Equipment includes fully depreciated assets amounting to Rs. 6,607,547,791. (2012 - Rs. 8,310,214,213)

6. 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.

	31st December	
	2013	2012
	Rs.	Rs.
Debentures at Weighted Average rates of Interest		
6 month TB Rate + 0.75%	1,050,000,000	800,000,000
Debentures at fixed rate 11%	1,500,000,000	1,500,000,000
	2,550,000,000	2,300,000,000

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

Date of issue	Date of redemption	Amount of Investment 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

7. INVENTORIES

	31st December	
	2013	2012
	Rs.	Rs.
General	49,807,057	40,456,599
Electronics	69,221,183	107,287,156
Engineering	143,025,189	126,146,707
Fuel	12,819,271	10,621,955
Fire Equipment spare parts	20,055,631	19,420,228
Goods in Transit	125,777,568	27,432,290
Stock - Lounge	424,110	465,291
	421,130,009	331,830,226
Less : Allowance for slow moving Inventory	(53,425,339)	(56,919,476)
	367,704,670	274,910,750

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

8. TRADE AND OTHER RECEIVABLES

	31st December	
	2013	2012
	Rs.	Rs.
Trade Debtors	4,763,018,047	2,972,083,137
Less: Provision for Doubtful Debts	(778,697,079)	(505,429,809)
	3,984,320,968	2,466,653,328
Other Receivables	78,073,540	105,726,083
Advances and Prepayments	181,662,468	139,624,090
Less: Provision for Doubtful Debts	(1,898,551)	(9,045,507)
	257,837,457	236,304,667
Loans to Company Officers	45,996,139	47,281,352
	45,996,139	47,281,352
	4,288,154,564	2,750,239,347

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 2013 (2012: 4.2 %).

Loans to Company Officers	31st December	
	2013	2012
	Rs.	Rs.
Less than 1 year	45,996,139	47,281,352
More than 1 year	49,486,091	37,322,790
	95,482,230	84,604,142

All Non-Current Receivables are due within five years from the end of the reporting period.

The Fair Values of Trade Receivables and staff loans are as follows:

	31st December	
	2013	2012
	Rs.	Rs.
Trade Receivables	3,984,320,968	2,466,653,328
Loans to Company Officers	45,996,139	47,281,352
	4,030,317,107	2,513,934,680

As of 31st December 2013, trade receivables of Rs. 1,809,525,389 (2012: Rs. 1,427,181,561) were fully performing.

As of 31st December 2013, Trade Receivables of Rs. 985,675,328 (2012: Rs. 821,599,070) 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:

	2013		2012	
	Rs.		Rs.	
Up to 3 months	243,907,807		229,406,087	
3 to 6 months	741,767,521		592,192,983	
	985,675,328		821,599,070	

Notes to the Financial Statements

8. TRADE AND OTHER RECEIVABLES (CONTD.)

As of 31st December 2013, Trade Receivables of Rs.1,991,213,023 (2012: Rs.723,302,507) were impaired. The amount of provision was Rs. 780,595,630 as of 31st December 2013 (2012: Rs. 514,475,316). The individual impaired receivables mainly relate to Aeronautical and Non - Aeronautical activities. The aging of these receivables is as follows:

	2013	2012
	Rs.	Rs.
6 to 12 months	1,138,376,587	231,352,226
Over 12 months	852,836,436	491,950,281
	1,991,213,023	723,302,507

The carrying amounts of the Company's Trade and Other Receivables are denominated in the following currencies:

	2013	2012
	Rs.	Rs.
US Dollars	17,558,870	10,684,034
	17,558,870	10,684,034

The movement in the provision for impairment of Trade Receivables is as follows:

	2013	2012
	Rs.	Rs.
At 1st January	514,475,316	404,656,734
Provision made during the year	273,246,163	115,556,068
Reversals made during the year	(7,125,849)	(5,737,486)
At 31st December	780,595,630	514,475,316

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.

9. STATED CAPITAL

	Number of Shares	Value Rs.
At 31st December 2012	200,002	20,000,200
At 31st December 2013	200,002	20,000,200

All issued shares are fully paid

10. RESERVES

	31st December	
	2013	2012
	Rs.	Rs.
Net Assets taken over from Airports Authority	892,726,769	892,726,769
Reserve for Lightning Damages to Property Plant and Equipment & Inventory	100,000,000	-
	992,726,769	892,726,769

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. 100 Mn transferred from retained earnings for utilization in the event of damages to property plant and equipment and inventory are considered as reserves.

11. RETIREMENT BENEFIT OBLIGATION

Movement in the liability recognized in the Balance Sheet is as follows:

	31st December	
	2013	2012
	Rs.	Rs.
As at beginning of the year	2,160,743,758	2,160,443,789
Current Service Cost	157,301,214	146,046,550
Interest Cost	270,092,970	194,439,941
Payments made during the year	(80,851,587)	(135,148,748)
(Gain)/ arising from changes in assumptions used	(170,789,838)	(205,037,774)
As at end of the year	2,336,496,517	2,160,743,758

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:

	31st December	
	2013	2012
Discount Rate	12.50%	11.00%
Rate of Future Salary Increases	11.15%	9.00%
Inflation Rate	6.90%	7.20%
Staff Turnover	3.00%	3.00%
Retirement Age	60 years	57 years

The liability for defined benefit obligations is not externally funded.

12. DEFERRED GOVERNMENT GRANTS

	31st December	
	2013	2012
	Rs.	Rs.
Treasury Grant		
At the beginning of the year	1,398,500,574	1,590,602,425
Received during the year	-	-
Reversal of over Amortization / (Amortization)	208,702,010	(159,553,262)
Refund to the Treasury	-	(32,548,590)
At the end of the year	1,607,202,584	1,398,500,574

12.1 The above Grants include:

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

Notes to the Financial Statements

13 TRADE AND OTHER PAYABLES

	31st December	
	2013	2012
	Rs.	Rs.
Trade Payable	5,360,520,521	1,843,376,054
Refundable Deposits	211,309,971	172,672,247
Other Payables	738,549,120	265,043,847
Total	6,310,379,612	2,281,092,148

14 REVENUE

	2013	2012
	Rs.	Rs.
Aeronautical	3,045,451,920	2,707,752,347
Non-Aeronautical	9,163,694,035	7,973,706,758
Total	12,209,145,955	10,681,459,105
Miscellaneous Revenue	10,264,849	5,922,251
Total	12,219,410,804	10,687,381,356

14.1 Aeronautical & Non-Aeronautical Revenue

	2013	2012
	Rs.	Rs.
Aeronautical Revenue		
Landing Charges	2,015,848,922	1,816,131,089
Landing Charges - Domestic	(806,941)	5,725,853
Over Flying Charges	723,884,696	606,929,808
Aerobridge Charges	306,525,243	278,965,597
Total	3,045,451,920	2,707,752,347
Non-Aeronautical Revenue		
Embarkation Levy	3,205,074,015	2,327,804,050
Entry Permits	140,702,414	130,449,914
Entry Permits - PVG	10,364,661	11,581,224
Parking Fees - vehicles	49,181,004	49,774,311
Rental	2,118,323,213	1,911,484,153
Concession	2,552,703,777	2,550,985,530
Turnover Payment - SLCS 10%	53,318,759	52,388,824
Franchise Fee on Ground Handling - SLA	215,358,679	195,431,021
Ground Handling - Domestic - RMA/BIA	14,571,118	17,673,752
Franchise Fee - SLCS 4%	181,595,085	175,105,063
Training Centre Income	1,853,576	1,879,948
Other Non-Aeronautical Income	620,647,734	549,148,968
Total	9,163,694,035	7,973,706,758
Total Aeronautical and Non-Aeronautical Revenue	12,209,145,955	10,681,459,105

15 OTHER INCOME

	2013 Rs.	2012 Rs.
Amortization of Government Grant	(208,702,010)	159,553,262
Operating Profit from Fuel Filling Station (Note 15.1)	10,524,512	12,086,403
Net foreign Exchange Gain on transactions/ translations	88,449,684	254,692,430
	(109,727,814)	426,332,095

15.1 Operating Profit from Fuel Filling Station

	2013 Rs.	2012 Rs.
Sales	1,018,950,296	903,189,801
Less: Cost of Sales	(994,289,518)	(876,361,453)
Gross Profit	24,660,778	26,828,348
Less : Personnel & Administration Expenses	(14,151,866)	(14,784,993)
Sundry Income	15,600	43,048
Operating Profit	10,524,512	12,086,403

16 EXPENSES BY NATURE

	2013 Rs.	2012 Rs.
Directors' Emoluments	12,125,756	12,204,711
Staff cost	3,561,976,885	3,053,394,324
Defined Contribution Plan Costs - EPF & ETF	339,595,015	313,861,210
Defined Benefit Plan Costs - Gratuity	256,604,346	135,194,340
Auditor's Remuneration - Audit	1,395,775	670,728
- Non audit	315,840	552,450
Depreciation (Note 5)	1,751,422,589	1,010,594,589
Allowance for Doubtful Debts	266,136,888	109,818,553
Repair and Maintenance	439,824,761	209,649,355
Electricity Expenses	778,885,305	721,470,739
Legal Fees	264,693	553,855
Donations	147,500	519,012
Other Expenses	1,810,150,339	656,419,345
	9,218,845,692	6,224,903,211

17 NET FINANCE COST

	2013 Rs.	2012 Rs.
Finance Cost		
Loan Interest	(573,573,582)	(295,098,028)
Exchange (Loss) on Loan Conversion	-	(1,439,583,076)
	(573,573,582)	(1,734,681,104)
Finance Income		
Interest on Treasury Bills/Bonds Under Repurchase Agreements	240,667,828	312,190,572
Interest on USD Fixed Deposits	51,021,743	16,433,730
Interest on Rupee Fixed Deposits	141,808,609	98,521,945
Interest on Debenture	271,302,789	265,952,021
Interest on Staff Loans	13,052,088	11,426,147
Exchange gain on Loan Conversion	1,710,553,888	-
	2,428,406,945	704,524,415
	1,854,833,363	(1,030,156,689)

Notes to the Financial Statements

18 INCOME TAX EXPENSE

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

	2013 Rs.	2012 Rs.
Current Income Tax		
Current Tax Charge	182,761,157	1,079,034,528
(Over) Under Provision of Taxes in respect of prior years	(26,384,415)	826,918
	156,376,742	1,079,861,446
Deferred Income Tax		
Charge in respect of Deferred Taxation (18.2)	1,035,743,798	41,250,653
Total Tax Expense	1,192,120,540	1,121,112,099

18.1 The Tax on the Company's profit before Tax differs from the theoretical amount that would arise using basic Tax rate applicable to profits of the Company as follows :

	2013 Rs.	2012 Rs.
Profit Before Tax	4,745,670,660	3,858,653,551
Expenses not deductible for Tax	(437,984,537)	630,069,447
Income not subject to Tax	(50,112,763)	(484,751,216)
Taxable Profit	4,257,573,360	4,003,971,782
Statutory Tax Rate %	28%	28%
Total Tax Expense	1,192,120,540	1,121,112,099
	1,192,120,540	1,121,112,099

18.2 Deferred Income Tax related to the following;

	Balance Sheet		Income Statement	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Deferred Tax Liability on:				
Accelerated Tax depreciation	1,258,999,351	127,436,683	1,131,562,668	40,909,645
	1,258,999,351	127,436,683	1,131,562,668	40,909,645
Deferred Tax Assets on;				
Defined Benefit Plan	654,219,025	605,008,252	(49,210,773)	(83,989)
Provision for Doubtful Inventory and Debtors	23,065,316	24,043,675	978,358	(1,045,559)
Deferred Government Grants	51,755,826	4,169,370	(47,586,456)	1,470,556
	729,040,167	633,221,297	(95,818,871)	341,008
Deferred Income Tax Charge	-	-	1,035,743,798	41,250,653

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;

Deferred Tax Asset	729,040,167	633,221,297
Deferred Tax Liability	(1,258,999,351)	(127,436,683)
Net Deferred Tax Asset / (Liability)	(529,959,184)	505,784,614

19. BASIC EARNINGS PER SHARE

19.1 Basic Earnings Per Share is calculated by dividing the Net Profit for the year attributable to ordinary shareholders by the weighted average number of Ordinary Shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

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

	2013	2012
Amount Used as the Numerator:	Rs.	Rs.
Profit Attributable to Equity holders of the Company	3,553,550,120	2,737,541,452

	2013	2012
Number of Ordinary Shares Used as the Denominator:	Number	Number
Weighted Average Number of Shares in issue (Note 9)	200,002	200,002
Basic Earnings per Share	17,767.57	13,687.57

20 CASH AND CASH EQUIVALENTS

	31 December	
	2013	2012
	Rs.	Rs.
Short term Bank deposits	1,246,878,486	1,425,093,142
Treasury Bills / Bonds Under Repurchase Agreements	2,394,442,308	2,584,652,885
	3,641,320,794	4,009,746,027
Cash at Bank and in hand	389,358,998	415,329,515
Total Cash and Cash Equivalents for the purpose of Cash flow statements	4,030,679,792	4,425,075,542

Notes to the Financial Statements

21 BORROWINGS

Loans	31st December	
	2013 Rs.	2012 Rs.
Balance at the beginning of the Year	38,839,198,744	29,004,311,558
Loans obtained during the Year	1,320,557,033	10,164,192,114
	40,159,755,777	39,168,503,672
Loans settled during the Year	(1,131,712,410)	(1,768,888,004)
Exchange (Gain) / loss on translation	(1,710,553,888)	1,439,583,076
Balance at the end of the Year	37,317,489,479	38,839,198,744
Current portion of Borrowings	747,778,194	1,265,000,000
Non - Current portion of Borrowings	36,569,711,285	37,574,198,744
	37,317,489,479	38,839,198,744

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

The fair values are based on cash flows discounted using rates based on the following borrowing rates.

	2013 (%)	2012 (%)
United States Dollar (USD) - Mattala Rajapaksa International Airport	2	2
Japanese Yen		
- Bandaranayaika International Airport Development Project	2.75	2.75
- Bandaranayaika International Airport Development Project	1.8	1.8
- Bandaranayaika International Airport Development Project	0.75	0.75
Euro - Modern RMA Air Traffic Control System - Tranche - 2	4.9	4.9
- Modern RMA Air Traffic Control System - Tranche - 3	2.1	2.1
Canadian Dollar - Bandaranayaika International Airport Development Project	0.75	0.75

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

	2013	2012
United States Dollar (USD)	189,277,081	178,963,172
Japanese Yen	9,499,904,000	10,318,977,000
Euro	1,132,058	1,237,500
Canadian Dollar	75,000	112,500

22 FINANCIAL INSTRUMENTS - BY CATEGORY

	31st December	
	2013	2012
	Rs.	Rs.
Financial Assets		
Loans and Receivables		
Trade and Other Receivables (Note 8)	4,242,009,653	2,652,037,405
Cash and Bank Balances (Note 20)	389,358,998	415,329,515
	4,631,368,651	3,067,366,920
Held to maturity Financial Assets		
Investment in Debentures (Note 6)	2,550,000,000	2,300,000,000
Investments in Treasury Bills / Bonds Repurchase		
Agreements and Short term Bank Deposits (Note 20)	3,641,320,794	4,009,746,027
	6,191,320,794	6,309,746,027
Financial Liabilities		
Other Financial Liabilities		
	2013	2012
Borrowings (Note 21)	37,317,489,479	38,839,198,744
Trade and Other Payables (excluding Statutory Liabilities) (Note 13)	6,234,173,619	2,199,884,928
	43,551,663,098	41,039,083,672

23 DIVIDENDS

The dividends paid in 2013 amounting to Rs. 500,000,000, as shown in the statement of changes in equity, includes the final dividends paid in respect of the year ended 31st December 2012 of Rs. 250,000,000. The balance dividend represents interim dividend paid in respect of the year ended 31st December 2013. The balance dividend in respect of the year ended 31st December, 2013 is to be proposed at the Annual General Meeting. These Financial Statements do not reflect this dividend payable. Accordingly, the Company has not considered deemed dividend Tax in relation to the year ended 31st December 2013.

24 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.

Notes to the Financial Statements

25 COMMITMENTS

25.1 Capital Expenditure Commitments

	2013	2012
	Rs. Mn.	Rs. Mn.
Contracted but not Provided for	406.5	211.7
Authorized by the Board, but not Contracted for	4,257.0	3,808.2
	4,663.5	4,019.9

25.2 Financial Commitments

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

26 RELATED PARTY TRANSACTIONS

In carrying out normal operations, the Company has entered in to transactions including the supply and purchase of various goods and services and also received income as Embarkation Levy to and from entities which are either controlled or in which significant influence is held by the State. This includes Bank of Ceylon, Ceylon Petroleum Corporation, Ceylon Electricity Board, Employees Provident Fund, Employee Trust Fund, National Water Supply and Drainage Board, Provincial Councils, Sri Lanka Telecom, Department of Inland Revenue, Sri Lanka Handicraft Board, Department of Government Printing, Sri Lanka Land Reclamation and Development Corporation, Board of Investment, Civil Aviation Authority, Sri Lanka National Arbitration, University of Moratuwa, Sri Lanka Postal Department, Government Publication Bureau, District Secretariats, National Paper Company, Sri Lanka Ports Authority, Sri Lanka Tea Board, Sri Lankan Airlines Ltd, Sri Lankan Airlines Catering Services (Pvt) Ltd, People's Bank, Department of Immigration & Emigration, Sri Lanka Customs, National Lotteries Board, Public Narcotic Bureau, National Gem & Jewellery Authority, National Plant Quarantine Service, Industrial Development Board, Ceylon Hotels Corporation, Sri Lanka Tourism Promotion Bureau and Sri Lanka Bureau of Foreign Employment.

The transactions and balances resulting from such operations included in the Balance Sheet and Income Statement are as follows;

	2013	2012
	Rs.	Rs.
Balance Sheet		
Assets		
Investments	6,191,320,794	6,309,746,026
Trade & Other Receivables -		
Deposits & Advance	51,041,706	51,533,294
Interest Receivable	76,211,807	102,274,061
Liabilities		
Trade & Other Payables -		
Advances Received	51,948,768	57,243,840
Dividend	500,000,000	-
Income Statement		
Revenue		
Aeronautical	1,392,449,086	1,089,993,864
Non-Aeronautical Revenue	1,474,989,963	1,576,251,502
Embarkation Levy	3,205,074,015	2,327,804,050
Payments made to the Treasury	1,705,285,992	2,063,986,032
Interest Income	704,800,969	693,098,268
Expenditure		
Supply of Goods & Services	2,663,322,403	2,504,346,837
Taxes	1,653,544,731	1,293,080,869
	2013	2012
	Rs.	Rs.
26.1	Transactions with Key Management Personnel*	12,204,711
	Emoluments and Fees	12,204,711

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

27 EVENTS OCCURRING AFTER REPORTING PERIOD

There have been no material events occurring after the Balance Sheet date that require adjustments to or disclosure in the financial statements.

Airlines Operated at BIA in 2013

ICAO Code	IATA Code	Air Line	ICAO Code	IATA Code	Air Line
ABY	G9	Air Arabia	LOT	LO	Lot Polish Airlines
AIC	AI	Air India	MAS	MH	Malaysia Airlines
ALK	UL	SriLankan Airlines	MLR	MJ	Mihin Lanka
AXM	AK	Air Asia	OMA	WY	Oman Air
AXB	IX	Air India Express	QTR	QR	Qatar Airways
BAW	BA	British Airways	RJA	RJ	Royal Jordanian
CES	MU	China Eastern	SEJ	SG	SpiceJet
CPA	CX	Cathay Pacific	SIA	SQ	Singapore Airlines
DQA	Q2	Maldivian Airways	SVA	SV	Saudi Arabian Airlines
ETD	EY	Etihad Airways	TGW	TR	Tiger Airways
ENT	OF	Enter Air	THA	TG	Thai Airways
FDB	FZ	Fly Dubai	THY	TK	Turkish Airlines
GFA	GF	Gulf Air	UAE	EK	Emirates
JAI	9W	Jet Airways	XAX	D7	Air Asia X
KAC	KU	Kuwait Airways	WRC	7W	Wind Rose Aviation
KAL	KE	Korean Airlines			

Scheduled Destinations served by BIA at December 2013

North Asia	South East Asia	Middle East	Europe	Africa
Kunming	Bangkok	Indian Sub continent	Amsterdam	Seychelles
Narita	Jakarta	West Asia	Paris	
Beijing Capital	Hong Kong	Abu Dhabi/AI Ain	Moscow	
Shanghai	Medan	Amman	Rome	
Guangzhou	Kuala Lumpur	Abu Dhabi	Frankfurt	
Incheon	Singapore	Bahrain	Gatwick	
		Bangalore	Malpensa/Milano	
		Mumbai	London/Heathrow	
		Cochin	Zurich	
		Dhaka	Borispol	
		Delhi	Poland-Warsaw	
		Dammam		
		Doha		
		Dubai		
		Gan Island		
		Jeddah		
		Karachi		
		Kuwait		
		Chennai		
		Riyadh		
		Sharjah		
		Trivandrum		
		Tiruchchirapalli		
		Calicut		
		Lahore		
		Muscat		
		Madurai		
		Istanbul		
		Gaya		
		Varanasi		
		Goa		
		Male		

CORPORATE INFORMATION

Company Registration Number	:	PV 7931 (Companies Act No. 7 of 2007)
Date of Incorporation	:	23rd February 1982
Legal form	:	Limited Liability Company
Board of Directors	:	Prasanna J Wickramasuriya (Chairman) Kamal S Ratwatte (Vice Chairman) Yohanne Jayaratne (Executive Director) Yoga Perera Kosala Wickramanayake S P Senaratne Ananda Goonatilleke Shanika Gopallawa (Ms) J R U De Silva
Company Secretary	:	M C G Mahipala (Ms)
Registered Office	:	Bandaranaike International Airport, Katunayake
Other Locations of Operations	:	<ul style="list-style-type: none">• Mattala Rajapaksa International Airport, Mattala• Colombo Airport, Ratmalana• Civil Aviation Training Centre, 64, Kandawala Road, Ratmalana• HF Transmitting Station, Attidiya Road, Ratmalana.• Radar & Communications Centre, Pidurutalagala Peak, Nuwara Eliya.• HF Receiving Station, Seetha Eliya, Kandapola.
VAT Registration Number	:	1040827697000
Auditors	:	PricewaterhouseCoopers
Bankers	:	Bank of Ceylon





Airport & Aviation Services (Sri Lanka) Limited

