



Airport and Aviation Services (Sri Lanka) Ltd.
Annual Report 2011

GATEWAY TO SERENDIB

We're more than a hub; we're your first glance at an amazing country

We're more than an airport; we're the best place to connect

We're more than a service provider; we ensure that your trip is a personalized and satisfying one

We're more than a place; we're an experience

We're more than just a stopover; we provide a gateway through which you can enjoy one of the most beautiful places in the world.

FINANCIAL HIGHLIGHTS

Year ended 31st December <i>Rs. Mn</i>	COMPANY			AMALGAMATED **		
	2011	2010	+/- % *	2011	2010	+/- % *
Turnover	7,667	6,060	27%	9,481	7,906	20%
Operating expenses before depreciation	4,412	4,108	-7%	4,412	4,110	-7%
EBITD	3,255	1,952	67%	5,068	3,796	34%
Depreciation of fixed assets	134	87	-54%	1,366	1,597	14%
Finance costs	-	-	-	282	307	8%
Profit Before Taxation	3,121	1,865	67%	3,421	1,892	81%
Income Tax	748	703	-6%	748	703	6%
Profit After Taxation	2,372	1,162	104%	2,672	1,189	125%
Profit attributable to equity shareholders	2,372	1,162	104%	2,672	1,892	125%
Dividends	2,106	600	-251%	2,106	600	-251%
Cash Balance as at 31st December	958	1,375	-30%	1,020	1,495	-32%

Key Financial Ratios

Return on equity	35.3%	18.0%	96%	5.9%	3.0%	95%
------------------	-------	-------	-----	------	------	-----

Certain prior year figures have been re-arranged where necessary to conform to the current year's presentation.

* Subject to rounding differences

** AASL results combined with Retained Revenue Fund Accounts (Pages 113-122) & Voted Fund Accounts (Pages 124-141)

+ = Favourable

- = Adverse

PERFORMANCE HIGHLIGHTS

		2011	2010	2009	2008	2007
Financial Highlights - Company						
Net Profit before tax	Rs.Mn	3,121	1,865	1,441	1,742	2,469
Total Company Revenue (Before Loan Repayment)	Rs.Mn	9,458	7,811	6,796	6,845	6,199
Shareholders Fund as at December 31st	Rs.Mn	6,729	6,463	5,901	5,167	4,190
Total Carrying Amount of Non-Current Assets as at December 31 st	Rs.Mn	4,674	2,070	1,639	1,054	576
Total Current Asset as at December 31 st	Rs.Mn	6,839	7,585	7,187	6,934	5,838
Total Current Liabilities as at December 31st	Rs.Mn	2,603	1,148	949	939	1,041
Total Capital Expenditure for the year	Rs.Mn	739	531	631	296	84
Cash & Cash Equivalents at the year end	Rs.Mn	958	1,375	1,795	4,999	4,617

Operating Highlights

International Flight Movements	Nos.	43,454	34,088	28,616	31,764	33,395
Passenger Movements*	Nos.	6,145,532	5,259,648	4,242,356	4,642,831	4,898,891
Cargo Movements**	M.T.	168,577	167,130	138,067	151,952	163,570
Total no.of Employees as at December 31st	Nos.	3,306	3,179	3,182	3,132	3,001

Highlights in Ratios - Company

Net Profit before tax to Shareholders Fund	%	46.4	28.9	24.4	33.7	58.9
Net Profit before Tax to Total Revenue	%	33.0	23.9	21.2	25.4	39.8
Total Revenue to Total Assets	Times	0.8	0.8	0.8	0.9	1.0
Current Assets to Current Liabilities	Times	2.6	6.6	7.6	7.4	5.6
Total Assets per Employee	Rs'000	3,482	3,037	2,774	2,551	2,138
Total Staff Cost per Employee	Rs'000	939.6	883.2	836.8	937.0	661.3
Revenue per Passenger	Rs.	1,539	1,485	1,602	1,446	1,265
Profit per Passenger	Rs.	386	221	220	252	308
Aircraft Movement per Employee	Nos.	13	11	9	10	11
Passengers per Aircraft	Nos.	141	154	148	146	147
Passengers per Employee	Nos.	1,859	1,654	1,333	1,482	1,632
Cargo Handled Per Employee	M.T.	51.0	52.6	43.4	48.5	54.5
Total cost per Flight Handled	Rs'000	104.6	123.1	141.5	132.8	86.0

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

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





WILDLIFE

Ambewela Tank – 169 Km from Katunayake



Just a few hours' drive from any of our star class airports, Serendib has much to offer the wild-life enthusiast. Leopards, elephants and deer are just a few of the spectacular species of animals to which Sri Lanka lays claim and through sanctuaries such as Yala, Pinnawela and Singharaja, travellers are able to witness these magnificent creatures in their natural habitat.



Wilpattu National Park – 176 km from Katunayake



Adams Peak - 133 km from Katunayake



Yala National Park – 81 km from Hambantota



Pinnawala Elephant Park – 74 km from Katunayake





Prasanna J Wickramasuriya WWW RWP RSP
Chairman

CHAIRMAN'S REVIEW

We approached the year 2011 with a number of proactive growth focused strategies to address the dynamic nature of our industry. Our “4G Growth Model” is one such strategy that emphasizes the collective importance of Stakeholder Partnerships, Marketing, Training & Development and Information Technology towards achieving a sustainable long term growth.

It is with immense pride and a profound sense of achievement that I report for the year 2011 as the most successful year in AASL's 27 year history; a year of laudable accomplishments and exceptional milestones. It is indeed gratifying to note that the unfailing professionalism and unwavering commitment in attaining our vision have proven to be the pillars of our success. Today, proudly embrace our role as a pivotal force energizing the Sri Lankan economy.

And What a Year it was!

The exponential growth experienced by AASL during the year has had a number of beneficial flow-through effects on the aviation and travel sectors in Sri Lanka. A number of global and local elements have driven the engine of growth during 2011.

A series of cataclysmic global events in year 2011 triggered a noteworthy shift in the international travel paradigm. The political unrest in the Arabian Nations, economic instability in Europe and the tsunami and consequent nuclear disaster in Japan were some of the more significant disturbances that prompted more than 980 million travellers to opt for alternative travel destinations, choosing to travel to “safer” countries. This successfully coincided with the Sri Lanka's growing appeal as a safe travel destination, following the resolution of the armed conflict in May 2009. During the year, international travellers continued to favour Sri Lanka as their popular choice among the many emerging economies, regionally and globally.

Despite the changes observed in international travel patterns, international tourism achieved new heights in 2011. The

preliminary traffic results released by the Airports Council International (ACI) suggest that global passenger traffic grew by only 4.9% with the overall Asia Pacific Region recording only a marginally higher indicator at 5.7% in 2011. Comparatively the BIA captured an imposing double digit growth of 17% in passenger traffic relative to 2010 volumes.

This further highlights Sri Lanka's position as a highly desirable travel destination, not only as a safe option but for its tropical island appeal as well.

However, it appears that the revolutionary changes in passenger traffic, has had little or no impact on the international cargo movements during the year. Global cargo traffic indicated a -0.1% change in comparison to 2010, while the Asia Pacific Region experienced a decline of -1.5%. Once again, the BIA deviated from the average by posting a stagnated increase of 1% in cargo movement during 2011.

Success in the Making

We approached the year 2011 with a number of proactive growth focused strategies to address the dynamic nature of our industry. Our “4G Growth Model” is one such strategy that emphasizes the collective importance of Stakeholder Partnerships, Marketing, Training & Development and Information Technology towards achieving a sustainable long term growth. His Excellency the President Mahinda Rajapaksa's manifesto in office as outlined in the “Mahinda Chinthana – Vision for the future” envisages five primary development initiatives for the country. Key among them is to nurture Sri Lanka as a “Regional Aviation Hub”. This goal has

Chairman's Review *Contd.*

reshaped AASL's vision for the future. As the sole infrastructure and airport services provider in the country, we are formulating bold new strategies and gearing for new challenges with the aim of fulfilling our pledge to showcase Sri Lanka as a regional Aviation Hub by the year 2015.

We have always maintained strong linkages with all our stakeholders and business associates. During the year we continued to reinforce these ties by nurturing mutually beneficial partnerships that foster effective synergies and lead to overall industry growth. A coordinated effort was initiated by the AASL and Sri Lankan Airlines, supported by the Ministry of Civil Aviation to harmonize the growth cycles of AASL and the National Carrier. Consequently, we applied a series of critical short term measures which immediately eased the land side and air side congestion at the BIA. We also set in motion a long term plan that would result in a number of operational benefits for the national carrier in addition to the ability to enhance their levels of service in the future.

We clearly understood that an operating structure supported by a well integrated IT platform would result in simplifying routine functions and lead to the efficient use of resources. The first ever web-based Enterprise Resource Planning (ERP) system was the key outcome followed by a series of related system automations and upgrades that took place during the year.

The landmark launch of the AASL's dedicated marketing department was indeed a momentous event during the year. It was an extremely rewarding experience for AASL as well as for Sri Lanka, as it was the culmination of our efforts to revolutionize Sri Lanka's aviation industry and aggressively promote the BIA and HIA in the global arena. I have no doubt that the marketing team would successfully integrate with all internal and external stakeholders in fulfilling its endeavours to enhance the image of Sri Lanka's aviation industry.

This year too, the unwavering faith we place in our human capital continued as we maintained our training and development philosophy through consistent application of the 70:20:10 behavioral matrix. The most outstanding accomplishment in the Human Resource (HR) area, during

the year, I would say is the commencement of the dedicated performance appraisal scheme in November 2011 governed by the concept of Management by Objectives (MBO) which will act as a positive catalyst to attain career ambitions of employees while achieving corporate goals.

It is with a deep sense of pride and patriotism that I share with you the progress made on Sri Lanka's 2nd International Airport. The area earmarked for the ambitious venture was the scarcely populated village of Mattala in Hambantota. The Hambantota International Airport (HIA) is one of the largest single undertaking by the GoSL and is also a significant component of the road map for the development programme under the Mahinda Chinthana. AASL as the statutory airport services provider was honoured with the mammoth task of planning and executing the project in its entirety. The HIA would be an international gateway to entice foreign investors to explore the hitherto untapped markets in the southern region. It is anticipated that the tourism, leisure, logistics, educational and business services sectors would directly benefit in addition to generating significant flow through benefits to other related sectors and industries. It is also anticipated that in the long term the HIA would successfully support the logistical needs of an independent Free Trade Zone (FTZ) and other business ventures irrespective of the industry. Thereby, AASL aims to accurately fulfill its obligation in promoting Sri Lanka as a business destination as well by improving the country's "Ease of Doing Business" ranking to boost the confidence of investor sentiment on par with other emerging economies.

On behalf of the AASL, I wish to express my heartfelt gratitude to the EXIM Bank of China for the generous financial support that has helped us realize this dream. The financial assistance for the project is channeled through the Bank to fund the initial phase at an estimated cost of US\$ 209 Mn. The construction contract was signed with the China Harbour Engineering Corporation to obtain technical assistance and expedite the completion schedule. The project which commenced in 2009 has made steady progress throughout. I am delighted to announce that the runway, is nearing completion and the entire project is on course to meet the target launch deadline in early 2013, which is incidentally 50 years since the opening of the BIA.

It was a record breaking year and I have no doubt that all AASL stakeholders would relish the phenomenal financial success we have enjoyed during the year. The year concluded by recording the highest ever indicators in terms of revenue, profits and dividend to the government. The AASL posted an outstanding annual profit of Rs. 2.4 Bn in comparison to the modest Rs. 1.2 Bn recorded in the previous year.

Financial Overview

It was a record breaking year and I have no doubt that all AASL stakeholders would relish the phenomenal financial success we have enjoyed during the year. The year concluded by recording the highest ever indicators in terms of revenue, profits and dividend to the government. The AASL posted an outstanding annual profit of Rs. 2.4 Bn in comparison to the modest Rs. 1.2 Bn recorded in the previous year, an unparalleled increase of 104%.

The total airport revenue of AASL amounting to Rs. 9.5 Bn indicated a robust 21% growth over the previous years' recorded figure of Rs. 7.8 Bn. The aeronautical income was Rs. 2.1 Bn an 11% increase equivalent to Rs. 220 Mn over the previous year. The strategic initiatives implemented during the year, to enhance the non aeronautical revenue brought in Rs. 5 Bn a 34% increase from Rs. 3.7 Bn in 2010.

The Company's investment income was Rs. 360 Mn for the year, a 128% increase over the Rs. 141 Mn recorded in previous year. This remarkable achievement was as the result of successful planning and prudent investment strategies.

AASL declared an unprecedented Rs. 2.1 Bn dividend during the year. The overall airport performance and its impact on AASL financials are detailed under the Financial Review.

Operational Performance and Achievements

The overall volume of air traffic at the BIA namely passenger, cargo and aircraft movements along with transit passengers and tourist arrivals during the year were an all-time high while

exceeding passenger handling capacity of BIA. The BIA's strategic regional position was highlighted when state-of-the-art A380 aircraft utilized the BIA facilities as a refueling station twice in the first quarter of 2012.

During the year, AASL focused on maintaining its flawless safety record and once again the Colombo Flight Information Region (FIR) continued to remain accident free due to the diligence and commitment of all aviation industry stakeholders. As you are aware, in 2010 International Civil Aviation Organization (ICAO) conducted the Safety Audit of its member countries to assess compliance with ICAO standards and recommended practices and the evaluation results were released in 2011. In terms of aviation safety Sri Lanka was ranked in fourth place in the Asia Pacific Region, behind Korea, Singapore and Japan. The ranking firmly establishes Sri Lanka's position ahead of many developing nations in the region and even surpassing developed countries like Australia, New Zealand and China.

The plans materialized by way of a historical landmark agreement which was entered into between the AASL and the Japan International Corporation Agency (JICA), a major international funding agency on 28 March 2012. Under the terms of the agreement, a concessionary loan of JPY 28 Bn would be granted directly to AASL in order to commence the BIA Development Project Phase II Stage 2 (BIADP II-2) with the aim of catering to the growth in air traffic, modernizing the BIA and showcasing it on an eco-friendly platform. Accordingly, the project scope covers the construction of a state-of-the-art new Terminal Building including eight passenger boarding gates.

Chairman's Review *Contd.***The Future**

I am heartened to note the promising future for Sri Lanka's future aviation industry. The escalating economic growth on the back of the rising popularity of the country's image as an ideal tourist destination would provide the greatest momentum for the growth of the aviation industry in the future. All reliable forecasts suggest that the volume of 6 Mn currently experienced in passenger movements is likely to double within the next 5 – 9 years even by the most conservative estimates.

We are certain that the rapid growth in passenger volume would result in a number of challenges for AASL, in the next three years. The new terminal to be commissioned under the BIADP II - 2 programme would double the passenger handling capabilities of the BIA. Another immediate concern would be the airside and landside congestion issues and as an immediate stop gap solution we proposed to use the domestic terminal as a hybrid to channel the handling of international low cost carriers and domestic carriers. Additionally, the Ratmalana City Airport is to be developed to absorb part of the private jet traffic. Other key projects which are in pipeline are explained under the Management Discussion and Analysis (MDA).

Market segmentation would be a focal point of AASL's future marketing policy. Accordingly, our intention is to increasingly focus on developing a number of niche markets by serving particular clients or client groups. We hope to intensify our strategy of encouraging certain traffic while discouraging others.

The construction of Airports, the layout of airport facilities and varying service platforms will be the benchmark indicators that differentiate our target clientele. In a nutshell our plan is to rationalize our airport business.

We look upon the HIA as a shining beacon of hope that would thrust Sri Lanka into the forefront of the regional aviation platform. It is anticipated that, upon completion of the initial phase, the HIA would be in a position to absorb a volume of 1 Mn in passenger movements.

The GoSL initiatives in terms of logistical infrastructure by way of rail and bus terminals mapped out for both the BIA and HIA will no doubt infuse modern energy and elevate each

facility to international standards. Furthermore, AASL initiated corrective action to resolve the issues that arise due to the lack of an alternative access route to the BIA. The solution was to develop an intermodal railway system that would bridge the distance gap. Further details regarding this undertaking are explained under the MDA.

The Colombo - Katunayake Expressway, presently under construction and due for completion during 2013, will surely enhance mobility by providing a reliable access to the BIA.

A policy change is planned by the government aiming to boost air cargo and transshipment aspects of the aviation sector. The reforms focus on infrastructure development and promotion.

Strategic Intent for the future

Developing Sri Lanka as the regional aviation hub is a vital component of the GoSL strategic vision. The realization of this vision is to be channeled through AASL and achieving this goal is by no means an easy task. We have willingly accepted the challenge and are working towards achieving the purpose assigned to us, with utmost commitment and a single minded focus. We believe this would serve to re-streamline our energies and harness our skills in generating a positive outcome in the near future. At present we are steadily consolidating our position as a hub in the Indian sub-continent. However, we are well aware of the intense competition we face from other more established regional base locations. The heart of our strategy is to better our facilities and provide a premium service, thereby cementing our position as the only truly comprehensive regional aviation hub in Asia.

We see many challenges in our future as the primary source of infrastructure and airport service provider for the two international airports in the country. However, I believe no challenge is too great and no mountain is too high. We have survived in the worst of times and overcome insurmountable obstacles in the past which has strengthened our resolve as we stride confidently to the future.

We support the GoSL's managed liberalized approach towards air services arrangements with the other nations. Our success as a business venture and the future sustainability

of the aviation industry depends on the planning and execution procedure we adopt for all major infrastructure projects together with strategies for optimizing overall air traffic capacity at both international airports. The BIA serves as the hub station for Sri Lankan Airlines. Accordingly, the national carrier is awarded priority status which we consider a compulsory parameter in achieving our vision. We firmly believe the essence of our success lies in achieving the optimal balance of stakeholder engagement not only with AASL but also through successful multi-party relations with each other. Hence, we actively endorse positive networking through effective dialogue. Our open forum discussion sessions create a common platform that addresses various concerns and grievances leading to the development of mutually beneficial resolution strategies.

Acknowledgements

I would not be doing justice to my duty if I do not mention AASL's indebtedness to the Hon. Minister of Civil Aviation for his unstinted support at all times. I also wish to acknowledge the commitment of the Director General and staff at the Civil Aviation Authority of Sri Lanka as well as the Secretary of the Ministry of Civil Aviation and its staff, Secretary Ministry of Finance and its staff in ensuring the success of all our endeavours. The unfailing support of my fellow Directors is a great strength to me personally and their professionalism is a reflection of the core values of AASL. My sincere thanks also to the Heads of all Divisions and to entire staff body of AASL, our success is due to your unwavering dedication and commitment. Last but not least I wish to express my gratitude to all stakeholder institutions lead by their esteemed management. The symbiotic relationship that you have fostered with AASL, over the years, is a vital element in our journey to success. Let us all march forward to embrace the future and realize our vision.



Prasanna J Wickramasuriya WWW RWP RSP
Chairman

June 16, 2012

BOARD OF DIRECTORS



Left to Right

Mrs M C G Mahipala - *Company Secretary*, Dr D S Jayaweera - *Director*, Mr Yoga Perera - *Director*,
Mr Yohanne Jayaratne - *Executive Director*, Mr Prasanna J Wickramasuriya - *Chairman*, Mr Kamal
S Ratwatte - *Vice Chairman*, Mr Kosala R Wickramanayake - *Director*, Mr Ananda Goonatilleke -
Director, Mr J R U De Silva - *Director*, Miss S N Gopallawa - *Directress*

15

Airport & Aviation Services (Sri Lanka) Ltd
Annual Report 2011



REPORT OF THE DIRECTORS

The AASL Board of Directors are pleased to present their report on the affairs of the Company together with the audited financial statements of the Company, the Retained Revenue Fund and Voted Fund for the year ended 31 December 2011. The details set out herein provide the pertinent information required by the Companies Act No. 07 of 2007 and are guided by recommended best accounting practices.

Principal Activities

The principle operational activities of AASL remained unchanged during the year. Under the mandate granted by the Civil Aviation Act No. 14 of 2010 Gazette on 4 November, 2010 AASL continued to fulfill its role as the sole statutory service provider for Sri Lanka's only International Airport, the BIA. The company successfully met all Air Navigation, and other services requirement ensuring the safety and security of all aircraft and passengers within the Sri Lankan FIR. As in the past, AASL also handled all maintenance activities pertaining to the BIA terminal including ancillary passenger facilities while concurrently overseeing infrastructure development activities at the BIA. Many of these projects were funded by the GoSL and foreign loans and grants.

The construction activities of the proposed 2nd international airport in Mattala, Hambantota continued unhindered under the supervision of AASL.

Directors' responsibility for the Financial Statements

The Directors fully understand their responsibilities pertaining to the financial statements as per the provisions 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 all applicable Accounting Standards and the Financial Statements so prepared is a true reflection of the company's activities during the year. The Financial Statements are presented at the Annual General Meeting. The responsibility of the Auditors are set out in the Report of the Auditors on page 89, 113 and 124 in Company, Retained Revenue Fund and Voted Fund Accounts respectively of the Annual Report.

In addition to the Accounts that reflect the company's operational performance, AASL maintains two independent sets of accounts to reflect the Government grants for airport Development Projects (Voted Fund) and Retained Revenue Funds. The Board of Directors approved the Financial Statements on the dates given below.

- Company Accounts & Retained Revenue Fund Accounts - June 12, 2012.
- Voted Fund Accounts - February 28, 2012.

The process of amalgamating airports assets and liabilities with that of AASL has already been initiated. The revaluation of assets is in progress with the necessary legislative amendments as detailed in the Notes to the Accounts No. 2.1.1 in page 94 of Company Accounts, No 1.1 (a) in page 117 of Retained Revenue Accounts and No. 1.5 (b) in page 131 of Voted Fund Accounts. The direction issued by the Ministry of Civil Aviation has prompted the Civil Aviation Authority (CAA) to seek legal advice from the Attorney General with regard to the transfer of assets to AASL. Fully amalgamated financial statements would be prepared upon the legal advice given by Attorney General in respect of legislative formalities finalization.

Financial Statements

The Financial Statements of the Company, Retained Revenue Fund and Voted Fund are given on pages 89 - 111, 113 - 122 and 124 - 137 respectively.

Auditors' Report

The Auditors' Report on the Financial Statements of the Company, Retained Revenue Fund and Voted Fund are given on pages 89, 113 and 124 respectively.

Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 94 - 98, 117 and 131 - 132 Company, Retained Revenue Fund and Voted Fund Accounts respectively.

Donation

The total amount of donations made by AASL during the year amounted to Rs. 13.2 Mn.

System of Internal Controls

Monitoring of the company's internal control function comes under the purview of the Board of Directors. The scope of activities cover all financial and risk management activities in addition to reviewing of the systems effectiveness in terms of achieving the Company's strategic goals and objectives. This is done in accordance with the provisions made under Corporate Governance framework (on pages 73 to 77) and the Strategic Planning process of AASL which is described on pages 39 - 40 of the MDA.

Future Developments

The proposed expansion plans for the BIA in terms of doubling the passenger handling capacity and enhancing of infrastructure together with the construction of island's second international airport, will certainly be a boost to the country's aviation industry. In addition plans are also in place to uplift the domestic air travel facilities in the country. Accordingly, development work is planned to upgrade the domestic airport network as well as overlaying of the BIA runway. The plan for key projects with its current stands along with the challenges faced by us are explained under MDA Review.

Turnover

The company recorded the highest ever gross turnover amounting to Rs.9.5 Bn. A detailed analysis of turnover and profits of the Company, Retained Revenue Fund and Voted Fund accounts are described under Financial Review.

Results and Dividends

The Company reported the highest ever PBT and PAT amounting to Rs. 3.1 Bn and Rs. 2.4 Bn for the year 2011 which is an increase of 67% and 104% respectively compared to previous year. This profit was after accounting for government debts servicing obtained for airport developments amounting to Rs.1.8 Bn. And also due to non amalgamation of accounts, the depreciation on fixed assets of Voted Fund and Retained Revenue Fund used to generate profit has not been effected in the accounts. The detailed results for the year are summarized on page 51 to 59 of Financial Review.

The Directors declared and paid Rs. 2,106 Mn as dividend payments to the General Treasury during the year 2011 as follows.

	Rs. Mn
Final Dividend - 2010	553
Final Dividend - 2011	800
Interim Dividend - 2012	754

Reserves

The reserves as at 31 December, 2011 for the Company, Retained Revenue Fund and Voted Fund amounted to Rs. 6,709 Mn, Rs.3,983 Mn and Rs. 680 Mn respectively. (2010 – Rs. 6,443 Mn, Rs. 3,967 Mn and Rs. 674 Mn) The movement in Reserves of the Company is shown in the Statement of Changes in Equity on page 92.

This is further elaborated under “Capital Structure” in the Financial Review.

Property, Plant and Equipment

The Net Book Value (NBV) of Property, Plant and Equipment (PPE) of the Company, Retained Revenue Fund and Voted Fund as at the Balance Sheet date amounted to Rs. 1,807 Mn, Rs. 2,844 Mn and Rs. 31,876 Mn respectively. (2010 Rs. 1,216 Mn, Rs. 2,845 Mn, Rs. 23,436 Mn respectively). The NBV of PPE of Retained Revenue Fund and Voted Fund are shown gross of accumulated depreciation due to the reasons specified in “Notes to the Financial Statements” of the former fund and in “Summary of Significant Accounting Policies” of the later fund.

Capital Expenditure of the Company, Retained Revenue Fund and Voted Fund amounted to Rs. 739 Mn, Rs. 0.03 Mn and Rs. 8,440 Mn in the year under review. (2010 – Rs. 531 Mn, Rs.0.7 Mn, Rs. 184 Mn. Respectively) The movements in property, plant and equipment during the year are set out in Note 3 of the Company Accounts (Pages 99 to 101), Note No. 02 of Retained Revenue Fund Accounts (Pages 118 to 120), and Note. No. 02 of Voted Fund Accounts (Pages 133 to 135) of Financial Statement.

This is further elaborated under “Capital Structure” in the Financial Review.

Market Value of Properties

The revaluation of Airport assets done by the Department of Valuation was completed and the valuation report is to be submitted by the Department of Valuation as at the Balance Sheet date. The assets value will be adjusted by the revalued amounts accordingly.

Share Capital

The Share Capital of the Company appears in the company accounts and comprises of ordinary shares at Rs.100 each. The shareholding as at December 31, 2011 is as follows: Retained Revenue Fund and Voted Fund accounts do not carry any share capital.

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	

Report of the Directors *Contd.***Directorate**

The names of the 09 Directors who held office at the end of the financial year are given below. The appointment of Chairman (Article 89), Vice Chairman/Executive Directors (Article 79) and Non-Executive Directors (Article 82) have been done as per the terms of the articles shown in parenthesis of Articles of Association of AASL.

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

Directors' Interest

During the year under review and up to the date of this report no Directors have had any interest in any material contract with the Company.

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 of 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 and 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 connected to the Company's business during the year or as at 31st December 2011.

Directors' Remuneration and Other Benefits

There were three Executive Directors and a Non-Executive Directress (as per the clause 77 of Articles of Association) who were paid Rs.11,881,657 during the year as remuneration. This included all financial benefits namely Salary, EPF, ETF, Reimbursement of Entertainment, Telephone, Leave, other allowances and Bonus. The others who were Non-Executive Directors were paid an amount of Rs. 475,992 being the cost of Travelling and Directors Fees for 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 section on 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.

The Corporate Governance framework and its adoption are detailed on pages 73 - 77 of this report.

Statutory Payments

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

Events after the Balance Sheet Date

No Material events that require adjustment to the Financial Statements have taken place, subsequent to the date of Balance Sheet other than the company has already signed a loan agreement with the Japan International Corporation amounting to JPY 28 Bn for the development of Phase II Stage 2 of BIA on 28 March 2012, shown in Note 20 to the Financial Statements that appears on page 109.

Going Concern

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

Auditors

Messers Ernst & Young, Chartered Accountants, are deemed reappointed, in terms of Section 158 of the Company Act No. 7 of 2007, as Auditors of the Company and Retained Revenue Fund.

The Auditors Ernst & Young, Chartered Accountants were paid Rs.641,042 (2010 - Rs. 587,883) and Rs. 145,160 (2010 - Rs. 131,450) as audit fees by the Company Funds and Retained Revenue Funds respectively. In addition, they were paid Rs. 339,020 (2010 - Rs. 322,350) by the Company Fund for non-audit related work which consisted mainly of tax consultancy service. The audit fee to be paid in respect of the 2011 audit are accounted on accrual basis.

Annual General Meeting

The Annual General Meeting is scheduled to be held on 29th June, 2012 at the Board Room of AASL at 2.30 pm.

Acknowledgement

The Board wishes to congratulate their management team and every member of the employees, towards achieving its objectives. They also wish to express their gratitude towards the Government of Sri Lanka, Ministry of Civil Aviation, Ministry of Finance, Civil Aviation Authority and other institutions that continued to assist the Company in its endeavours.

BY ORDER OF THE BOARD



Prasanna J Wickramasuriya WWW RWP RSP
Chairman

June 12, 2012

SENIOR MANAGEMENT



Left to Right

1

Mr. H S Hettiarachchi - *Head of Airport Management*, Mr. H A A K M Seneviratne - *Head of Civil Aviation Training*, Mrs. M C G Mahipala - *Head of HR/Company Secretary*, Mr. D Wijesooriya - *Safety Manager*, Mr. U J Lokuarachchi - *Head of Information Technology*

2

Mr R W Wijesinghe - *Actg. Head of Mechanical Engineering*, Mr. D N A Jayamaha - *Head of Civil Engineering (Maintenance)*, Mrs K Munasinghe - *Acting Head of Marketing*, Mr. J M A U Jayamanne - *Head of Electrical Engineering*, Mr. G Withanage - *Head of Civil Engineering (Planning & Design)*



3



4

Left to Right

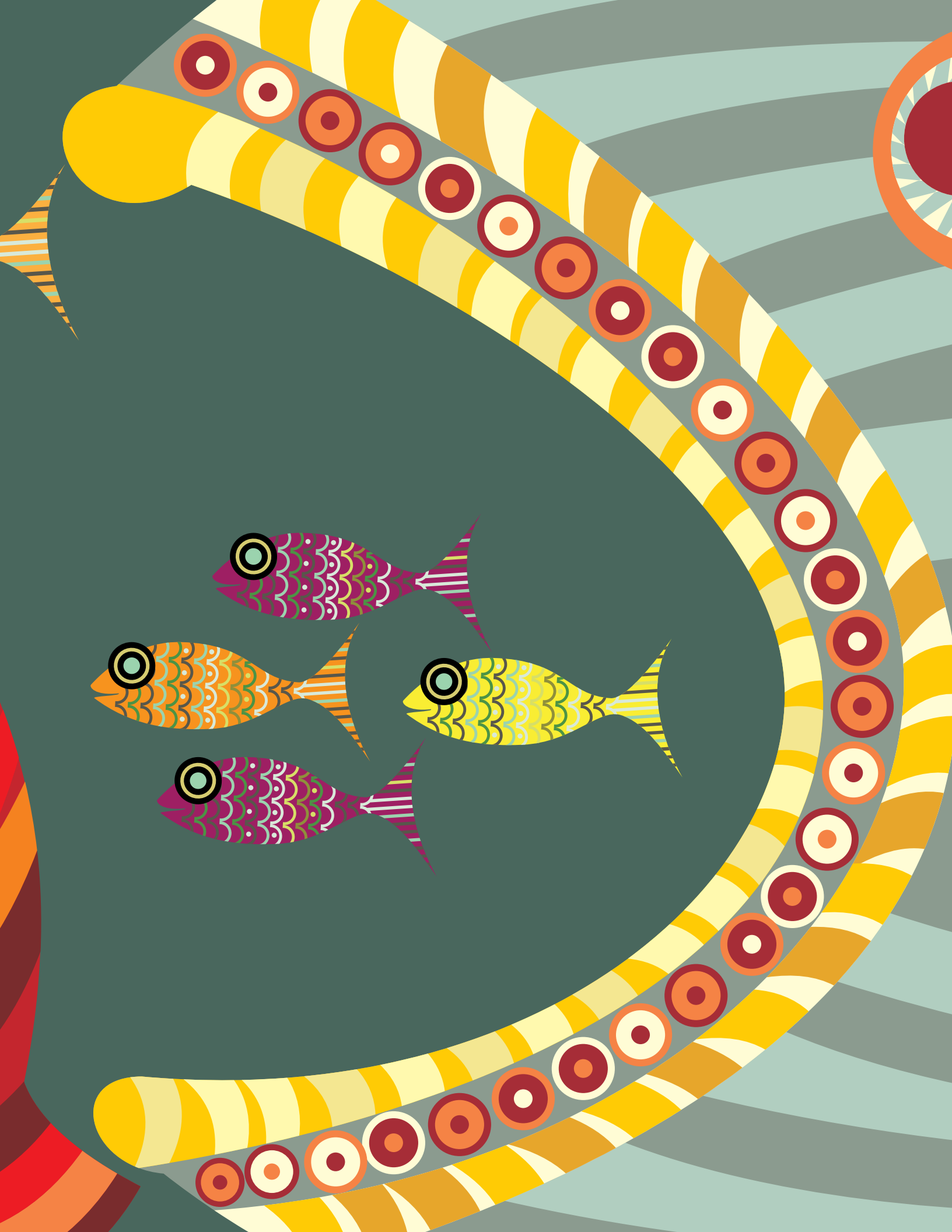
3

Mr. W M G Karunaratne - Head of Commercial & Properties, Mr. S M R Rafeek - Head of Projects, Mr. L Dahanayake - Head of Finance, Mrs. M Rathnasinghe - Acting Head of Legal, Mr. A D N R De Alwis Gunasekara - Head of Fire & Rescue Services

4

Mr. K H C Kumarasinghe - Head of Security Services, Mr. Wipula Wimalashanthi - Head of Electronics & Air Navigation Engineering, Dr. S D A S Nishantha - Company Medical Officer, Mr. Cyril Wannigama - Head of Internal Audit & Quality Assurance, Mr. H P L Sirimanna - Acting Head of Supply Chain Management, Ms. W C Tissera - Acting Head of Air Navigation Services





BEACHES

Weligama fishing – 123 km from Hambantota



Surrounded by beautiful beaches at every turn, the sun, surf and sand are just minutes away on this island paradise. Watch fisherman haul in their daily catch, the underwater gardens that coral and rainbow-hued fish call home and the gentle giants of the ocean play among the waves under the tropical sun. Serendib is a sun worshipper's dream and is world-renowned for its sandy shores.



Pigeon Island Trinco – 260 km from Katunayake



Mirissa whale watching – 116 km from Hambantota

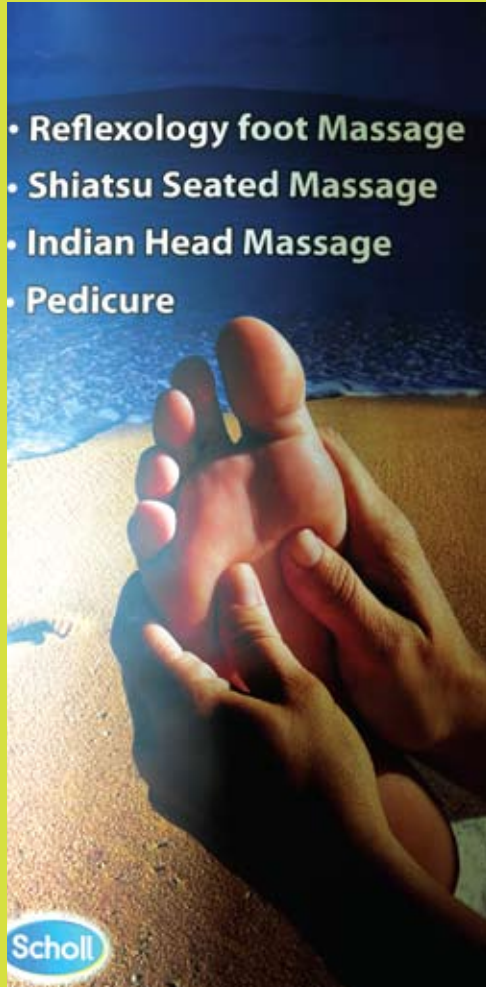


Hikkaduwa Corals – 145 km from Katunayake



Negombo Beach – 15 km from Katunayake







departures			
time	to / via	flight	
15:10	JEDDAH	Sri Lanka	
15:10	JEDDAH	Sri Lanka	
16:35	CHENNAI	Sri Lanka	
18:30	MALE	Sri Lanka	
18:30	MALE	Sri Lanka	
18:30	MALE	Sri Lanka	
18:30	CHENNAI	Sri Lanka	
18:30	CHENNAI	Sri Lanka	
18:35	BANGALORE	Sri Lanka	
18:35	BANGALORE	Sri Lanka	
18:40	TRICHY	Sri Lanka	
18:40	TRICHY	Sri Lanka	

MANAGEMENT DISCUSSION AND ANALYSIS (MDA)

Enlightening Stakeholders' Value – Statistics in 360 Degree Perspective

	2011	2010
Customers		
Customer Service		
Number of Front Office Personnel	251	257
Number of Customer Interaction points manned by AASL Front Office Personnel	22	21
Number of Duty Free Shops	102	98
Gastronomy- Number of Food Outlets*	05	05
Number of Lounges	05	05
Number of Hotel Rooms available for Transfer/Transit pax	20	20
Employees		
Team Strength		
Number of Employees	3,306	3,179
Gender Distribution		
Number of Female Employees	618	610
Age Distribution		
Number of Employees aged below 40	1,782	1,658
Employee Capability Development		
Number of Trainee hours	133,391	126,510
Number of Training hours per employee		
- Local	112	111
- Foreign	19	16
Career Progression Initiatives		
Number of Promotions	229	308
Job Satisfaction		
Job Satisfaction level (% of satisfied employees out of total employees)	Not measured	62%

		2011	2010
BIA's Safety			
Air Traffic Services related incidents for 10,000 aircraft movements		25	38
Air Traffic Services related accidents		Nil	Nil
Aerodrome Operations related incidents for 10,000 aircraft movements		25	46
Aerodrome Operations related accidents for 10,000 aircraft movements		2	2
Passengers/Employee Health and Safety			
Passenger Injury Rate		Nil	Nil
Reportable Work Accidents		Nil	Nil
Business Partners			
No of relationships (of which formal agreements are signed)			
Aged over 20 years**		50	32
Aged between 15-20 years		30	35
Aged between 10-15 years		45	31
Aged less than 10 years		96	98
Government			
Contribution to the Government	Taxes paid	1,076 Mn	855 Mn
	Dividends paid	2,106 Mn	600 Mn
Environment			
Energy Consumption per Passenger in kwh/pax		5.99	6.29
Community			
Number of Students enrolled at CATC		798	1,034
Number of Vocational Training students accommodated		51	35
Number of Foreign Trainees trained under CATC		26	18

*Limited space in the terminal prevents retail and gastronomy areas and remodelling of commercial space is currently in progress.

**Inclusive of the agreement with Sri Lankan Airlines for ground handling and catering services

Management Discussion and Analysis (MDA) *Contd.***Local and Global Travel – A Macro Look**

The year 2011 proved to be one fraught with many unforeseen global events that had a significant bearing on international travel patterns. The political upheavals in the Middle East, the Tsunami and consequent nuclear disaster in Japan, followed by the Euro zone debt crisis, and political and economic instability in Europe, were some of the more prominent in a long series of disruptive events around the world that affected global travel. In response, more than 980 Mn travellers switched destinations, preferring to visit “safer” countries according to the latest statistics released by UN World Tourism Organization (UNWTO). However, despite this remarkable shift in travel trends, international tourism achieved new heights in 2011.

Sri Lanka has been experiencing a year on year rise in the rate of arrivals, particularly since the conclusion of the armed conflict in May 2009. Since then Sri Lanka’s potential as the ideal tourist destination, has been aggressively marketed on the world platform. The Sri Lankan aviation industry experienced a remarkable flow through impact from these events by welcoming 850,000+ travellers to the country during 2011, far exceeding initial forecasts.

At present Airport Council International (ACI) has released only preliminary traffic results based on over 900 airports and the final results will be released in July covering over 1000 airports worldwide. The preliminary ACI results indicate that Aircraft movements showed a moderate growth of 2% in 2011 as compared to the performance indicators of 2010. Initial indications suggest that global passenger traffic grew at a rate of 4.9%. The BIA recorded an impressive double digit growth of 17% in passenger traffic in contrast to the overall Asia Pacific Region recording only a 5.7% growth in the same area. Other regional airports namely, New Delhi (DEL), Jakarta (CGK) and Bangkok (BKK) recorded growth percentages of 21.7, 19.2, and 12 respectively in comparison to 2010. It is noteworthy, however, that international cargo showed little or no change with a movement of -0.1% in comparison to 2010, while the Asia Pacific Region experienced a decline of -1.5%. In contrast the BIA experienced a stagnated increase of 0.8% (168,577 MT in 2011 from 167,130 MT in 2010) in cargo movements. The data should be viewed on the premise that air freight, as a leading indicator, is more sensitive to pending risks in business cycle.

Economic Trends

Sri Lanka is steadily becoming one of the most sought after international travel destinations. Sri Lanka’s popularity as a tourist destination has grown exponentially in the past few years, so much so that the UK based international travel

magazine, Conde Nast Traveller has nominated Sri Lanka as one of the top five destinations to watch in 2012. The monumental growth in the tourism industry has considerably stimulated the post conflict economic growth of the country resulting in a significant increase in the country’s annual economic growth percentile. The data compiled by the Central Bank of Sri Lanka revealed that Sri Lanka’s economic growth for the year 2011, standing at 8.3%, is the highest ever recorded since independence. Sri Lanka was ranked as the fourth best performing economy globally in 2011 in terms of Gross Domestic Product (GDP) growth according to an analysis done by stock brokering firm DNH Financial. The country’s GDP growth exceeded 8% for the second consecutive year. The services sector continues to enjoy the largest share of the GDP at 59.5% followed by industry at 29.3% and agriculture 11.2%.

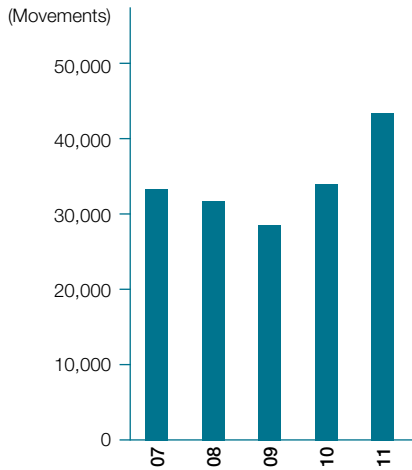
While the Sri Lankan economy grew by 8.3% last year, its key drivers also recorded substantial growth momentum. The agriculture sector grew by 1.5%, the industry sector grew by 10.3% while the services sector recorded growth of 8.6%. The Tourism sector, a beneficiary of the service sector, is now a key contributor to the country’s economic expansion. Foreign Direct Investment (FDI) in the Hotels and Restaurant Sector has exceeded US\$ 200 Mn in 2011 which is 20% of FDI. Additionally the total FDI exceeded US\$ 1Bn mark for the first time, during 2011. Consequently other direct and indirect employment driven by the tourism sector also experienced a remarkable year on year increase.

Industry Overview**The Driving Forces of the Aviation Industry**

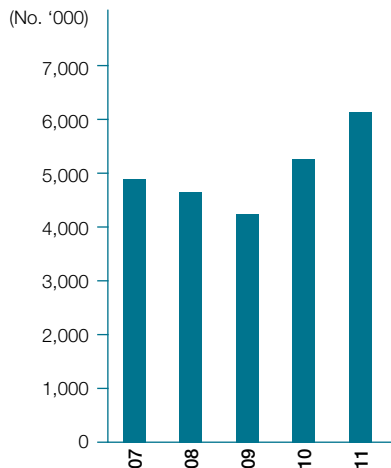
Airport revenue is determined by three key air traffic indicators namely passenger volume, aircraft movements and cargo volume. In addition, the Maximum Take off Weight (MTOW) which is determined as per manufacturers’ specifications for each type of aircraft also has a significant bearing on the overall airport revenue. Key revenue components like Landing and Parking and Overflying Income are charged based on this MTOW variable. Every airline collects an “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 Civil Aviation Authority of Sri Lanka. The aircraft movements represents the total number of take-offs and landings and utilization of our single runway (excluding the military movements which are of negligible quantity after the Civil War concluded in 2009) in addition to the parking bay capacity of our apron. The optimal combination of these factors for BIA is high MTOW with a

passenger volume of around 6 Mn coupled with a smaller increase in flight movements. 2011 achieved a historically significant milestone with this optimal capacity achievement recording a 6,145,532 number of passengers and 43,454 number of aircraft movements. The actual scenario remarkably surpassed the original forecast of aircraft movements with signs of early saturation. Hence the year proved the effectiveness of our contingency plan. The remarkable increase in private jet operations together with short haul and low cost carriers changed the trend in aircraft movements from 2010 to 2011. This proved to be a notable shift in aircraft movements leaning towards an increased use of smaller aircraft, resulting in a rise in aircraft movements by 27% during the year. However, it is noteworthy that the MTOW rose by only 13%.

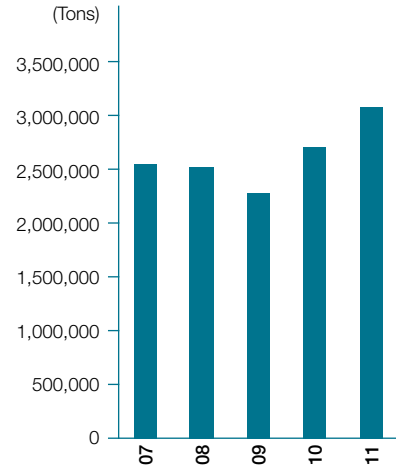
Analysis of Aircraft Movements



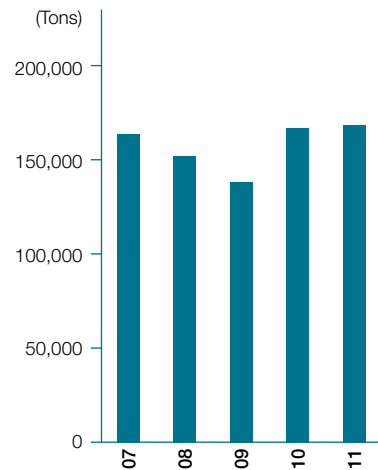
Analysis of Passenger Movements



Analysis of MTOW

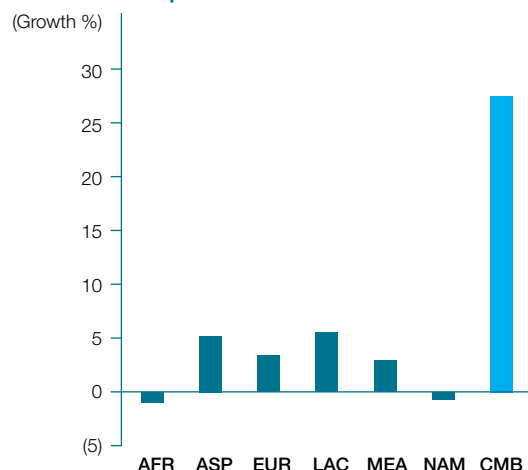


Analysis of Cargo

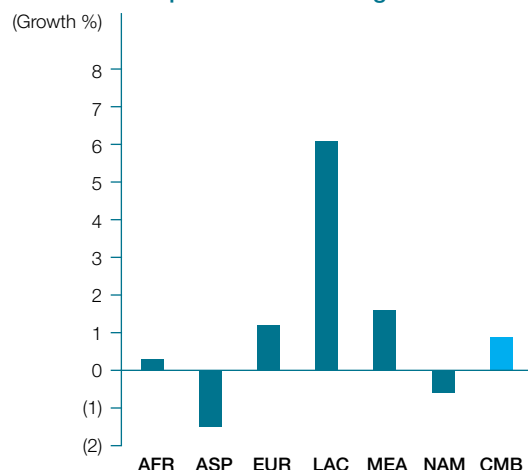


Management Discussion and Analysis (MDA) *Contd.*

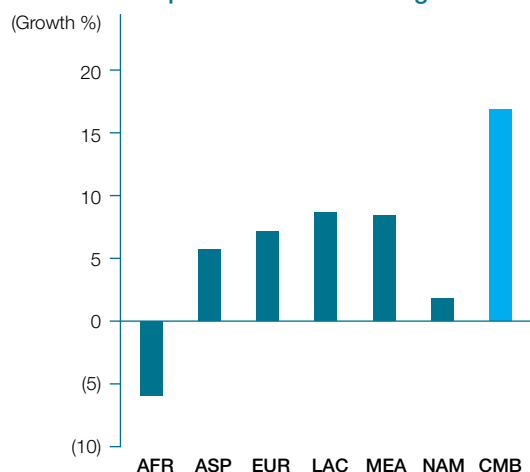
World Aircraft Movements Growth % in comparison to BIA Aircraft Movements



World Cargo Movements Growth % in comparison to BIA Cargo Movements



World Passenger Growth % in comparison to BIA Passenger Growth



Narration

AFR - African
ASP - Asia Pacific
EUR - Europe
LAC - Latin American- Caribbean
MEA - Middle East
NAM - North American
CMB - Bandaranayake International Airport - Colombo

Consolidate the 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. In addition, the BIA plays a key role in servicing businesses and industries with advanced transportation needs to meet their market demand, both locally and internationally. The three basic parameters, namely, the catchment area (explained below), transit passengers volume and being a hub station of Sri Lankan Airlines are indicating encouraging signs that show the BIA is improving the conditions related to all common parameters used in the assessment of worldwide aviation hubs.

The steady growth in passenger volume boosted by the increase in tourist arrivals, in the recent past, confirms the BIA's position as a strategic transit hub and a premier tourist destination. The BIA's significantly higher 'Transit Ratio' during the year 2011, 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 6 passengers arriving at the BIA uses it as a transit point as evidenced by the total transit/connecting passenger numbers, which exceeded 1 Mn for the first time in its entire history.

Tourist Arrivals by Country of Residence - 2005 to 2011

Country of Residence	2005	2006	2007	2008	2009	2010	2011
NORTH AMERICA	46,457	35,323	28,355	24,311	24,948	40,216	49,057
Canada	21,185	14,623	11,869	10,258	10,707	21,123	24,671
U.S.A.	25,272	20,700	16,486	14,053	14,241	19,093	24,386
LATIN AMERICA & THE CARIBBEAN	705	775	3,962	3,739	617	620	1,036
WESTERN EUROPE	227,191	228,445	194,448	167,187	170,123	256,861	315,210
Austria	4,127	4,662	3,580	2,651	2,409	3,925	6,262
Belgium	3,855	6,333	4,669	2,378	2,617	5,398	10,122
Denmark	3,781	3,531	1,796	1,320	1,362	4,393	6,582
Finland	1,150	1,244	497	468	738	1,950	3,649
France	26,653	22,693	8,091	10,594	15,886	31,285	48,695
Germany	46,350	47,402	35,042	30,625	29,654	45,727	55,882
Italy	10,192	12,424	11,451	9,126	7,514	11,423	13,527
Netherlands	15,156	19,360	17,526	13,030	11,291	17,861	23,966
Norway	4,330	3,054	2,304	1,613	1,666	3,955	4,977
Spain	1,781	2,367	2,484	2,282	2,387	4,461	5,886
Sweden	5,402	5,524	4,851	3,711	3,560	7,096	10,937
Switzerland	8,399	7,727	4,917	5,326	6,331	9,427	14,110
U.K.	92,629	88,306	94,060	81,331	81,594	105,496	106,082
Others	3,386	3,818	3,180	2,732	3,114	4,464	4,533
EASTERN EUROPE	9,290	14,221	25,573	29,440	26,310	35,517	49,249
Russia	3,704	7,985	13,621	15,797	11,834	13,278	21,385
Ukraine	219	320	524	952	2,577	5,703	9,967
Others	5,367	5,916	11,428	12,691	11,899	16,536	17,897
MIDDLE EAST	10,236	10,345	13,554	16,776	23,741	37,540	57,501
AFRICA	2,340	3,235	2,712	2,141	1,549	2,308	3,614
South Africa	1,107	1,116	933	756	779	1,415	1,962
Others	1,233	2,119	1,779	1,385	770	893	1,652
EAST ASIA	69,998	73,349	52,854	44,944	48,329	68,430	96,194
China (P.R.)	9,668	16,274	11,949	9,812	8,550	10,430	16,308
Hong Kong, China	1,069	973	186	537	1,330	1,230	2,199
Indonesia	1,669	5,042	1,404	1,157	1,040	1,343	2,049
Japan	17,148	16,189	14,274	10,075	10,926	14,352	20,586
Korea (South)	6,056	5,298	4,870	4,300	3,695	4,426	5,485

Management Discussion and Analysis (MDA) *Contd.*

Country of Residence	2005	2006	2007	2008	2009	2010	2011
Malaysia	11,578	9,713	6,704	5,188	6,850	13,367	16,094
Philippines	2,366	3,474	2,162	1,693	1,421	1,391	2,047
Singapore	11,156	7,012	5,688	5,802	7,808	11,875	15,953
Thailand	5,424	5,460	2,467	3,583	3,208	3,684	5,880
Taiwan (P.C)	2,720	2,565	2,553	1,907	2,715	5,277	7,010
Others	1,144	1,349	597	890	786	1,055	2,583
SOUTH ASIA	153,353	168,783	149,626	128,098	126,205	175,694	237,647
Bangladesh	2,316	2,456	1,665	1,564	1,294	1,954	4,726
India	113,323	128,370	106,067	85,238	83,634	126,882	171,374
Maldives	24,576	24,831	29,539	31,564	31,916	35,791	44,018
Nepal	1,071	1,146	885	860	676	753	826
Pakistan	11,029	11,145	10,204	7,885	7,373	9,148	14,724
Others	1,038	835	1,266	987	1,312	1,166	1,979
AUSTRALASIA	29,738	25,127	22,924	21,839	26,068	37,290	46,467
Australia	25,986	21,849	20,241	19,536	23,239	33,456	41,728
New Zealand	3,617	3,147	2,627	2,240	2,672	3,487	4,212
Others	135	131	56	63	157	347	527
Total	549,308	559,603	494,008	438,475	447,890	654,476	855,975

Source: Sri Lanka Tourism Development Authority

Catchment Area with Added Growth Potential

The catchment area for BIA's growth is aligned to the markets focused by Sri Lankan Airlines and the Sri Lanka Tourism Authorities. Currently India, United Kingdom, Germany, Middle East, Maldives, France, Australia, Canada, USA and Netherlands have become top ten markets that accounts for more than 70% of arrivals to Sri Lanka. China, Russian

Federation, Japan, Germany, France, USA and Italy are identified as markets with high growth potential for Sri Lanka. Of the five BRICS member countries (Brazil, Russia, India, China and South Africa), Brazil and South Africa are the only two emerging economies which remain as largely untapped markets from the BIA's catchment area perspective.



Airlines Operating at BIA

During 2011, the national carrier Sri Lankan Airlines together with the local budget airline Mihin Lanka, recorded a remarkable 24% growth in passenger numbers over the previous year. As in the previous year, the two national carriers accounted for 54% of total passenger volume at the BIA, in 2011 as well. It is however noteworthy that Sri Lankan Airlines experienced a marginal drop of 1% from the 50% share recorded in the previous year, while Mihin Lanka experienced an increase in its share from 4% in 2010 to 6% in 2011. This is the consequence of the increase in short haul and low cost aircraft movements as explained previously in this review.

During the year, the BIA recorded a total of 41,536 inbound and outbound flights operated by 26 scheduled airlines recording a 29% growth in volume over 2010. They operate frequent flights from BIA to major cities in Europe, Middle East, Far East, Australia and the Indian sub continent. Additionally 30 non-scheduled airlines added a further 1,918 movements to the BIA's total recorded volume. The BIA successfully retained the existing portfolio of major scheduled airlines. In terms of movement, the seasonal airline Enter Air, commenced operations during the year, while China Eastern Airlines temporarily suspended their operations in December 2011 due to capacity adjustment requirements and is scheduled to recommence operations within the first quarter of 2012.

Cargo Operations

AASL is the focal point with all cargo operators as key infrastructure provider for BIA's on-site cargo village. The complex consists of five terminals, two of which are occupied by Sri Lankan Airlines Cargo under a lease agreement signed with AASL. The Cargo Village is a fully integrated, state-of-the-art facility equipped with a cold room and freezer room facility, adequate warehousing, green channel for perishables/

live animals, office facilities, high tech screening facility and a 24 hour security service jointly performed by AASL Security, Sri Lanka Air Force (SLAF) and Sri Lankan Airlines Security. The village is also equipped with, forward bonded terminals and specialty centers dedicated to the movement of special cargo such as perishables, valuable cargo, pharmaceuticals, restricted articles, pure mail and animals. In addition, warehousing facilities and office space is available for rent or lease to cargo agents and freight forwarders. This space has been designed to optimize the shipment turnaround time by allowing closer interactions between authorities, operators and customers.

A number of regulatory authorities and cargo service providers maintain offices at the Cargo Village. Among them are Ground Handling Agent, Airlines, Freight Forwarders, Cargo Agents, Courier companies, Customs Agents, Quarantine Services, Health Department, Gem and Jewellery Authority, the BOI and Security Agencies.

The floor area and the available spaces of three terminals are shown below while the leased out spaces in 2011 are shown in parenthesis.

Terminal-1 (exclusively for Exports)

Floor area - 2,787 Sq.m

Warehousing Units -22(19), Office Spaces -24 (24)

Terminal-2 (exclusively for Imports)

Floor area - 1,858 Sq.m

Occupied by two operators for imports.

Terminal-3 (For both Exports and Imports)

Warehousing Units -12 (11)



1. Fleming the latest Duty Free Shop to increase the brand variety of Liquor, Tobacco, Confectionery and Perfume sector
2. Watches - one of the largest international brand presence at BIA Duty Free
3. Baggage Scanning facilities available in the Terminal Building

The three basic parameters, namely, the catchment area, transit passengers volume and being a hub station of Sri Lankan Airlines are indicating encouraging signs that show the BIA is improving the conditions related to all common parameters used in the assessment of aviation hubs.

At present, the air cargo component, forms just 1% of Sri Lanka's total volume of trade. A marginal increase of 0.8% was observed in 2011 in comparison to 2010. This translated to 168,577 MT in 2011 as against 167,130 MT of total cargo volume handled at BIA in 2010.

In May 2011, Sri Lankan Cargo, the cargo arm of the national carrier and the handling agent for all airlines, introduced electronic cargo booking and scanning facilities in the cargo terminals. Thereby, enabling freight forwarders to independently complete air-way bills relating to their consignments using Sri Lankan barcode labels. This move considerably improved the accuracy and speed of the documentation process.

Opportunities in the Retail and Properties Segment

For the first time in the history of the BIA, Gross Retail Sales exceeded Rs 12 Bn, during 2011, with retailers posting an overall growth of 9% in gross turnover over the previous year. The Concession Income earned from gross retail sales at the BIA duty free is the second largest revenue component in AASL's revenue structure. It is only marginally lower in absolute terms but maintains the same overall percentage as the highest revenue component - the Embarkation Levy. The largest contributors at BIA's duty-free is the segment comprising of the Liquor, Tobacco, Confectionaries & Perfume product range, which posted a 33% growth, negating the 8% decline recorded in the Electrical, Electronic & Home Appliances sector which usually contributes to 40% of the total turnover.

In addition, four other key segments showed positive performance during the year. They are the Gem and Jewellery, Liquor, Tea and Clothing & Accessories, recording growth of 93%, 33%, 49% and 23% respectively. It was found that transit passengers opt to travel via the BIA in order to avail themselves the opportunity to purchase world renowned Sri Lankan Gems, Jewellery, Tea and Handicrafts. Reflexology

and heritage brands (inclusive of masks, batiks and handicraft) have also shown positive growth with an increase in turnover of 8% and 35% respectively over that of the previous year.

Timex, Rolex, Citizen, Montblanc, Cross, Rayban and Envoy are the international brands available among the rich brand portfolio at BIA.

AASL's net retail income per passenger rose by 34% from Rs 242 to Rs 325.

Fire Safety at BIA

The AASL Fire and Rescue Division is responsible to achieve the targeted response time within the aircraft manoeuvring area of the airport and in the immediate response area (within an area of 4km radius from the aerodrome) as per the International Civil Aviation Organization (ICAO) standards and recommended practices.

To fulfill this responsibility, AASL has a staff cadre of 183 fire safety specialists including 25 senior officers. All employees are exposed to a comprehensive regular training schedule, encompassing overseas training, CATC and other local training bodies. The stringent training schedule covers a number of areas including Response Time, Reaction Time, Equipment Drills, Breathing Apparatus/ Smoke room Drills, Hot Fire Drills, Hazardous material Drills and continued regular training on Fire related functions. The operational efficiency of all employees including vehicle operators is reviewed through a monthly ratings test. Additionally all employees follow an annual refresher course in order to ensure optimum service standards.

AASL deploys 4 Major Fire Vehicles and 2 Rapid Intervention Vehicles as per the ICAO requirements for Fire Category – CAT 09 while ensuring 100% serviceability for this fire vehicle fleet. The Non Fire vehicle fleet consists of 4 Ambulances, an Equipment Vehicle and one Command Vehicle.

All vehicles are regularly subject to a stringent testing and maintenance procedure to ensure high performance standards are maintained at all times. In addition to providing fire and rescue services to the aerodrome, the AASL fire unit also provides emergency services to third parties depending on the location and impact on the BIA or its airspace.

The Water Rescue Unit, situated adjacent to the Negombo Lagoon maintains two boats, fully equipped with fire and rescue gear. This unit maintains a 24 hour patrol to deal with any emergency situation that may take place in the lagoon.

Medical Facilities

During 2011, the BIA enhanced its medical facilities through the introduction of a modern 24 hour Dental Care Unit. The facility is equipped with all modern equipment and infrastructure, supported by a team of specialist professionals.

Public Viewing Gallery (PVG)

The PVG offers visitors a spectacular view of the airfield and traffic movements. Additionally a retired aircraft has been commissioned to provide guests with a visual experience of the interior of an aircraft. The PVG was re-opened in August 2009 following the closure effected due to the security risks owing to the war. The PVG attracted 620,278 guests in 2011.

Stakeholder Engagement

Symbiotic Relationship with the National Carrier

Following the cessation of the agreement between Emirates and Sri Lankan Airlines in March 2008, the national carrier is striving to accelerate growth by significantly expanding its aircraft fleet by 2016.

At present, the Sri Lankan Airlines fleet consists of 05 narrow-body aircraft (Type: A320) and 11 wide-body aircraft (05 and 06 numbers of Type A332 and Type A343 respectively). The airline proposes to expand the narrow-body fleet to 9 aircraft and the wide-body aircraft fleet to 14 through a phased-out procurement plan extending to 2016. The procurement plan will certainly impose extra pressure on AASL to fulfill its role as the key infrastructure provider to the BIA in expediting the pace of expansion.

AASL performs a broad scope of activities as the primary infrastructure provider to the BIA in addition to providing a major portion of the airport services and overseeing the maintenance functions of the terminal buildings and aerodrome spaces. Within this framework, the AASL faced a number of challenges in 2011, particularly due to the high



1



2



3

1. Fire Staff on regular training
2. Comprehensive Emergency Exercise held to access and enhance the readiness of all agencies operating at BIA in case of an emergency
3. Fully fledged Dental Unit – Newest addition to BIA Medical facilities

Management Discussion and Analysis (MDA) *Contd.*

passenger volume in excess of the BIA terminal's capacity of 6 Mn passengers per annum. The unprecedented volume of passenger traffic resulted in heavy congestion in many of the common areas and utility services, leading to a drop in overall customer comfort and convenience. The constructive feedback received from customers were directed to all relevant parties to ensure continuous improvements. AASL recognizes the need for short term interim measures and longer term remedial actions to confront the challenges of airside and landside congestion. A comprehensive set of initiatives to address the issues are being developed by AASL in conjunction with Sri Lankan Airlines and the Ministry of Civil Aviation. The execution of the interim measures have already commenced while the finalised action plan would be incorporated into AASL's strategic plans and implemented through the annual action plans.

Our evaluations revealed that the check-in procedure as a lengthy and time consuming aspect of the travel process that deteriorates the targeted "Passenger Processing Time" at the BIA. Hence the check in time at the BIA exceeds the industry norm. In a bid to improve the check-in time, the ground handling arm of Sri Lankan Airlines focused on aggressive staff recruitments and staff training during the year. The check-in staff recruitment commenced in September 2011 and successfully bridged the cadre requirement. An intensified training programme was also introduced for existing and new staff in order to increase the efficiency of the process. In terms of capacity, at present 50 check-in counters are geared to simultaneously cater to 12 departing airlines. Sri Lankan Airlines occupies 14 of the 50 counters to allow their passenger to check-in.

When discussions commenced in July 2011, it was noted that the bay occupancy time of UL was approximately 180 minutes on average compared to approximately 75 minutes maintained by other airlines. Further, it was noted that the Sri Lankan Airlines waiting time on ground for connection (time gap between arrival and departure) at BIA were comparatively higher than other airlines. However, disregarding the fact that the national carrier is prone to record high indicators in many parameters in its home country these two crucial areas were addressed as they could hinder the optimal usage of parking bays.

Hence, the suggested measures were implemented by Sri Lankan Airlines with special consideration given for air side and land side infrastructure constraints. The new measures resulted in the improvement of check-in time from 05 minutes to 03 minutes, while the recorded ground time of aircraft was successfully reduced from 60 minutes to 55 minutes. As the major expansion of BIA (BIADP II-2) is scheduled for completion in the future, prevents any long term strategic plans from being implemented to resolve current operational issues. However as a means of providing an immediate stop-gap solution, AASL introduced certain interim measures. Accordingly, five new check-in counters are scheduled to be operational by April 2012. Three additional bus gates are also due to be constructed, two of which are to be completed by May 2012. The interim measures also include the construction of the domestic terminal building which is explained under Future Ahead in this review.

MOU with Sri Lankan Airlines

A Memorandum of Understanding (MOU) was entered into between Airport & Aviation Services (SL) Ltd and Sri Lankan Airlines Ltd who acts on-behalf of itself and for its wholly



1



2

BIA has gathered momentum in its growth phase where as HIA is in its introductory phase in the aviation world map. The diversion of excess air traffic from BIA to HIA focuses on achieving the optimal customer profitability and product profitability indices for both airports.

owned subsidiary, Sri Lankan Catering (Pvt) Ltd in March 2012. The MOU is an enhancement to the Agreed Terms of the Letter in effect from March 1998. The salient features of the MOU include;

- Granting of the Ground Handling Franchise to Sri Lankan Airlines for a period of 10 years.
- Granting of airline catering franchise to Sri Lankan Catering (Pvt) Limited until 2034 with the extension of flight kitchen until 2034.
- Making available the lands and buildings already occupied by Sri Lankan Airlines inclusive of Cargo Terminals.

Improvements in Immigration and Emigration Process at BIA

Joint discussions were held between the AASL and the Department of Immigration and Emigration to set guidelines that would improve the effectiveness and efficiency of immigration process at BIA. Accordingly, AASL provides the necessary infrastructure to establish an Electronic Travel Authority System (ETA) at the arrival immigration area, which will be effective from 1st January, 2012. This would result

in greatly simplifying the immigration clearance process by enabling passengers to obtain their Visas on-line. Furthermore, completion of arrival and departure cards would no longer be required for Sri Lankans arriving BIA and foreigners departing BIA. A mobile surveillance unit would be introduced embracing a broader scope of activities and check the human smuggling at boarding gates. The assistance of the airlines would be sought to implement this phase. A separate immigration clearance counter would be introduced to handle departures at the CIP lounge along with additional space for a Prosecution Unit to be located outside the terminal. Further initiatives were taken to address the possible consequences of the intermingling of arrival / departure passengers in the terminal building. For agents entering the building, to sign bonds a pass process was effected by AASL security.

Marketing finds its place in AASL's 4G Growth Model

AASL started the FY 2011 with the declaration by the Chairman, that the corporate growth strategy would be compounded to a model titled "4G Growth Model". The decision was made following a brain storming session held in



1. Signing of the MOU with Sri Lankan Airlines
2. Brainstorming for Corporate Plan 2011-2015 held in Colombo
3. Awareness Programme – Conducted by Commercial & Properties Division to Front Office personnel of Duty Free shops

Management Discussion and Analysis (MDA) *Contd.*

Colombo with the participation of Heads or Representatives of all the key stakeholders of the Aviation and Tourism clusters to establish the prerequisites of the Corporate Plan of AASL. One of four core elements of the 4G growth model is the concept of Growth through Marketing. Training and Development, Technology and Partnership are identified as the other three key contributors to growth.

AASL's endeavour to reshape the future of aviation in Sri Lanka, through a marketing platform reached a high point with the launch of a dedicated Marketing Division in November 2011. The Marketing Division would promote both BIA and HIA in achieving the country's vision. The promotional strategies adopted for the two airports would largely vary owing to the position each unit occupies, in the industry life cycle. BIA has gathered momentum in its growth phase where as HIA is in its introductory phase in the aviation world map. The diversion of excess air traffic from BIA to HIA focuses on achieving the optimal customer profitability and product profitability indices for both airports. Understandably, the HIA indices would defer from those of the BIA as HIA would be targeting opportunities arising from air-sea transshipment and exploring the untapped cargo market.

AASL has clearly identified the challenges of maintaining internationally accepted standards at the HIA aerodrome as well. As such, the AASL marketing team is in the process of synergizing its efforts with internal divisions that would result in an adequate talent pool with required competencies. Sri Lanka Tourism, Sri Lankan Airlines, Cargo Community and BOI are a few of the external agencies that have been essential contributors towards achieving this goal.

A recently concluded marketing event was the BIA Christmas Shopping Festival 2011. The programme spans a two month period from December 2011 to January 2012. 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 has participated in a number of international tourism and aviation forums, jointly with Sri Lanka Tourism and Sri Lankan Airlines. During the year many of these joint initiatives were showcased at the International Travel Bureau (ITB) Berlin, World Travel Mart (WTM) UK, Arabian Travel Market (ATM) Dubai, World Route Development Forum (WRDF) in Berlin and Regional Route Development Forum (RRDF) in Asia.

Logistics Support for the Intermodal Rail Terminal

The luxury Hitachi train which commenced transport between BIA railway station and Colombo Fort Secretarial railway

station in 2010 temporarily suspended operations in 2011 due to the lack of demand for the facility by BIA passengers. One of the challenges of intermodal transport in general is changing between modes. Despite proximity, transfers can be difficult. Further investigations revealed that the low usage of the railway was a logistical issue arising from a gap of a 300 meter distance between the BIA terminal and the intermodal railway terminal. Hence, a timely decision was taken to extend the railway track to reach the BIA terminal. The construction of the extension would be undertaken by the Ministry of Transport along with the detailed drawings and specifications.

Prior to the temporary cessation of this luxury train operation, AASL organized a promotional visit to Habarana, a city famed for its chain of high end tourist resorts. The aim of the exercise was to explore the possibility of widening the network of destinations covered by the railway system.

Safety Management System and Emergency Plans at BIA

The objective of the safety management system at BIA stipulates "Reducing and maintaining risk of harm to persons or property damage, at or below an acceptable level, through a continuing process of hazard identification and risk management".

It is noteworthy that the Accident/Incident rate at BIA is well within the tolerable region. There had been no major safety issues, despite the 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 actions and regular awareness programmes. The High Safety Performance Standards at BIA has nurtured a high degree of confidence among airline operators and other stakeholders. (Refer the statistics provided under Enlightening Stakeholder Value in a 360 Degrees Perspective)

While fully endorsing the non-punitive incident/accident and error reporting system, AASL adopts a team approach to resolve problems and to prevent recurrences. The "Penalty Free Safety Reporting Policy" was introduced as the due diligence component of the safety maintenance procedure. AASL inculcates basic Safety Awareness in employees through various programs and visual aids. In recognizing the crucial importance of safety awareness, AASL has recently introduced it as a constituted part of the orientation for the new recruits. In addition, a reward scheme has been established to encourage voluntary/confidential incident reporting.

AASL's proactive approach to the safety ensures that all systems and procedures are subject to regular scrutiny. Internal audits/ inspections/surveys, regular audits/inspections/surveys are carried out by the Civil Aviation Authority (CAA) of Sri Lanka to ensure the continuity of high safety performance standards.

AASL's contingency manual is prepared, in accordance with ICAO guidelines and approved by the CAA of Sri Lanka. A copy of the manual is distributed among all agencies operating at BIA. Regular meetings are held in order to ensure the effectiveness of the system through proactive, preventive and corrective actions in relation to different emergency scenarios. The annual emergency drill, fire mock up and Tsunami awareness drills are carried out to ensure the effectiveness and relevance of plans and economy of response times. As per the ICAO requirements, the Emergency Planning Committee carries out a Full Scale Emergency Exercise involving Internal & External agencies every two years and a partial exercise annually.

AASL's Security executes its accredited responsibility as per International Standards

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 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.

AASL strictly adheres to all ICAO Standards vested in aviation security functions and processes. 9 Security control points for passengers, 10 checkpoints for employees and 02 special handling lines in the cargo area are monitored manually by our security personnel.

These channels are monitored using technologically advanced X-ray systems and Walk-Through Metal Detectors. Advanced Surveillance through the use of CCTV cameras and vigilant physical monitoring of movements through the airport are also done continuously, while Aviation Security Surveillance teams are deployed on 24 hours duty. Their vigilant actions have managed to successfully mitigate human trafficking, smuggling of contraband items and use of forged travel documents.



1



2



3

1. Winners of the BIA Shopping Festival Lottery draw
2. Autogrill Lanka Ltd together with Diageo Worldwide in partnership with AASL unveiled a powerful Formula 1 car display at BIA as part of duty free promotion at the BIA shopping festival
3. Promotional Tour to Habarana by Airport Express Train

Management Discussion and Analysis (MDA) *Contd.*

The Aviation Security Training needs are largely handled by the Civil Aviation Training Centre (CATC) of Sri Lanka which is the training arm of the AASL. The CATC has been awarded International Certification from ICAO/TRAINAIR and is an accredited body licensed to evaluate training standards starting from Aviation Security at a Basic Level to Aviation Security at Senior Management Level. All eligible security employees are offered equal opportunities to obtain overseas training periodically. The CATC along with the training team of the security division stationed at BIA are facing a potentially demanding period in the training calendar owing to their role as the chief security resource training unit for the HIA culminating with its routine training programmes and refresher training courses for BIA.

Transit Area Expansion

AASL continually reinforces its commitment to enhance the commercial facilities housed in the terminal buildings in order to infuse greater comfort and promote a more rewarding shopping experience to passengers. The refurbishment plan was executed by remodeling the transit area and relocating the airline offices. A space of 1,250 Sq.m of floor was thus released during the initial phase of the operation conducted in 2011. A further 1,400 Sq.m of floor area is expected to be added in the year 2012, under phase two of the project. The space includes a Transit Hotel consisting of 24 luxury rooms and equipped with a Spa, Massage and Aromatherapy facilities aimed at attracting health tourism, a booming segment strengthened by healing properties of Sri Lanka's traditional Ayurvedic Treatments and Natural Herbal Practices. The refurbishment plan also included a fully equipped new Baby Care Unit within this area to upgrade the existing facility. The entire area will be secured with High Tech Fire Detection

and Alarm Systems, Digital Clock Systems, Public Announcing system (PA), MATV, CCTV and Flight Information Display System (FIDS). Currently, Phase II of the expansion project is still in the tendering process.

Private Jet Operations Diversion from BIA to RMA

Technological advances and the advent of smarter and more fuel efficient small jets, has transformed the concept of global travel. The considerable cost and time savings that ensue through private air travel has in-turn seen a dramatic increase in the use of private/corporate jets. The BIA, recorded a growth of 30% in private jet operations over the last 3 years with a 40% growth in 2011 over that of the previous year. There were 1,446 number of private jet movements in the year 2011 out of the 43,454 total aircraft movements. If this growth trend continues it will, further complicate the parking stand allocation for international aircraft. As such it is proposed that approximately 4% of all private jets are to be diverted to the Ratmalana Airport (which is currently being restructured as a City Airport) based on aircraft type and weight category. During the year the required infrastructure facilities were upgraded at the Ratmalana Airport to accommodate the new requirements. The sand sealing of the runway was completed at a cost of Rs 11Mn. In addition, the overlaying of apron was 60% complete by the end of the year. Land remains the major limiting factor especially for the development and widening of the runway in order to absorb all types of private jet operations. The immigration operations at the Ratmalana Airport commenced in November 2011, while the newly refurbished guest lounge was used for VIP movements.



1



2

Repairs to the Mono Pulse Secondary Radar (MSSR) at Pidurutalagala Radar System

The MSSR at Pidurutalagala Radar System was repaired and restored at an investment of Euro 900,000 leading to an optimized MSSR antenna rotation speed from 5 rpm to 10 or 15 rpm resulting in uninterrupted radar services. Accordingly, the radar services provided at Area Control Centre (ACC) – Ratmalana could be restored with extended coverage (200 Nm to 250 Nm). The Air Traffic Services would then cover a wider expanse within the Sri Lankan Flight Information Region (FIR). Resulting in greater efficiency and economy in the management of air spaces by the ACC and promoting greater operational safety.

Fuel Filling Station Relocation

The land of the existing fuel filling station complex was acquired by Road Development Authority (RDA) and Ministry of Highway for the Colombo-Katunayake highway which is currently under construction. AASL received compensation from the RDA and the Ministry of Highway totaling to Rs. 33.3 Mn in 2010 and 2011. To ensure continuous supply of non-aviation fuel as an associated airport facility, a new fuel filling station complex is being constructed in the vicinity of future Colombo-Katunayake Expressway and is nearing completion.

The proposed new building would feature a novel aero-oriented design combined with an eco-friendly outlook and will offer all facilities including modern Fuel Dispensers, Public Phones and Automated Teller Machines. A Mini-Supermarket will also part of the complex in order to increase customer satisfaction. It is expected to benefit both CPC as the supplier and AASL as the dealer, by way of enhanced margins generated by higher sales.

Air traffic handling in the Colombo FIR

Implementation of Reduced Horizontal Separation Minima (RHSM) along ATS Route P762 in Colombo Flight Information Region (FIR)

As the initial step of the RHSM implementation of ICAO, in year 2011, 50nm Longitudinal Separation Minima was introduced along ATS Route P 762 which is the airway between Colombo and Bangkok. Accordingly suitably certified aircraft along this route travelling in the one direction are now allowed to maintain the same most economical cruising flight level, subject to the specified, 50nm Longitudinal Separation Minima. The previous standard minima at the very inception was 120nm, which gradually reduced through 100nm and 80nm and finally stabilizing at the present separation minima of 50nm along ATS Route P 762. Our air traffic controllers are rigorously trained in both theoretical and practical safety aspects since the implementation of these vital elements determine the effectiveness of air traffic handling. The next step of RHSM Implementation is scheduled for year 2012 when the minima would become applicable along ATS Routes P 570 and M 300 as well. These are two major routes for over flights between the East and West that are within the Colombo FIR.

Further Enhancement on Connector Routes across Colombo FIR

Connector Routes across Colombo FIR, initially introduced in 2010 were further enhanced during the year. Additional Entry / Exit Points were introduced to flight operators when flying over the Colombo FIR. The Flight Plans of aircraft utilizing these Entry/Exit Way Points are now detailed in the Route segment of the Flight Plan.



1. England Team at the Arrival Terminal – Sri Lanka hosted the ICC World Cup - 2011.
2. Comprehensive Emergency Exercise held to assess and enhance the readiness of all agencies operating at BIA in case of an emergency
3. ERP initial discussions held with the software vendor

Management Discussion and Analysis (MDA) *Contd.***Leveraging ICT as a Competitiveness Strategy**

AASL views Information and Communication Technology (ICT) as a springboard towards high performance resulting in competitive advantage and sustainable long growth.

Technology and IT are identified as fundamental elements in upgrading the business capabilities of AASL. Approximately 40% - 50% of the company's annual budgeted capitalized cost is reserved for projects focusing on technological upgrades. The remaining budgetary component is channeled towards investments in civil and construction related projects.

First ERP Launch

AASL will launch its first web-based Enterprise Resource Planning (ERP) system in the year 2012. The ERP system is the outcome of the need to have a well integrated IT solution to provide a solid operational backbone. The requirement analysis for the ERP was established following intense discussions with the identified users in the designated areas. Tenders were called and a contractor was identified through a Cabinet Appointed Procurement Committee (CAPC). The total contract value was Rs. 250 Mn. The "Oracle" ERP system will be integrated with the "Airport 20:20" billing module 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.

Network Readiness

The connectivity network between the BIA, HIA and RMA was strengthened during the first quarter of the year at a cost of US\$ 1.2 Mn. The project focused on enhancing connectivity through improved networking channels on a multi-level service platform covering DATA, VIOCE and VIDEO segments. Thus providing the necessary environment for an effective ERP system while facilitating the functions of the Building Management System (BMS), Internet Protocol Public Branch Network (IPPBX), Public Addressing system etc. In addition a range of network equipment that included Router/Switches, Security Equipments covering Firewalls/ Intrusion Prevention Systems, Network Access Control System and Data Center Services were also installed. A notable increase in the data transfer between offices as well as geographical locations has been observed through an effective, streamlined work methodology adopted within AASL. However, the potential of ICT to deliver maximum business benefits in relation to stakeholder interest, is yet to be exploited. Accordingly, proposals are being formulated to promote further networking among various organizations and other stakeholders.

Websites

On-line information and data regarding flight schedules and flight status of BIA are accessible through our company website www.airport.lk, in addition to the On-line Booking facility available for certain airport lounges for business class travellers.

A dedicated website was also launched for HIA and can be accessed on www.hia.lk.

Annual Surveillance Audit of ISO 9001:2008

ISO Certification Body M/s Det Norske Veritas (DNV) of Netherlands conducted an Annual Surveillance Audit in June 2011 covering key processes of airport facilitation and air navigational services. The exercise included a stringent review of all related records. Subsequent to the successful review, AASL was awarded a certification confirming compliance with ISO 9001:2008.

During the year AASL Quality Management System (QMS) covering key processes also received the ISO 9001:2008 Certification standard issued by the internationally renowned ISO Certification Body DNV of Netherlands.

Future Ahead

As the sole service provider for the only two international aerodromes in Sri Lanka, the complexity and dimensions of AASL's business model is expected to grow significantly in the future. In order to achieve the government's vision of becoming the aviation hub, AASL strives to create the stable environment required for such a consolidation.

Our 4G model will continue to evolve and is expected to generate a greater payback in the long term.

AASL plans to double the international airport count, multiplying the domestic airports count and consolidating BIA's position on the aviation world map would be achieved through the key projects as described below.

Progress of the second International Airport -HIA

Hambantota International Airport Development Project is one of the Key Projects under the "Mahinda Chinthana" five hubs concept mentioned in the Hon. President's manifesto. The HIA will strengthen Sri Lanka's infrastructure and logistics chain by eliminating the competitive disadvantage of a single international airport. It is proposed that the project be conducted in two phases. Hence, 800 hac of land was obtained for the first phase of development and a further 1200 hac has been reserved for the second phase. The entire project is strictly supervised by the AASL management team allocated specifically for this purpose. A monthly progress

report is filed with the Ministry of Civil Aviation and from there on to the President. The progress is frequently observed and monitored by our full time Executive Directors. In addition a Board meeting was held onsite at the HIA to enable the Non-Executive Directors to evaluate the progress.

A number of onsite briefing meetings and discussion forums were held with the external stakeholders including Airline Operators Council and the Sri Lanka Freight Forwarders Association, with the intention of developing a business strategy for the new airport.

AASL signed an agreement with M/s China Harbour Engineering Co. Ltd. in November 2009 for the construction of Stage 1 of the HIA at an estimated contract value of US\$ 209 Mn. At present, the project is progressing according to plan and is scheduled to commence commercial operations by end 2012.

Progress of construction work as follows:

- Date of Mobilization at site - 16th March 2010
- Total Project Duration - 36 months

Progress as at 31st December 2011 : Overall Physical Progress – 46%	
Runway and Associated Works	75%
CABC	100%
Asphalt and Airfield lighting works remain	
Drainage and Runway strip turbing work in progress	
Apron	35%
Earthwork nearing completion	
Cement concrete pavement and fuel hydrant works remain	
Taxiway	20%
Earthwork in progress	
Air Traffic Control Tower	39%
31.5 m Flow concrete land	
Total height 45m	
Passenger Terminal	33%
Structural work in progress	
Cargo Terminal	27%
Fire and Rescue Building	27%

Stage 1 was to target an annual passenger volume of 1,000,000 and an Annual Cargo Throughput of 45,000 MT. Upon completion of Stage 1, Hambantota International Airport will be equipped with following:

- A Runway of 3500m in length and 75m in width,
- Two stub Taxiways
- An Apron to facilitate 9 to 11 aircraft, as per the configuration
- Terminal Building covering an area of 10,000 Sq.m
- The "State of the Art" Cargo Terminal covering an area of 5,000 Sq.m and equipped with all modern facilities, including Ground Navigational Services and Fire and Rescue facilities

The HIA business strategy aims at providing a greatly enhanced cargo handling service at the HIA Cargo Terminal in comparison to that of the BIA. Accordingly, the cargo terminal would comprise of a variety of facilities and amenities including, Customs, Airlines and Quarantine. The logistical requirements to accomplish these operational aspects would also be streamlined to accommodate the diverse business needs. Within this context, it was decided to construct a dedicated cargo apron and taxiway in addition to the scope dictated by Stage 1 of the project. The Cargo Apron would be able to accommodate two Code "C" (A320) Aircraft at any given time. However, all the facilities will be designed using Code "F" (A380) Aircraft as a basic parameter.

Considering the future growth of the aviation industry and the business potential of the region, the capacity rich HIA is projected as a critical driver of the southern development programme in Sri Lanka.

Accordingly, Stage 2 of the Development work is scheduled to commence shortly and includes following infrastructure:

1. Parallel Taxiway and stub connecting taxiway
2. Terminal Building to Facilitate 5 Mn passengers
3. Enhancement of Cargo Operations area and logistic facility
4. Apron expansion

Stage 2 is expected to commence in 2013 and with a target completion time line set for is 2017. Stage 2 would require the utilization of the additional 1200 hac of land reserved for Airport Development in addition to present 800 hac.

Management Discussion and Analysis (MDA) *Contd.***Development of Domestic Airport Network**

Other than the Ratmalana Airport which is under development as a city airport, aerodromes located at Koggala and Ampara have been identified to be developed on a priority basis. Trincomalee (China Bay) is among the other civil aerodromes scattered around the country earmarked for development to accommodate small business jets. In addition to the above mentioned four, the other 8 aerodromes identified are Anuradhapura, Batticaloa, Palali, Katukurunda, Sigiriya, Vavuniya, Weerawila and Hingurakgoda. Recommendations have been made to develop these aerodromes under a phased out plan. It is proposed that the existing infrastructure at these locations would be developed at a total estimated cost of Rs. 900 Mn.

The above three aerodromes were proposed by a joint committee appointed by the Secretary to the Ministry of Civil Aviation comprising of officials from the CAA, the Ministry, SLAF, AASL, Sri Lanka Tourism and Mihin Lanka. The joint committee was expected to evaluate the requirements and formulate a proposal that would fulfill a number of key objectives. Firstly to encourage the airlines to set up a domestic air route network to service the existing needs and accommodate future domestic air transportation requirements. Secondly, to facilitate prompt and efficient movement of domestic cargo by air and support the development planning of state and private sector organizations, specially in North, East and Southern regions of the country. It is anticipated that the scheme would support the overall objective of developing the national tourism industry. All development activities for revamping domestic airports will be phased out based on the recommendations of this report. Upon the finalization of funds, AASL will play a key role as the sole infrastructure provider to all the civil aerodromes in the country. However, the time gap between finalization of funding may lead to a change in the terms and re-prioritizing the sequence of airport development, particularly owing to the need to redistribute resources based on areas identified as high potential for domestic air travel.

The following five mission critical projects are in the pipeline for BIA for the future. However the funding component poses a grave challenge and is the biggest constraint faced by AASL and GoSL in implementing the planned projects to uplift Sri Lanka's aviation industry. The BIADP II-2 is considerably behind the initial commencement plan and has been repeatedly postponed in the past due to the

same reasons. However, BIADP II -2 is due to commence in early 2012 by directly borrowing a Japan ODA Loan from Government of Japan (GoJ) by entering into the history as the first Government organization in Sri Lanka who obtained such a direct ODA loan facility. With the exception of the Domestic Terminal Building for which funding is channeled through the AASL budget. The project time plan of other key projects remain uncertain due to the non-finalization of funding methodology.

In addition, AASL has allocated Rs 3 Bn for the year 2012 to fund new and on-going projects focusing on the introduction of new technology and civil construction.

Stage 2 of Phase II of the Major Development Project at BIA (BIADP II - 2)

BIADP II -2 is to be conducted with the assistance of the GoJ. Accordingly the GoJ has pledged JPY 28 Bn, the sum required to fund the BIADP II-2 through Japanese ODA loans. The loan agreement is expected to be signed by the end of March 2012.

As per the Implementation Schedule agreed with JICA, the BIADP II-2 project consultant is expected to be selected by August 2012 and construction work is expected to be commenced by December 2012. The New Terminal (Terminal 2) of BIA is due to be commissioned by December 2015.

As in any project, the expansion of the BIA capacity is fraught with challenges and risks. The passenger forecast for 2014 and 2015 for BIA exceeds a passenger movement of 7.5 Mn and 8 Mn respectively. Since the handling capacity of BIA will be limited to 7.3 Mn under the normal circumstances, it is anticipated that the growth of the BIA will stagnate due to the obvious capacity handling problems. The HIA will provide the long term remedy for the capacity handling problem from 2013 onwards by absorbing excess traffic of the BIA in addition to attracting new traffic. A solution is sought through the proposed domestic terminal at the BIA and the diversion of private jet operations to the Ratmalana City Airport as a medium term interim solutions until the below mentioned terminal capacity is added.

Under the BIADP II-2 , the proposed Terminal 2 is to be located to the West of the existing Terminal Building which will continue to function as the Terminal 1 of the BIA. Each



1



4



2



5



3



6

1. Opening of the plaque – HIA Access Road on 3/3/2011
2. HE the President Mahinda Rajapaksa's visit to HIA Site on 11/5/2011
3. Laying the foundation stone for the construction of the HIA Terminal

4. Air Traffic Control Tower which is under construction
5. Welcoming foreign delegates at HIA by the Executive Directors - Part of Business Development Plan of HIA
6. The Passenger Terminal Building which is under construction

Management Discussion and Analysis (MDA) *Contd.*

terminals would have the capacity to handle 6 Mn passengers per annum. Upon completion of the new terminal the total accumulated capacity of BIA would be 12 Mn passengers per annum. The upper floor of the two tiered new Terminal building would be used exclusively for departures while the lower level would be for arrivals. The departure level would be equipped with a separate access way and include facilities to meet the specifications of differently abled passengers.

Environmental Credentials of BIADP II-2

AASL is firmly committed towards energy efficient, eco friendly operational practices through a proactive approach geared to achieve long term environmental sustainability. The project addresses a multitude of environmental concerns and demarcates AASL's role as a responsible organization. Accordingly all environmental guidelines would be laid out under the "BIA Green Management Policy" through a two pronged approach to environmental management. Firstly, all future structures would be designed on a solid architectural platform that ensures the optimization of natural light elements. Energy saving would also be achieved by installing a double glazed rolling blinds to ease the cooling load of the air conditioning system.

Secondly, on a technical level, mechanical and electrical practices would be structured to provide a host of energy efficient solutions. The toilets would be equipped with modern efficient solutions. All toilets facilities and amenities would be fitted with sensor operated flush valves, water closets for urinals and sensor operated taps for wash basins. The

water treated at our in-house water treatment plant would be channelled into all toilet cisterns for flushing purposes. Specially commissioned solar panels are to be used as the heating source to provide hot water to all areas of the airport. A sound electrical system would support an efficient lighting and cooling mechanism centrally controlled by an established building management system. Low energy LED lighting would be used throughout the BIA. Additionally, all common areas including the various lounges and the lobby area are to be equipped with daylight sensors. A motion detector system is to be installed to control the lighting needs of all toilets.

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

- Passenger handling capacity – 6 Mn per annum (12 Mn per annum)
- Aircraft handling capacity in the runway – 25 movements per hour
- Cargo handling capacity - 250,000 MT per annum
- No of parking bays - 25 (36)
 - Bridge bays - 08
 - Non-bridge bays - 17



1



2

- No of boarding gates - 12 (20)
 - Bridge gates - 08
 - Remote gates - 04
- No of check-in counters - 50 (110)

Airport Hotel Project

The need to have an easily accessible hotel to cater for airport passengers due to scarcity of high quality Airport hotels in the vicinity of the BIA is identified as a measure of increasing passenger comfort and satisfaction. Accordingly, the construction of a hotel consisting of 300 luxury rooms located along the main access road to BIA within one kilometer distance from the passenger terminal building at a total estimated cost of US\$ 25 Mn is in the pipeline to be built on Built Operate and Transfer (BOT) basis.

Domestic Terminal Building

It is proposed that an existing building at the BIA will be modified and converted as a terminal exclusively to serve Low Cost Carriers (LCCs) and to facilitate as a boarding gate during peak hours. It will also serve to mitigate the congestion at the existing terminal by serving as an interim international terminal until terminal 2 is opened upon completion of BIADP II-2. The structure earmarked for this project was previously used by Sri Lankan Catering Services (Pvt) Ltd. It is designed to handle for 800,000 passengers per annum. The construction contract would be awarded following cabinet approval.

Runway Overlaying and Widening

The runway, which is 3,350 m length with 45 m width and 7.5 m width shoulders on both sides built and commissioned in 1986 is due to be overlaid. The Ministry of Civil Aviation will call for proposals from prospective bidders based on the Request for Proposal for the widening and overlay of the runway. The existing runway and taxiways to be widened in order to receive new large aircraft like Airbus A380.

Tax free Internal Trade Zone

Plans are also underway to acquire a BOI land extent of 7 acres with factory buildings abandoned by an investor in close proximity to the Terminal Building. It is expected to develop a trade zone and operate as a Duty Free shopping complex and a Tax Free shopping mall. The total estimated cost (TEC) of the initial phase is estimated as Rs. 1,000 Mn.



1. The Loan Agreement for the BIADP II - 2 was signed by Mr. Prasanna J Wickramasuriya, Chairman, AASL and Mr. Akira Shimura, Chief Representative of JICA Colombo Office on 28 March 2012 at the Department of Treasury.
2. The Chairman, AASL paid a courtesy call to the Archbishop of Colombo, His Eminence Malcolm Cardinal Ranjith on 09 March 2012 with officials of AASL to assure the Archbishop of Colombo that no acquisition of land would be done in implementation of BIADP II - 2, thus clearing the misconception had in the minds of local community on the project.
3. The introduction of Balanced Score Card which lead to a new Performance Measurement Culture.

Management Discussion and Analysis (MDA) *Contd.*

Accolades received during the year

In 2011, AASL won the Silver Award under the State Services category at the 8th National Business Excellence Awards (NBEA) conducted by National Chamber of Commerce in Sri Lanka and this was the first time we were exposed for a competition organized by a Chambers. AASL was also recognized for the Global Commerce Excellence Award for its efforts in promoting national economic growth, while our Chairman and Vice Chairman were personally awarded in recognition of their individual efforts. This prestigious award

ceremony is conducted in collaboration with Shippers' Academy Colombo, Export Development Board, Sri Lanka Ports Authority in association with Central Bank of Sri Lanka. The AASL Annual Report, 2010 was recognized for a Certificate of Compliance under the "Services Sector" at the Institute of Chartered Accountants of Sri Lanka (ICASL) Annual Report Awards 2011. This is the fourth consecutive year our Annual Report was recognized since 2008. The AASL Annual Reports have also been honored with two Bronze awards in the last couple of years.



1



2



3



4

1 & 2. The Chairman and the members who participated at NBEA where AASL received the Silver Award

3. Head of Finance is collecting the annual report award at ICASL Awards - 2011

4. The Vice Chairman is collecting his award at the Global Commerce Excellence Awards - 2011

FINANCIAL REVIEW

As the core beneficiary of this runaway success, AASL shattered all previously held records by posting unprecedented heights in all key financial indicators, namely, Profitability, Revenue and Cash Generation. AASL posted a Profit after Tax (PAT) for the year of Rs. 2.4 Bn the highest ever in its 27 year history.

Financial Commentary FY 2011 - A Snapshot

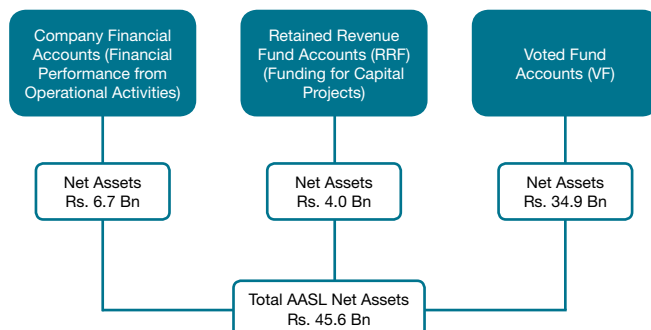
The financial year 2011 was a year of many triumphs for AASL, largely triggered by the phenomenal growth in passenger volumes at the BIA culminating with the revitalized international business segments. The movements in all BIA air traffic indicators literally soared during the year as compared to other regional stations, as detailed in the MDA. As the core beneficiary of this runaway success, AASL shattered all previously held records by posting unprecedented heights in all key financial indicators, namely, Profitability, Revenue and Cash Generation. The fruits of our success were partly transferred to the Government of Sri Lanka by way of Taxes and all time high Dividend paid during the year.

Financial Goals and Objectives

AASL's short term financial goal is to strike a balance between the competing fundamentals of Profitability and Liquidity while the longer term strategic objective is to maximize the stakeholder value.

We are Unique!

AASL maintains a three tiered Financial Reporting Structure comprising of three independent sets of accounts as illustrated below:



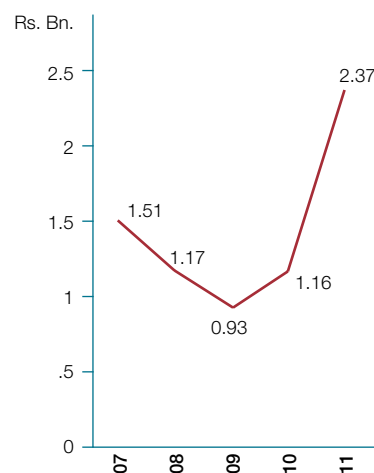
Pending the implementation of the Cabinet Decision of August 2005, Consolidated Accounts are not prepared as of now. The present status of the on-going formalities pertaining to this Cabinet Decision have been addressed by the Directors, in their report. Hence, the review of Financial Statements has been done separately without consolidation.

AASL Financial Overview

Profitability

AASL posted a Profit after Tax (PAT) for the year of Rs. 2.4 Bn the highest ever in its 27 year history, reflecting a dramatic increase of 104% compared to the previous year's recorded PAT of Rs. 1.2 Bn. AASL's profit performance for the previous five years is analyzed below:

Company Profit after Tax



However, it should be noted that the above Profit / Net Assets have been accounted without providing for depreciation of Voted Fund assets (government owned) and the assets accounted under Retained Revenue Fund amounting to Rs. 16.7 Bn and Rs. 2.02 Bn respectively. Such asset have in

Financial Review *Contd.*

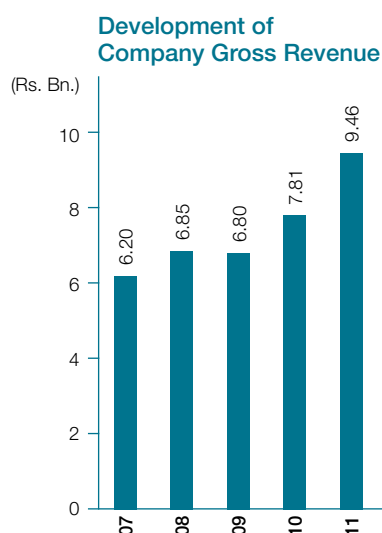
fact contributed significantly for generating of AASL Revenue. Once the three sets of accounts are amalgamated, profit indicators would reflect a more realistic picture.

AASL's key revenue segments and their share of Contribution to the company's Revenue is highlighted below:

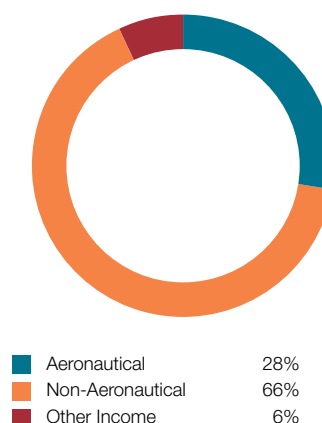
Revenue Performance

The total Gross Revenue posted by AASL out of the overall Airport revenue for the year was Rs.9.5 Bn compared to the Rs.7.8 Bn in 2010, a significant increase of 21%.

The development of AASL gross revenue over a five year period is analysed below:



Revenue Structure



The revenue components and their movements are analyzed below:

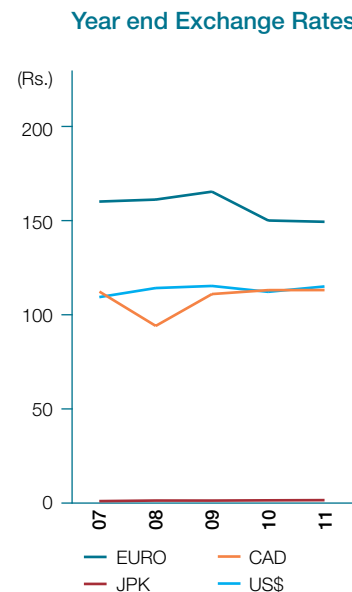
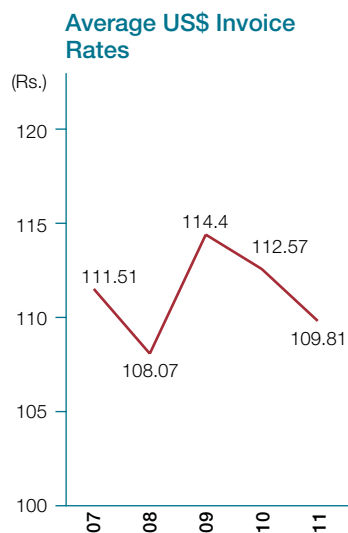
Revenue Segments	Value Rs.	Incremental Change from 2010	Key Revenue components under each segment	Value Rs.	Percentage Share	Incremental Change from 2010
Aeronautical Income	2,142 Mn	+12%	Landing and Parking Charges	1,405 Mn	66%	+12%
			Overflying Income	499 Mn	23%	+9%
			Aerobridge Income	299 Mn	11%	+15%
Non-Aeronautical Income	5,020 Mn	+34%	Concession Income	2,052 Mn	41%	+55%
			Embarkation Levy (Net of Treasury Payment)	339 Mn	7%	+107%
			Rental Income	1,664 Mn	33%	+11%
Other Income	499 Mn	+26%	Interest on Government Securities	360 Mn	72%	+129%

The income variance of revenue components under the Aeronautical Revenue segment is the aggregate of following revenue sources and parity variances due to invoicing in US \$.

	Income in Rs. Mn		Activity Variance Rs. Mn	Parity Variance Rs. Mn**	Income Variance Rs. Mn
	2010	2011			
Landing and Parking Income	1,257	1,405	180	(32)	148
Overflying Income	459	499	53	(13)	40
Aerobridge Income	199	229	35	(5)	30

- The MTOW is the key variable of Landing and Parking Income. (This variable is described under MDA)
- The growth percentiles of Overflying movements and Aerobridge movements do not correspond to the growth percentiles of related income figures, due to the income computation methodology applied for in each case in addition to the parity variance recorded above.
 - The Aerobridge charges are imposed based on the type of the aircraft and levied at source
 - The Overflying income varies based on pre-determined MTOW based slabs.

** The parity variance recorded in the revenue components which invoiced in US\$ and reported in local currency taken place due to exchange rate fluctuation. On the other hand variable exchange rates, as illustrated below, had a significant impact on the repayment of loan and interest thereon in foreign currency.



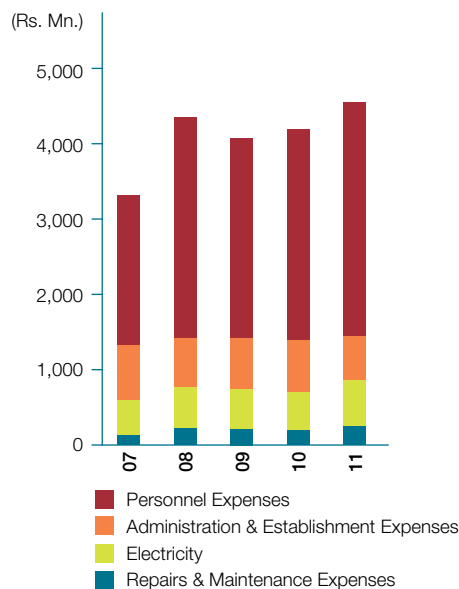
Financial Review *Contd.*

- The Non-Aeronautical income per passenger which is monitored as a revenue yield indicator increased to Rs. 1,108 from Rs. 1,044 during the year.
- The increase in Other Income was driven by a number of factors, highlighted below:
 - The interest earned from investments in Treasury Bills and Bonds under Repurchase Agreements increased from Rs. 141 Mn to Rs. 320 Mn a massive increase of 128%. Consequently, during the year more funds were invested in Treasury Bills and Repurchase Agreements by converting US\$ investments in order to enjoy the gain due to appreciation of the Rupee against the US\$.
 - The interest earned on Debenture Investment improved from Rs. 16 Mn in FY 2010 to Rs. 40 Mn in FY 2011 to record an impressive 145% increase. This is largely due to the aggressive investments made during the year to enhance the debenture investment portfolio. A phenomenal amount of Rs. 2 Bn was invested in Debenture stock during the month of December 2011 alone. The entire debenture portfolio at the end of the year stood at Rs. 2.3 Bn an unparalleled increase from the Rs. 300 Mn at the end of the previous year.

The main contributor towards revenue enhancement in 2011, is clearly the post war revival in Sri Lanka's economy and resultant growth in passenger movements. This was amply supplemented by the growth in international air transportation during the year. The key indicators mapping the BIA performance success are depicted under MDA.

Cost Composition and Expenditure Structure

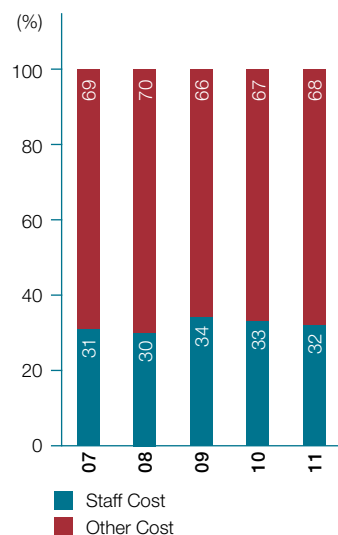
Total expenditure grew by 8% to reach Rs.4.5 Bn from Rs. 4.2 Bn in 2010. However this growth was far outpaced by the revenue growth of 27% during the year under review.

Company Expenditure Structure

The key cost components are further elaborated below:

Personnel Expenses

The expenses incurred for recruiting, retaining and training the staff cadre, accounts for 68% of the expenditure structure which is the single largest contributor to the base cost. The cost outlay for employees out of the total expenditure structure for the FY 2011 is illustrated below:

Employee Cost as % of Total Costs

During the year the staff cost increased by 11% to reach Rs. 3.1 Bn up from Rs. 2.8 Bn in 2010. Of the 11% incremental cost, 2% is the result of the recruitment drive initiated during the year with the intention of sourcing for HIA requirements in addition to fulfilling the BIA cadre vacancies. Consequently, the AASL cadre absorbed over a 200 new recruits, an increase of 4% in the total staff strength (2011-3,306 / 2010-3,179). In addition further cost increases are attributed to:

- The increase in bonus expenses by 25% to Rs.139 Mn from Rs.111 Mn with a view to reward the employees for AASL's record breaking achievements.
- Medical expenditure increased by 32% to reach Rs. 123 Mn up from Rs. 93 Mn in 2010. This was primarily due to a policy change introduced in the company's Medical Scheme. The new system largely favours employees who are susceptible to high medical risks to better their health care benefits with the option of paying a higher insurance premium.
- The cost outlay for learning and development saw a considerable increase from Rs. 47 Mn in 2010 to Rs. 71 Mn in 2011. This was a monumental 51% jump to facilitate a systematic approach towards Employee Capacity Development.

Administration and Establishment Expenses (A&E)

The total Administration and Establishment expenditure increased by a marginal 1% from Rs.1,190 Mn to Rs.1,197 Mn. The cause for the change is primarily attributed to the increase in the electricity charges and secondly to the increased depreciation provision.

Electricity

- 51% of A & E Expenses
- 13% of Total Expenses
- Cost Rs. 504 Mn in 2010 to Rs, 613 Mn in 2011 - 22% increase
- kwh for 2011 - 36,838,036 against kwh for 2010 - 33,102,140 (Note1)

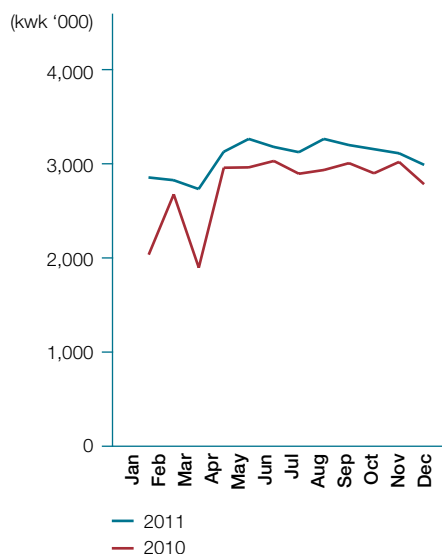
Other Administration & Establishment Expenses

- 108% Increase in Provision for Doubtful Debts (Note 2)
- 54% increase in Depreciation (Note 3)
- 8% increase in water expenses (Note 4)
- 24% increase in Vehicle fuel expenses (Note 5)
- 15% increase in Janitorial Service Expenses (Note 6)

Notes:

1. The increase in electricity expenses was largely due to the increase in air traffic indicators at BIA in addition to the tariff change effective from January 2011. (The kwh rate was increased from Rs 13.60 to Rs 19.10 and the KVA rate from Rs. 675 to Rs 750)

Electricity Main Bill Average Units Consumption



- Due to provision for all Debtors aged over 1 year, the provision for doubtful debts has been increased to Rs. 45 Mn from Rs. 21 Mn.
- Current year depreciation has been increased to Rs. 134 Mn from Rs. 87 Mn recorded last year due to depreciation charged for the vehicle fleet purchased in December 2010 and charging of the full year of depreciation for the Transit Hotel.
- Due to the increased passenger volume at the BIA the units of water consumed increased from 397,516 m³ in 2010 to 425,503 m³ in 2011. The water tariff was also increased in the 4th quarter from 58 Rs/m³ to 63 Rs/m³
- The increase in Fuel price in April and October 2011 and with the increase in operational activities fuel costs rose by 24% to Rs. 50 Mn compared to Rs. 40 Mn in last year.
- Increased manpower requirements to facilitate higher passenger volumes at the BIA caused the increase in Janitorial Service expenses to Rs. 73 Mn from Rs. 64 Mn recorded last year.

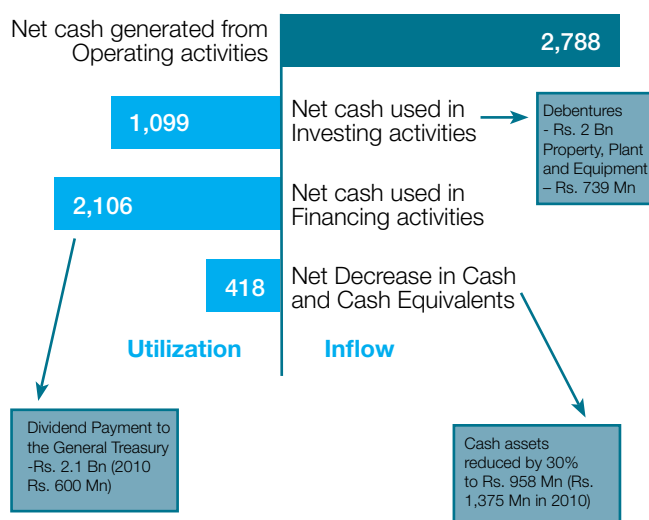
Repairs and Maintenance Expenses (R&M)

The total R&M cost of Rs. 197 Mn in 2010 increased by 23% to Rs. 242 Mn in 2011.

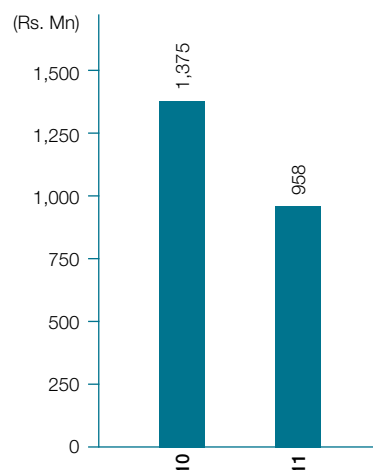
Liquidity

AASL generated Rs. 3.5 Bn the highest ever achieved cash from Operating Activities primarily through profits. The figure exceeds the 2010 figure by a massive Rs.1.2 Bn. The net cash flow from operating activities rose by 56%. However, this increase was largely negated by the 68% increase in the outflow of funds owing to income tax payments and major investments in Debentures, Property and Equipment.

Company Cash Flow in Rs. Mn



Company Cash and Cash Equivalent at the end of the year



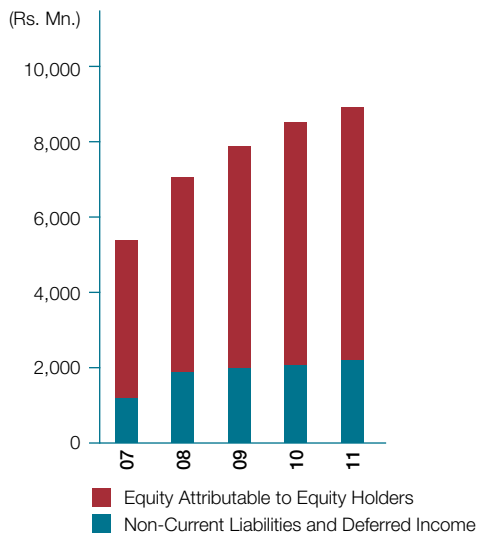
Capital Structure

The AASL Capital structure is briefly set out below:

Share Capital	Rs 20 Mn
Reserves	Rs 92 Mn
Retained Earnings	Rs 6,617 Mn

This is the portion of Assets transferred upon incorporation of AASL following the dissolution of the Airports Authority.

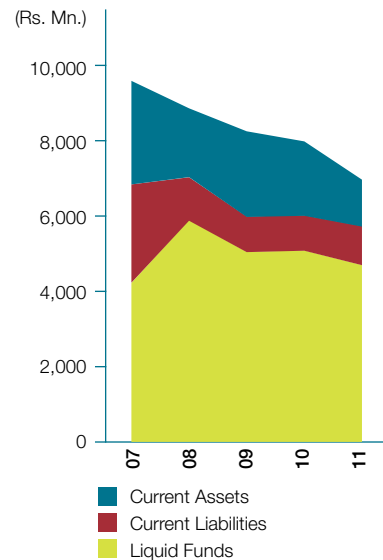
Company Capital Structure



The company has been able to increase retained earnings by 4% compared to the previous year.

The Long Term Liabilities (Consisting mainly Retirement Benefit Liability) increased by a marginal 7% compared to 2010.

Company Working Capital



Stakeholder's Wealth Maximization

Value Addition for year 2011

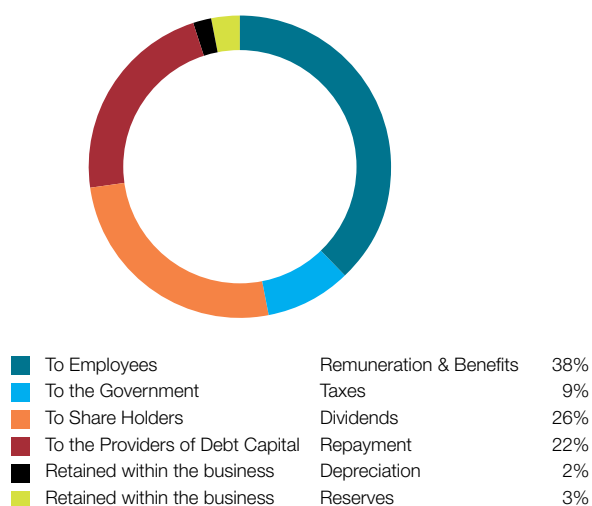
The company created a total value of Rs. 8.2 Bn, for the financial year ended 31 December, 2011 an increase of 23% compared to the previous year.

Value addition shows the total wealth created and how it is distributed, taking into account the amounts retained and reinvested in the company for the replacement of assets and for expansion programmes.

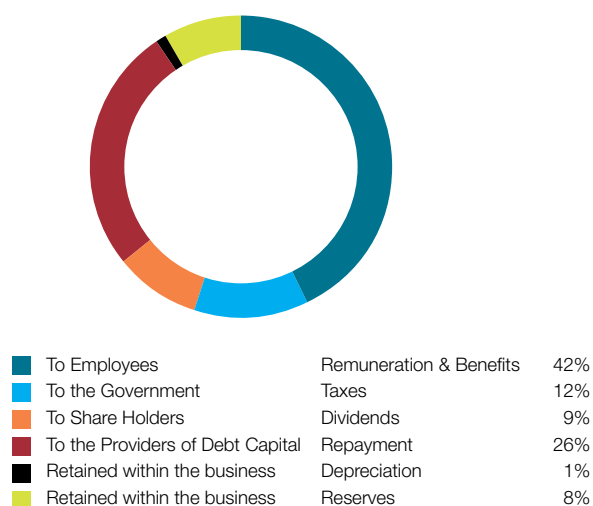
Financial Review *Contd.*

	2011 Rs.000	%	2010 Rs.000	%	
Revenue	8,959,272		7,416,023		
Other Income	498,723		395,404		
	9,457,995		7,811,427		
Cost of Repairs and Maintenance	(242,363)		(197,232)		
Cost of External Services	(1,043,617)		(986,980)		
Value Addition	8,172,015		6,627,215		
Distribution of Value Added					
To Employees	Remuneration & Benefits	3,106,385	38%	2,807,810	42%
To the Government	Taxes	767,949	9%	818,799	12%
To Shareholders	Dividends	2,106,416	26%	600,000	9%
To the Providers of Debt Capital	Repayment	1,791,255	22%	1,751,756	26%
Retained within the business	Depreciation	134,146	2%	87,003	1%
Retained within the business	Reserves	265,864	3%	561,847	8%
	8,172,015	100%	6,627,215	100%	

Distribution of Value Added 2011



Distribution of Value Added 2010



**AASL Retained Revenue Fund (RRF) & Voted Fund (VF)
Revenue Performance**

The only revenue source for RRF and VF stems from the interest income earned from investment on Treasury Bills and bonds under Repurchase Agreements.

Revenue Performance - RRF

The RRF earned an Interest Income of Rs. 16.8 Mn for 2011 an 82% drop compared to 2010. The entire investment of the RRF was withdrawn during the latter part of the year and transferred to AASL Accounts.

Expenditure – RRF

The expenditure in the RRF comprised of normal bank charges incurred for the maintenance of the bank accounts. In addition, RRF accounts included audit charges and the loss on disposal of fixed asset. This was a notional loss as the depreciation has not been charged against the cost of the asset, due to the reasons given in Note 2.5 of RRF Accounts.

Liquidity Position - RRF

The cash and cash equivalent at the end of the year under review was substantially less than in the previous year, amounted to Rs. 0.13 Mn due to transfer of funds as explained above.

Capital Structure - RRF

Capital structure of the Retained Revenue Fund is built up of Rs. 3,983 Mn in Accumulated Fund. The 0.4% marginal increase experienced was due to Rs. 16.8 Mn surplus recorded in 2011. The Accumulated Fund would reduce to Rs. 1,959 Mn if the notional depreciation was charged to it.

Revenue Performance - VF

The VF recorded a surplus for the year compared with the deficit recorded in 2010. This was primarily due to the Interest Income of Rs. 5.8 Mn earned from short term investment compared to the interest income of Rs. 0.02 earned in 2010.

Expenditure – VF

The expenditure in the VF accounts comprised of normal bank charges incurred for the maintenance of the bank accounts.

Liquidity Position -VF

The VF account recorded a Net Cash inflow from Operating activities of Rs. 2.5 Bn in 2011 as opposed to Rs. 5.5 Bn net cash out flow recorded in 2010. The main causes being

- The conversion of the Rs 1 Mn deficit in 2010 to Rs 5.8 Mn surplus in 2011.
- The increase in trade and other payables from Rs. 98 Mn to Rs. 1,198 Bn.
- Reduction of Mobilization advance by Rs. 1.3 Bn compared to the Rs. 5.5 Bn released in 2010.

The VF recorded cash out flow owing to investing activities of Rs 8,440 Mn as against Rs.184 Mn recorded in 2010. This was mainly due to

- Treasury allocations for HIA investments channeled through the VF. during the year, Rs.8.435 Mn was invested for HIA project.

An upward trend was observed in Net Cash Flow from Financing Activities compared to last year due to the contributions received from foreign and local authorities for the constructions of projects. During the year Rs. 5,857 Mn was remitted by the Treasury for HIA investment.

Capital Structure – VF

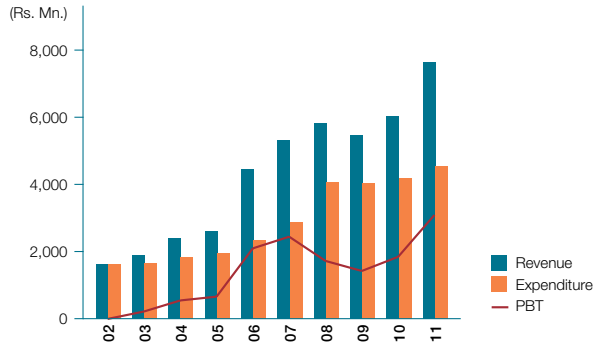
The Voted Fund capital structure comprises:

Description	Value as at 2010 (Rs.)	Movement During The Year (Rs.)	Comments
Foreign and Local Treasury contributions received	28,325 Mn	Increased by 5,857 Mn	Due to large disbursements for HIA Construction
Net assets taken over from Airport Authority (Refer Capital Structure of AASL)	801 Mn	Unchanged	-
The Accumulated Fund (Refer Capital Structure of RRF)	127 Mn (Deficit)	Decrease of 5.8 Mn	The deficit will increase from Rs. 16,713 Mn if the depreciation was taken into accounts and it would result in a reduction of government capital contribution by the same amount.

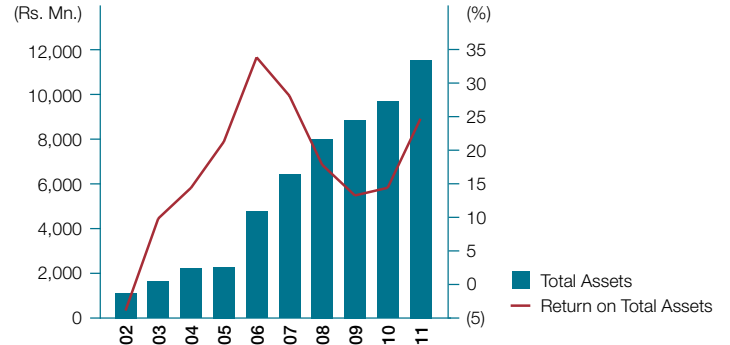
TEN YEAR SUMMARY

	2011 (Rs. Mn)	2010 (Rs. Mn)	2009 (Rs. Mn)	2008 (Rs. Mn)	2007 (Rs. Mn)	2006 (Rs. Mn)	2005 (Rs. Mn)	2004 (Rs. Mn)	2003 (Rs. Mn)	2002 (Rs. Mn)
INCOME STATEMENT										
Total Revenue	7,667	6,060	5,491	5,961	5,340	4,454	2,619	2,402	1,885	1,633
Staff Cost	(3,106)	(2,808)	(2,663)	(2,935)	(1,985)	(1,576)	(1,325)	(1,285)	(1,069)	(980)
Other Cost	(1,440)	(1,387)	(1,387)	(1,285)	(886)	(758)	(624)	(561)	(592)	(652)
Operating Profit before Tax	3,121	1,865	1,441	1,742	2,469	2,120	670	555	224	1
Taxation	(748)	(703)	(506)	(573)	(961)	(747)	(246)	(290)	(93)	(41)
Profit / (Loss) after Tax	2,372	1,162	934	1,169	1,508	1,373	423	265	131	(40)
BALANCE SHEET										
Non Current Assets										
Property, Plant & Equipment	1,807	1,216	939	377	160	109	128	162	160	183
Diferred Income Tax Assets	567	555	701	677	416	368	-	-	-	-
Investments	2,300	300	-	-	-	-	-	-	-	-
Total Non Current Assets	4,674	2,071	1,639	1,054	576	477	128	162	160	183
Current Assets										
Inventories	295	242	233	183	148	148	153	146	122	109
Trade & Other Receivables	2,392	1,540	1,990	1,752	1,073	840	577	555	455	348
Short Term Investments	3,883	5,543	4,564	4,583	4,069	2,764	1,418	1,335	886	481
Cash & Bank Balances	269	260	400	416	548	530	14	9	-	1
Total Current Assets	6,839	7,585	7,187	6,934	5,838	4,282	2,161	2,045	1,463	939
TOTAL ASSETS	11,513	9,656	8,826	7,989	6,415	4,759	2,289	2,207	1,623	1,122
Liabilities & Share Holders Equity										
Share Capital	20	20	20	20	20	20	20	20	20	20
Reserves	92	92	92	92	92	92	92	92	92	92
Accumulated Profit / (Loss)	6,617	6,352	5,790	5,055	4,079	2,660	986	723	578	338
Total Shareholders Equity	6,729	6,464	5,901	5,167	4,190	2,772	1,098	955	690	450
Non-Current Liabilities										
Govt. Grants & Deferred Liabilities	2,181	2,044	1,976	1,883	1,184	933	799	772	530	401
Interest Bearing Borrowings	-	-	-	-	-	-	1	3	-	-
Total Non Current Liabilities	2,181	2,044	1,976	1,883	1,184	933	800	775	530	401
Current Liabilities										
Trade & Other Payables	2,170	858	826	674	573	443	320	308	276	257
Income Tax Liability	422	282	120	264	468	609	19	167	124	7
Interest Bearing Borrowings	-	-	-	-	-	1	1	1	-	-
Bank Overdrafts	11	8	3	-	-	-	52	1	3	7
Total Current Liabilities	2,603	1,148	949	939	1,041	1,053	392	477	403	271
TOTAL EQUITY & LIABILITIES	11,513	9,656	8,826	7,989	6,415	4,759	2,290	2,207	1,623	1,122
Return on Net Assets	%	35	18	16	23	36	50	39	28	(9)
Net Profit Ratio	%	31	19	17	20	28	31	16	11	(2)
Earning Per Share	Rs.	11,861	5,809	4,672	5,843	7,542	6,865	2,115	1,324	(202)
Current Ratio	Times	2.6	6.6	7.6	7.4	5.6	4.1	5.5	4.3	3.5
Quick Assets Ratio	Times	2.5	6.4	7.3	7.2	5.5	3.9	5.1	4.0	3.1
Total Income to										
Total Expenditure	Times	1.7	1.4	1.4	1.4	1.9	1.9	1.3	1.3	1.0

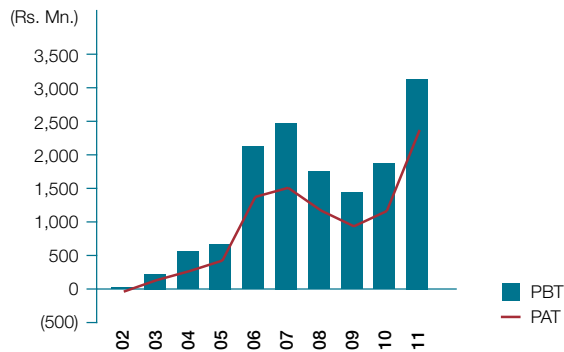
Profitability



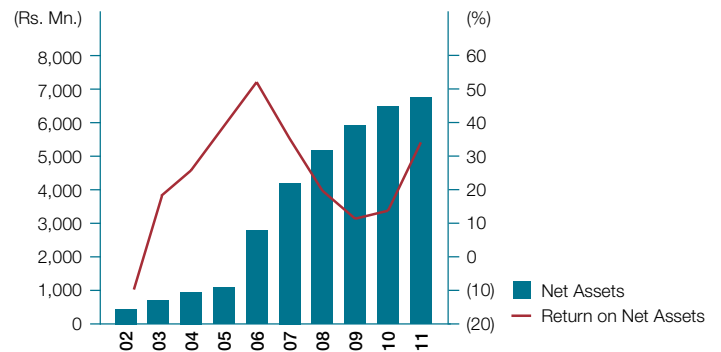
Total Assets & Return on Total Assets



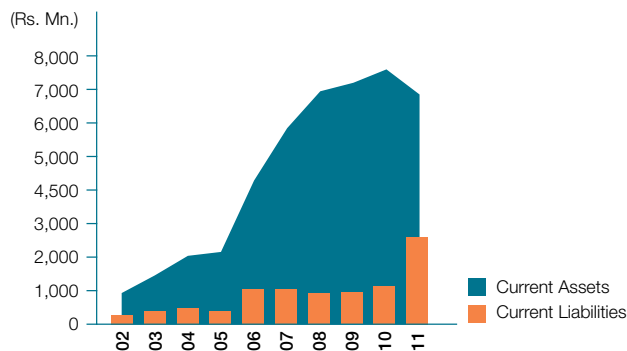
Profit After & Before Tax



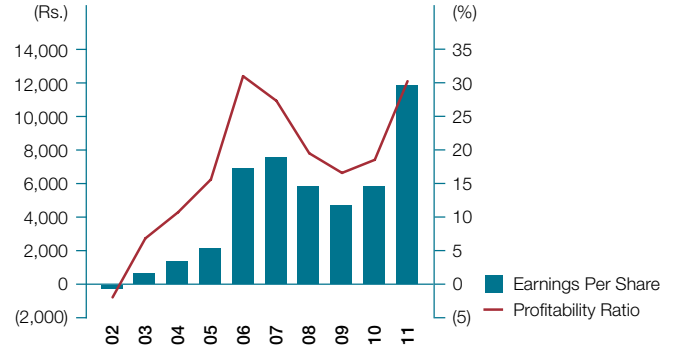
Net Assets & Return on Net Assets



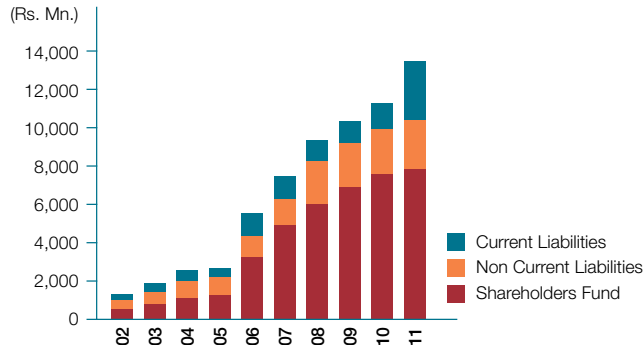
Current Assets vs. Current Liabilities



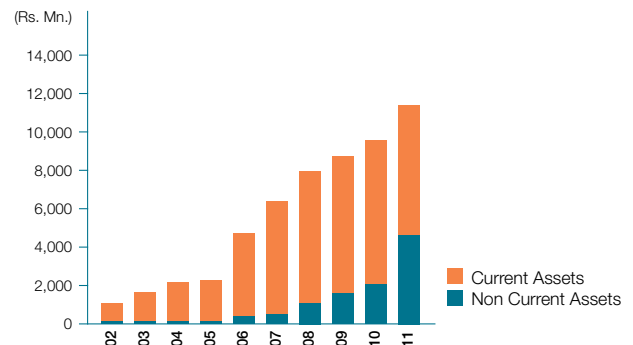
Profitability & Earnings per Share



Capital Employed



Assets Employed



HUMAN RESOURCES MANAGEMENT

AASL views Human Resources (HR) as a value creator having a high impact on the bottom line. Accordingly, AASL's HR strategy is designed to focus on a comprehensive corporate HR suite embracing all four key elements of HR, namely recruitment, retention, development and rewards. We focus on each element in relation to HR to establish key differentiators in building competitively advantageous strategies for sustainable business promotion and growth.

Recruitment and Selection

Our recruitment process demands that all potential candidates are thoroughly evaluated to assess their skills and ability to adapt to the AASL corporate work ethic. The comprehensive recruitment process ensures that candidates are assessed on their capabilities in multiple areas, including written, spoken, physical and practical aptitudes.

AASL employs a gamut of disciplines under a common umbrella, dictating a highly diversified staff requirement, ranging from unique disciplines of Airport Fire Services, Aviation Security, Passenger Facilitation, Airport Infrastructure Development and Maintenance and Air Traffic Control to general disciplines such as Finance, Human Resource Management and Legal.

Our training and development policy and programmes are self rewarding and were able to fill approximately 80% of the expected vacancies created due to retirements, resignations and elevation of the career path by promoting internal staff to accept challenging new roles. The balance 20% of the requirement created due to above reasons and the new cadre recruitments of BIA and HIA was addressed through an aggressive recruitment drive initiated through diverse publicity

mediums, in order to attract potential applicants. A lucrative remuneration package was offered to new recruits in addition to potential training opportunities. It was observed that the average age for a new recruit was 31 years, which allowed, on average, a further 26 years of productive service until retirement.

During the year, the company recruited 206 candidates to fill the existing cadre requirements of BIA and future cadre requirements of HIA in the following categories:

Level	No. of Recruitments
Executives	16
Supervisors/Technical Officers	34
Clerical and Allied	18
Skilled and semi skilled workers	129
Minor Employees and Unskilled	9
Total	206

Considerable time and effort were also engaged in evaluating the potential staff requirements and logistical demands imposed on the company owing to the proposed launch in 2012, of Sri Lanka's 2nd international airport in Hambantota. The cadre requirements are planned by mapping the Re-engineered Business Processes of BIA to HIA by identifying the processes and people requirements considering HIA's brand new position as the greatest advantage in adopting innovative work solutions. The detailed report for the finalized cadre is to be presented to the Board of Directors for approval.



1



2

AASL elevates itself to an Organization driven by Management By Objectives (MBO)

Rewarding performance is a natural element of the performance management process. However, at AASL we are convinced that the performance management process embraces a broader scope of components with opportunities for training and development, promotion and praise and is not restricted solely to monetary rewards.

In the past, performance appraisals were done quarterly and annually to assess and monitor employee competencies within the framework of the specific job description. Accordingly, employee performance was assessed as an index /score in comparison to an established target.

AASL formulated a new Performance Management System to address a long overdue need to create a performance driven employee reward and recognition scheme. The new scheme will ensure that employee goals match key organizational objectives and the element of reward and recognition is linked directly to performance. Under the proposed scheme, each employee is expected to instill into their own character, a set of core behavioural competencies that would create a new performance driven culture while upholding corporate values, and adherence to the corporate code of conduct. Under the new result oriented guidelines, employees are expected to develop customer interaction through innovation and effective communication. This strategically important step will nurture a new breed of employees motivated to accept new challenges that would guarantee future success not only for themselves but also the organization as a whole. The system was approved by the Board of Directors in November 2011, to be implemented commencing from 2012, and would be

introduced in phases with the initial phase being applicable only to the executive grades during the first year, with a gradual progression to the other staff of the company. With the introduction of the new Performance Management System, AASL will be transformed into an organization driven by a MBO platform.

Building Capabilities

The AASL team comprises of, dedicated professionals from multi-disciplinary backgrounds, with extensive knowledge and skills that has enabled the organization to achieve significant milestones and embrace bold new challenges. We firmly believe in the concept of staff development and have introduced an advanced skills training programme combining classroom training techniques together with practical and outbound training sessions to develop and promote the existing staff. An unprecedented amount of time and resources were channeled to achieve this goal as detailed below:

	2010 -No. of Training Hours	2011- No. of Training Hours
Foreign Training	7,688	9,808
Local Training - In-house and external	29,870	24,347



1. Performance appraisal awareness workshops conducted for the managerial categories
2. Passing Out ceremony of the 30th intake - 60 No. of Security personnel were absorbed to the permanent cadre
3. Front Office Staff at the Lotus Lounges

Staff Strength 2011



Executives	224	7%
Supervisors/Technical Officers/Salesman	279	8%
Clerical and Allied	599	18%
Skilled and Semi Skilled Workers	1,711	52%
Minor Employees and Unskilled	493	15%
	<u>3,306</u>	<u>100%</u>

Staff Strength 2010



Executives	197	6%
Supervisors/Technical Officers/Salesman	259	8%
Clerical and Allied	590	19%
Skilled and Semi Skilled Workers	1,631	51%
Minor Employees and Unskilled	502	16%
	<u>3,179</u>	<u>100%</u>

Our commitment to employee professional development stems from the belief that employees who mature through a progressive environment effectively contribute towards long term corporate success. As such, our professional development matrix of 70:20:10 states that an individual's capability is built on experience, relationships and formal development in the said percentages respectively. The salient features of the philosophy are illustrated below:

70% Experience

- Challenging assignments/Projects
- Presentations at leading the cross functional meetings teams
- Full Job change

20% Relationship

- Bosses
- Mentoring
- Counseling
- Role Models

10% Formal Development

- Training
- Books
- Knowledge Sharing

AASL is presently in the process of gradually implementing the new philosophy and simultaneously fine tuning relevant practices at appropriate levels to ensure employees benefit from the Professional Development Scheme.

The success of the philosophy is dependent on the mutual commitment and responsibility of both the employee and employer. We believe the matrix has been a tremendous success judging by the large number of employees with a significantly higher performance index in their recent reviews. The success of the scheme has prompted AASL to extend its reach to a larger segment of the employee populace.

On-the-job training is also a significant component of performance recognition and career progression at AASL especially for operational and technical areas. This form of focused growth environment has resulted in developing a talented resource pool within our organization itself.

Our employee development philosophy further promotes communication through efficient knowledge sharing via the AASL e-library portal. All study tools, and research material are formulated by the employees themselves, drawing on their own learning experiences. Thus allowing all AASL employees an easily accessible, subject focused, practical knowledge enhancement tool.

AASL encourages employee self-development by pursuing specialized professional qualifications that compliment their chosen field. A carefully structured allowance scheme supports this objective. During 2011 alone, five of our employees completed their Masters Degree and joined the ranks of the 50 other employees who possess a recognized professional or post graduate qualifications, which is a 30% representation of our total executive cadre. We also possess some of the finest technical and industrial experts, many of whom have obtained

their qualifications on their own initiatives, successfully supported by our employee development programme.

From 2010, the AASL management implemented drastic changes in the organizational structure, by identifying high performance employees to be developed as the new brand of leaders. They were removed from their core area of operation and assigned to manage an independent operational unit, with greater challenges and managerial responsibility.

One such component is the latest addition to the AASL business model, namely the Marketing Division, introduced in 2011, with the aim of addressing an essential need for our industry and ensuring the internal talent pool is adequately maintained at all times.

CATC- Crafting the talent required by Aviation in Sri Lanka and of Foreign Territories

During the year under review, the Civil Aviation Training Centre (CATC) made significant headway in reaching its goal of becoming a successful Strategic Business Unit (SBU), in addition to being AASL's dependable training arm. While enjoying a certain degree of autonomy in engaging in revenue generation, the horizontal structure of the CATC, allows the flexibility required by a SBU in exercising control over its operations. CATC made a noteworthy investment to address the vacuum that existed due to the lack of aviation industry specific commercial courses. CATC's success in this area was clearly evident by the significantly higher return that was generated through this activity. The expanded curriculum of courses included the newly launched "Diploma in Aviation Studies" programme, with an initial intake of 26 participants who had completed their GCE (A/L). Scholarships were awarded to the children of two company employees, based on the student's Z-score and their parents' service record.

Meanwhile, the CATC continued to conduct their routine training programmes for company employees as well. This year witnessed an unprecedented intake of 60 recruits for Aviation Security and 53 recruits for Fire Services.

In addition to the regular training portfolio, CATC was able to broad base its activities on an international scale as well. One such successfully concluded programme was the "Management Development" course for the Communication Officers from the Nigerian Aerospace Management Agency. The regular participation of the Maldives continued in 2011 as well, an indication of the consistent quality of our courses. The total income from commercial courses during the year was Rs. 4.3 Mn of which Rs 1.2 Mn was earned from foreign clientele.



1. Head of Civil Aviation Training displays the CATC's certification as a Vocational Training provider, to the audience at the inauguration of the "Diploma in Aviation" programme
2. "Management Development Course" for Nigerian Communication Officers
3. The first intake for the "Diploma in Aviation"

we believe our greatest challenge in the immediate future is to source and develop adequately, the manpower requirement to service Sri Lanka's second International Airport in Hambantota.

Other People Initiatives

We motivate our staff towards career development and progression through a well defined career development plan. Since there was a minority of positions with no established career progression path or have reached a saturation point in the progression plan, the focus of HR was directed towards career progression during the year. A Committee was appointed by the Management to identify the relevant issues and develop solutions in consultation with line Managers, HR and Trade Unions. During the year a total of 293 employees from 3 different disciplines experienced career progression through this exercise. At present discussions are in progress to rectify the situation of about 850 employees belonging to 6 disciplines.

Employee Communication and Relationship

AASL acknowledges the existence of various factions and interest groups promoting a range of issues. We have great respect for the rights and beliefs of all employees and have always considered it as a critical element of our Human Resource Policy. Therefore, throughout our 28 year history, we have been able to avoid any significant labour force action. We are sure that, the good relationship we maintain with all interest groups has fostered greater loyalty and commitment from our employees. At present 26 Trade-Based Unions, 03 politically affiliated Unions and 03 Charitable Associations function at AASL. Supported by established legal guidelines, the AASL

has regular dialogue with all interest groups in developing long term sustainable communities.

Lateral communication and unity between employees is done through cross functional teams and committees, which provides important feedback to the management.

We provide our employees with many social opportunities through an active social calendar which includes multi-ethnic and multi-religious activities along with sporting activities and discussion forums. We have found that such character building activities strengthen the employees' relationship towards the organization.

People Welfare

The Company provides employees with a host of practical and relevant welfare facilities and subsidized services. A comprehensive Health Insurance Scheme, Death Donation Scheme, Staff Loan Scheme, Staff Transport Service, Holiday Bungalow facilities and partial interest refund on Housing Loans to name a few.

In order to provide employees with the comprehensive Health Insurance Scheme, the AASL paid, approximately Rs. 122 Mn. during the year, as premiums to the insurer.



1



2

The Staff Loan Scheme is made available to ease the financial burden of employees. It is noteworthy that 413 employees obtained the staff loan during the year and 64 employees obtained "Partial Interest Refund" facility extended by the Company on Housing Loans they have obtained.

The staff transport facility covering a widespread route network is being utilized by a staggering 1,500 employees.

The Holiday Bungalow facility at Nuwaraeliya, is a complex consisting of 5 apartments situated at the base of the Pidurutalagala Mountain and has been fully utilized by our employees during the school vacations and long holidays. The entire complex and its resident facilities were upgraded in 2011.

The Path Ahead

As a progressive organization in the forefront of the Sri Lankan economy, the AASL has faced many challenges over the years. We have successfully overcome these obstacles and emerged as a dominant business entity in Sri Lanka. We are confident that our integrated, proactive approach to HR will no doubt successfully overcome the many challenges in the organizations future. Thus far the AASL has only been confronted with the challenge of servicing the requirements of the Bandaranaike International Airport (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 second International Airport in Hambantota (HIA). We believe the suitable groundwork has been laid to ensure we source the right calibre of people to service the HIA requirements. We are certain that our systems and processes are geared to meet the challenges of running the second International Airport efficiently. Through the increased focus on our core business and commitment to building effective stakeholder linkages, we are confident in our ability to meet and even exceed the existing service parameters applied at the BIA.



4



5



6



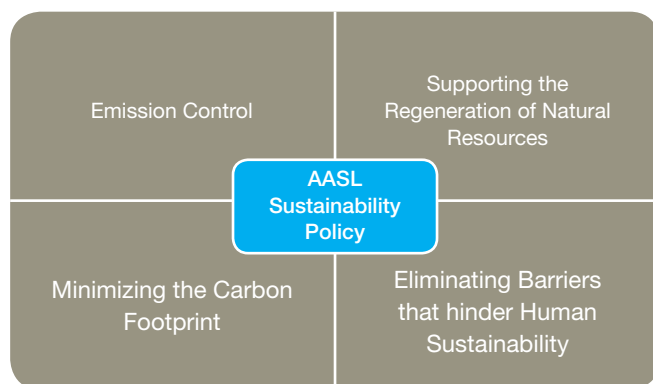
3

1. Basic screening medical check for employees conducted by Company Medical Unit.
2. Medical check-up organized by Seva Vanitha Unit for the female staff of AASL in collaboration with Family Planning Association of Sri Lanka
3. New year Celebrations on 01st January 2011 with the participation of all agencies operated at BIA
4. Bhakthi Gee - 2011 organized by Buddhist Association
5. Christmas Carols 2011 organized by Christian Association
6. E-library FTP (File Transfer Protocol) for knowledge sharing among employees

SUSTAINABILITY MANAGEMENT

The AASL sustainability dictum goes beyond a simple “Green Policy”. The environment itself is identified as a definitive stakeholder of the organization.

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



Our integrated Sustainability policy is based on four key principles.

Emission Control

AASL reiterates its commitment to environmental conservation by going the extra step. The company continuously evaluates all materials discharged or released to the natural surroundings. Thereby minimizing emissions and controlling

the green house effect. All our environmental activities have been sanctioned by the Central Environmental Authority (CEA) of Sri Lanka.

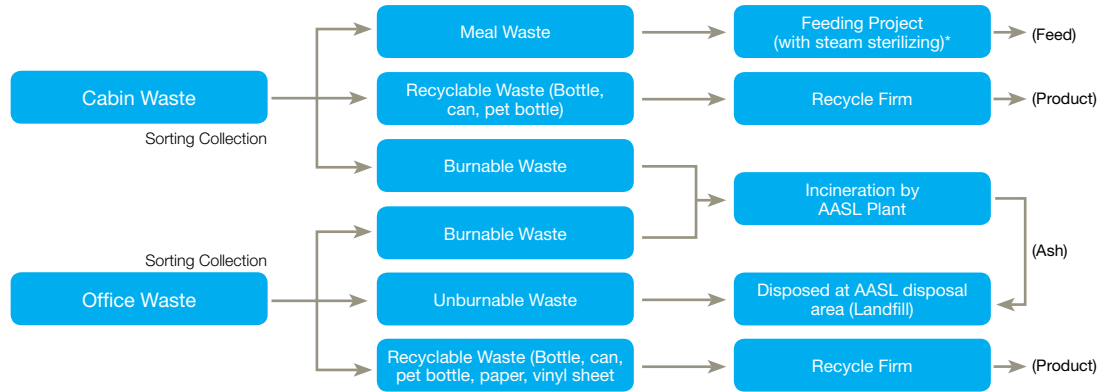
- **Existing Sewerage Treatment Plant (STP)**

The STP was commissioned to control the toxicity levels of effluents discharged to the environment. The plant was set up under license from the CEA. In compliance with CEA guidelines all treated effluent materials originating from the STP are rigorously tested prior to discharge. Daily in-house sample testing is supported by quarterly tests conducted by the Industrial Technology Institute (ITI). All results are filed with the CEA.

- **The Incinerator and Waste Management**

Industrial waste management comes under the purview of the CEA. AASL's waste management facility is a state-of-the-art Solid Waste Disposal incinerator that was commissioned under the Environmental Protection License (EPL) issued by the CEA. As per the CEA guidelines, prior to the issuance of the EPL all solid waste matter discharged by the incinerator was tested by ITI. The renewal of the license is determined on successful periodic reviews of the system and continuous testing of samples. The disposal of waste paper, glass, plastic, steel and organic materials are outsourced to CEA registered recycling agent. All garden waste is composted while any other waste matter is incinerated. The incinerator serves to destroy all disease causing bacteria and viruses from the effluent matter.

The waste collection and disposal system currently operational at the BIA is illustrated below. We recycled 121,291 kg of waste paper, 3,828 kg of plastic bottles and polythene, 473 kg of glass. And this recycled waste paper implementation initiative alone has saved 2,074 trees, 3,877,160 liters of water and 4,880 kwh of electricity which is used in manufacture of paper.



* The cabin food waste is collected and turned into animal feed through a sterilization process along with the catering waste by the BIA's inflight catering service provider.

• BIA Eco-Airport Management Plan (EMP)

AASL's BIA EMP was formulated to sustain the BIA as an environmental friendly airport. It is an integrated management tool that conceptualizes a broader scope of activities including optimizing resource utilization, management of waste disposal and improvement of ecology (atmosphere, noise and water quality) and conservation of the natural environment. The success of the EMP relies greatly on the ability to create public awareness through the disclosure of relevant and accurate information. The BIA Environmental Committee was appointed in 2010 as the authorized body responsible for the planning and implementation of the required systems to ensure objectives are achieved. The committee would conduct periodic reviews of the systems and processes and make necessary revisions in tandem with the objectives.

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

Minimizing the Carbon Footprint

• Energy Conservation

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

AASL has made a concentrated effort to educate employees on the importance of following energy efficient practices. During the year the "Switch Off Policy" has been increasingly applied as a parameter in the energy audits.

AASL's Energy Management Practices were applied to through a range of smart, sustainable solutions.

- Existing buildings were refitted with energy efficient lighting, lighting control and motor control systems (eg: T5 fluorescent fittings, LED, C-Bus Control system, drives for AHUs', PAUs').
- Integration of the new chiller systems with the existing Building Management System for chillers
- Use of electronic ballasts and energy efficient lamps/ bulbs during remodelling projects
- Upgrading building air-handling units with variable speed drives and soft start controls
- Introduction of solar heaters for hot water systems
- Optimizing the use of natural lighting with skylights and the dimming regulators
- Usage of motion sensors, occupancy sensors in the Passenger Terminal Building
- Power factor corrections, introduction of RFID (Radio Frequency Identification) activated door locks and master switches at the Transit Hotel
- Change over from hot cupboards to microwave ovens for warming of food resulting in an energy saving of at least 4kwh from a single change per day
- Use of pedestal fans after office hours and during weekends in the office area without the use of chillers for air conditioners.

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

Electrical Energy Consumption per Passenger

(from Year 2007 to Year 2011)

Year	kwh/pax
2007	7.30
2008	7.59
2009	7.78
2010	6.29
2011	5.99

We are greatly encouraged by our accomplishments and have now extended our conservation drive to seek energy efficient alternatives for Runway and Airfield Lighting. The project is presently at the trial stage where the existing Halogen Lamps that illuminate the taxiway are to be replaced with energy efficient LED lamps.

Supporting the regeneration of Natural Resources

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

Water Conservation

Our water conservation and management programme is one such initiative. Over 50%, approximately 1,200 m³ of the total 2,200 m³ of the daily drinking water requirement at the BIA is met by water from the bore wells drilled on the premises. This water is treated as per standardized consumption parameters. Our water conservation efforts are supported by a range of initiatives including the use of Sensor taps in the Passenger Terminal Building (PTB), Dual cistern flushing to reduce water usage and the installation of photoelectric urinals in the PTB. Continuous evaluations are done to gauge if water controls mechanisms maintain optimum functionality levels and highlight any areas of concern. Repair and maintenance requirements are attended to as a matter of priority.

Paperless Office Policy

Our goal is to achieve a "Zero Paper" policy. The bulk of our operations demand a large volume of paper usage. AASL consumes approximately 2.8 Mn A4 sheets annually. However, we have identified certain critical areas of operation which can be successfully supported on an electronic platform. With effect from 2010, all official AASL correspondence is done via email. In addition Help Desk, Day Pass System, FTP (File Transfer Protocol) Server and File Server are the other four functions that are also now successfully done electronically.

Eliminating Barriers that hinder Human Sustainability

Sustainable Transportation System in the Country

The intermodal railway system between the BIA and the Fort Railway Station in Colombo which is explained under MDA, was a pioneering venture that introduced as the first



1



2

ever air-rail link in the country. However, we encountered the challenges of difficulty of transfer between modes intensified by the distance between them. In order to combat them and to fulfill the original goal of contributing for sustainable transportation system in the country the extension of the intermodal railway line to bridge the gap between the Terminal Building and the intermodal railway station was initiated during the year under the aegis of Sri Lanka Railways and it is expected to be completed by 2013. AASL considers the investment added a sustainable asset to the transportation system in the country. The project has now been formulated as a case study for post implementation learning and will be used for knowledge enhancement and planning of future infrastructure projects.

Prior to the commencement, AASL refurbished the Colombo Fort Railway Station and BIA Railway Station while completely revamping the Public Address system and the installing of sophisticated flight display units. As part of the refurbishment effort, the luxury Hitachi train was rebranded and upgraded while a range of high end, state-of-the-art equipment was also installed to enhance users comfort and travel experience.

Two bus shelters were constructed by AASL in close proximity to the BIA to facilitate public transportation during the year. The relocation of the AASL Fuel Filling Station explained under MDA was considered imperative towards seamless transfer for full filling refueling needs from the existing station to the new one without any disruptions to the regular flow of activities upon its completion. At present the existing Fuel Station continues to serve the non-aviation fuelling needs of all BIA users while serving to the public at large. The new

Fuel Station, strategically located adjacent to the Colombo Katunayake expressway, is a state-of-the-art complex with all modern amenities. The project is currently under construction and is expected to be completed in the year ahead.

• **AASL Contributes for the Education and Training of Youth**

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

Community Services and CSR Initiatives

◆ **Financial Assistance to support those affected by Natural Disasters**

During the year AASL donated a sum of Rs 1 Mn to the Ministry of Disaster Management to purchase school uniforms for children in the flood ravaged districts of Polonnaruwa, Ampara, Trincomalee and Batticaloa.

◆ **Blood Donation Campaign**

A large scale blood donation drive was conducted with more than 150 donors, of which a majority was AASL employees. The campaign which was organized by an AASL employee union was considered a success in terms of volume collected. This is an ongoing annual programme organized by associations and the employee unions funded by the company.



1. Sewerage Treatment Plant
2. Incinerator
3. Water Treatment Plant



◆ **Sustainability through Awareness and Education**

To increase awareness and educate the younger generation on the AASL's crucial role in the national aviation industry, the company supports the government initiated programme titled "Nana Guna Waduma Sisu Diriya". A weekly programme conducted as an educational excursion to the BIA and launched in 2002 to increase awareness among school children. The program continued successfully in the year under review as well. During the year the program was extended to the children of staff.

◆ **Cultural Endeavours**

Sri Lanka's long history has always been entwined with its culture. These elements have proved to be the strongest attraction in consistently drawing tourists to the country. Our cultural support programmes endeavour to uphold true Sri Lankan values and customs. AASL has taken under its wing to support by way of donations to a large number of significant cultural festivals held islandwide throughout the year. In the year under review, the company made contributions to the Esala Perahera of Sri Dalada Maligaya, Annual Dalada Perahera at the Rajamaha Viharaya in Kotte, "Esala Perahera 2011"- Lankathilaka Sri Vishnu Dewalaya in Handessa, Kelaniya Duruthu Festival, Colombo Nawam Maha Perehera in Sri Jinarathana Bhikku Abhyasa Vidyalaya – Gangaramaya, Esala Festival "Suriduni Katharagama-2011"



1. Airport visit arranged for the children of AASL Staff
2. One of the two bus shelters erected
3. The Chairman plants a tree at the new Fuel Filling Station grounds - initiative of BIA Environmental Committee
4. Blood Donation Campaign - 2011

CORPORATE GOVERNANCE

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

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 comprises of 9 Directors including the Chairman and 3 fully functional Executive Directors, the remainder are Non Executive Directors. Of the Non-Executive directors, one is appointed by 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>In their capacity the Board of Directors performs a dual role</p> <ul style="list-style-type: none"> ◆ In a Leadership Role <ul style="list-style-type: none"> • To determine the Corporate Mission and how best it would serve the interests of its shareholders and other stakeholders • To ensure compliance with all Legal and Statutory requirements and provisions of the Incorporation Act/Memorandum and Articles of Association. • Formulate policies for implementation by Management • Periodic review of Public Policy Objectives and provide strategic direction by identifying long-term goals and objectives that lead to future growth. • Ascertaining and sourcing of financial requirements needed to meet goals and objectives to ensure uninterrupted flow of operations • Ensuring compliance with disclosure regulations and maintenance of required records and books of Accounts ◆ In a Supervisory Role <ul style="list-style-type: none"> • Ensuring policies are executed as per the Board Mandate while maintaining the best interest of the institution and the public at large. • Monitoring of the activities of Management by means of Management Information Reports and Performance Evaluation • Initiating prompt remedial action to address variances and revise operational strategies to ensure goals are achieved • Recruitment /Appointment of competent personnel to managerial posts to ensure the smooth functioning of the organization through effective delegation of duties. • Creating an environment that fosters Team Spirit Amongst Senior Management, enabling them to carry out their respective functions independently and in a responsible manner. • Reporting of progress to the shareholders at Annual General Meetings • Attending Committee meetings on Public Enterprises (COPE).

Section	Applicable Rule	Compliance
4.1 and 4.2	Directors Decision making	The Board meetings serve as the most important forum and is the supreme decision making mechanism that facilitates all strategic decisions. Board Meetings are held regularly and all decisions made are sanctioned collectively. The attendance at Board meetings are shown in the table on page 76.
3.7.1	Chairman / CEO	The Chairman / CEO is appointed at the discretion of the Minister of Civil Aviation. The present Chairman has continuously served on the Board for a period of nearly 4 years, of which the last 2 9/12 years have been in the capacity of Chairman. The Chairman plays an executive role by providing Leadership and Strategic Direction to the Board in a dynamic and professional manner.
3.8	Company Secretary	<ul style="list-style-type: none"> The Company Secretary is entitled to receive any corporate information from all directors either jointly in board capacity or independently. The Company Secretary is expected to maintain a strict Ethical and Professional Code of Conduct to ensure relevant Board procedures are followed at all times. The Company Secretary should provide adequate guidance on legal requirements that govern Board proceedings. The general procedure dictates that the Company Secretary should circulate the notices of Board meetings, Minutes of meetings, Board papers and other relevant documents which should include adequate information to enable the Board to make informed decisions. The Company Secretary is expected to coordinate with the Board to establish the successful execution of all Board decisions.
Accountability		
2.2	Accountability to the Government	<p>The Board's is directly accountable to the Government as the key shareholder and reports to the following Government authorities. The relevant mechanisms pertaining to each body in executing our accountability are detailed on page 76 of this report, under the "Accountability to the Government as the Key Stakeholder"</p> <ul style="list-style-type: none"> The Parliament The Cabinet of Ministers The relevant Minister /Ministry The Auditor General
6.3	Responsibility of the Board regarding the Financial Statements	The directors wish to confirm that all Financial Statements pertaining to the three sets of accounts maintained by AASL, namely The Company, Retained Revenue Fund (RRF) and Voted Fund (VF) accounts have been prepared in accordance with the Sri Lanka Accounting 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 and Management Committee assists the Board in implementing AASL's secure Internal Control and Risk Management System, in accordance with the best practices appropriate for the nature of the business. Board conducts periodic reviews of the system to ascertain the adequacy and effectiveness of the internal controls.
7.4.1	Audit Committee	Please refer the details of Audit and Management Committee (AMC) detailed below on page 77 of this report.

Section	Applicable Rule	Compliance
7.4.3	Tender Board	<p>The procurement of all goods and services is done in accordance with the strict government guidelines laid out for Tender Procedures This helps to maintain transparency of the transaction and minimize any undesirable practices caused by conflicting interests. The value of the contract is the key determinant by which contracts are assigned to the relevant Tender Board as illustrated in the table below.</p> <p>Rs.1 Mn - 5 Mn - Tender Board 2 Rs. 5 Mn - 50 Mn - Tender Board 1 Rs. 50 Mn - Rs. 100 Mn - Ministry Appointed Procurement Committee Above Rs. 100 Mn - Cabinet Appointed Procurement Committee (<Rs. 100,000 is approved by Head of the Division and Rs. 100,000 to 1 Mn is approved by the Chairman).</p>
7.4.4	Training Committee	<p>AASL's Training Committee headed by the Chairman of AASL consists of Head of Human Resources, Head of Finance and the Training Manager. This four member committee evaluates the training needs of the company; formulates procedures relating to selection of individuals for local/foreign training that promotes the Development of Human Capital. The committee's scope of activities also extends to the improvement of the knowledge dissemination mechanisms related rules and procedures. The committee's decision making process is supported by the views and recommendations of the respective divisional heads.</p>
Relationship with Stakeholders		
	Institutions and Regulatory Bodies	<p>The Company recognizes its legal and other mandatory obligations to all legitimate Stakeholders including the Government as the key stockholder. The company is also accountable to all other stockholders and interested parties, including employees, users of the Airport (airlines, passengers and the business community maintaining commercial ventures within the airport premises) suppliers and other service providers and the community as a whole.</p>
	Employees	<p>While the organization's Vision, Values, Corporate Objectives are communicated to all employees, Divisional Objectives and cascaded down individual objectives are also recognized at appropriate levels to ensure Goal Congruence within the company. The employees are updated with accurate operational and financial performance of the company. All employees are offered a competitive remuneration package along with a number of welfare measures. AASL endeavours to create a safe work environment for all employees that support the removal of artificial barriers that hinder human development and growth. The Corporate Code of Ethics is communicated to all employees and is supplemented by an internal circular detailing penalties and punishments effected for acts of misconduct.</p>
	Environment	<p>The Board is highly committed to the sustainability of the environment and therefore ensures that the company strictly adheres to the recommended environmental standards that protect and promote the Eco System. The practices adopted by the company are explained under Sustainability Management.</p>

Attendance at Board Meetings

	MEETING ATTENDANCE								TOTAL
DIRECTORS	1 st	2 nd	3 rd	4 th	5 th	6 th	7 th	8 th	-
Prasanna J Wickramasuriya	1	1	1	1	1	1	1	1	8
Kamal S Ratwatte	1	-	1	1	1	-	1	1	6
Yohan Jayaratne	-	1	1	1	1	1	1	1	7
Kosala Wickramanayake	1	1	1	1	1	1	1	1	8
Ananda Goonatilleke	1	1	-	-	1	1	1	1	6
Yoga Perera	1	1	1	1	-	-	1	1	6
Shanika Gopallawa	1	-	1	1	1	1	1	1	7
D S Jayaweera	1	1	1	1	1	1	1	1	8
J R U De Silva	1	1	-	1	-	-	1	1	5

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

As per the Treasury Circular PE/PF 21 dated May 24, 2002, Annual Reports of the company are tabled in Parliamentary Review within 150 days from the end of the financial year.

COPE

The Parliamentary Committee on Public Enterprises (COPE) is empowered to review the performance of the company and to assess the extent to which the company achieves performance targets and fulfills social responsibilities. When summoned by the COPE, the AASL Chairman, Directors and Senior Managers together with the Secretary to the Ministry and the Chief Accounting Officer are expected to be present at the reviews, to respond to any queries concerns regarding the activities of the company. Only one such meeting was held during the year.

PCC

The Parliamentary Consultative Committee (PCC) on Aviation has the power to request the AASL Chairman, Board of Directors and Senior Managers to be present at meetings of the Committee, to clarify any queries pertaining to matters of interest or concern regarding the operations of the Company.

Minister of Finance / General Treasury

The Minister of Finance or the General Treasury acting on his behalf is responsible for financial discipline in the public sector, including all public enterprises. Accordingly a Treasury representative is appointed to the AASL Board to monitor performance, ensure compliance with statutes, rules and regulations etc. and to report on any matters of concern to the Minister. During the year, Dr. S Jayaweera, was nominated as the Treasury representative on the AASL Board. The responsibility for monitoring the financial management and control of Public Enterprises is vested with 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 of AASL is accountable to the Government for the financial administration and management of the company. His capacity allows him to regularly review the following matters with the Board.

- Corporate Plan and Budgets
- Physical and Financial performance of the current year
- Auditor General's Report (on Voted Fund accounts) and Management Letter (on Company and Retained Revenue Accounts)
- Development activities undertaken during the year
- Matters arising from meetings of the COPE

Audit and Management Committee (AMC)

The Board is assisted by the AMC which has been set up as per the Treasury Circular No PF/PE 3 of 19/11/1999. The AMC comprises of three Non-Executive Directors namely the 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 and served in this committee during the year under review. The AMC scope of authority is defined by its Terms of Reference (TOR) and includes the determination of the responsibilities of the Internal Audit Unit, reviewing of the Annual Audit Plans, monitoring and evaluating Internal Control Systems for all activities of the entity and assessing performance at regular intervals to evaluate cost effectiveness and to eliminate wasteful expenditure. The AMC is also expected to liaise with external auditors, report on Management Letters issued by the Auditor General and External Auditors, ensuring compliance with statutes, regulations, rules and circulars, reviewing financial statements to ensure conformity with Accounting Standards and assessing implementation of recommendations and directives of the Committee On Public Enterprises (COPE).

The AMC report on the Committee's proceedings, findings and recommendation are forwarded to 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 decision making power is not vested with the AMC and lies entirely with the Board of Directors.

AMC meetings were held five times during the year. Mr. J R U de Silva and Mr. Yoga Perera were present for only 2 meetings. However, they were kept informed of all the proceedings of the AMC and their opinion were sought on all important matters through circulation of minutes.

Name of the Member of AMC	Position held in		Attendance
	AASL	AMC	
D S Jayaweera	Director/Treasury Rep (Ministry of Finance)	Chairman	3/3
J R U de Silva	Director	Member	2/3
Yoga Perera	Director	Member	2/3
S M Chandrapala	Chief Accountant - (Ministry of Civil Aviation)	Member	3/3
C Wannigama	Head of Internal Audit and Quality Assurance	Member/Convener	3/3

RISK MANAGEMENT

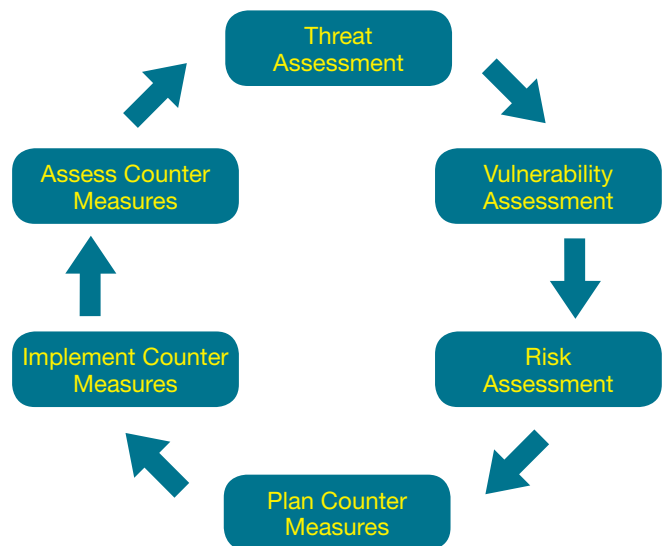
As the agent of the Government of Sri Lanka assigned to manage all the Civil Airports and International Aerodromes in the country, AASL shoulders a multitude of risks that not only threatens the operational and financial performance of the organization, but also the image of the country at large. The aircraft, passengers and cargo, irrespective of their country of ownership, comes under the purview of the air traffic handler (AASL) upon crossing over to the Colombo Flight Information Region. 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 (eg: Airline Offices)
- Intellectual Property
- Airport and Airline Contractors (eg: Ground handling agencies)
- Tangible (eg: airport facilities) and Intangible Assets (Organizational image)

Timely, adequate intervention and accurate assessment are the underlying values behind 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.

The Risk Management Cycle



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

Risk Exposure	Description/Nature of Risks	Counter Measure/(s)
1. Industry/Country Risks	<ul style="list-style-type: none"> • High dependency on National Carriers. Sri Lankan Airlines is the largest customer of AASL with a 49% share of passenger volume of the BIA. This, along with the national low cost carrier Mihin Lanka accounts for 53% share of passenger volume. The high dependency is linked to a number of incalculable factors resulting in considerable uncertainty and consequently exposing AASL to a high level of structural risks in terms of the market and customer base. 	<ul style="list-style-type: none"> • AASL as an organization finds it difficult to control the above risk. However, the country's aviation master plan consists of strategies to safeguarding the interests of these two national carriers under Managed Liberalized Open-Sky Policy. However, the FY 2011 proved to be a remarkable success in synchronizing the business plans of AASL in line with that of the national carrier. The measures and the initiatives taken are explained in Stakeholder Engagement under Management Discussion & Analysis (MDA).

Risk Exposure	Description/Nature of Risks	Counter Measure/(s)
	<ul style="list-style-type: none"> Loss or damages to Aviation Assets 	<ul style="list-style-type: none"> In addition to the appropriate Safety and Fire Protection measures and emergency plans are rehearsed on a regular basis. Transference of risk to third parties through insurance policies is considered a mandatory practice.
	<ul style="list-style-type: none"> Exposure to high level of Operational Gearing due to Large Capital Investments 	<ul style="list-style-type: none"> 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.
2. Legal Risks	<ul style="list-style-type: none"> Risks associated with deaths/damages to passengers and public using the Bandaranaike International Airport and the Ratmalana Airport. 	<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.*

Risk Exposure	Description/Nature of Risks	Counter Measure/(s)
	<ul style="list-style-type: none"> Non - Compliance to Environmental Standards 	<ul style="list-style-type: none"> 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 (eg: Second Runway, Second International Airport- HIA) or through Neighbourhood Advisory Boards.
3. Operational Risks	<ul style="list-style-type: none"> Wilful Damages to Computer Systems and Risks 	<ul style="list-style-type: none"> 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.
	<ul style="list-style-type: none"> Frauds, Breakdown of Internal Controls, Processes and Procedures 	<ul style="list-style-type: none"> Currently in operation is a stringent system of Internal Controls, Standardized Financial Procedures and ISO certified Quality Management System Audits (Compliance Audits). The Automated Processes introduced during the year in the cargo entrance, PVG and vehicle parks further minimizes the incidence of fraud. Periodic Reviews and implementation of effective Internal Controls by the Internal Audit and Quality Assurance Department are supplemented by regular Management Audits carried out by internal teams within the organization.
	<ul style="list-style-type: none"> Failure of Systems 	<ul style="list-style-type: none"> Pre monitoring mechanisms as well as Post Monitoring and Detection systems are in place to prevent and minimize the system failures. The Central Fault Monitoring System is such a pre monitoring system which displays the current status and faults graphically and warns on future collapses. Fire detection systems and Contingency Plans are in place to ensure the prompt detection of faults while minimizing the loss or damage. The Disaster Recovery System with virtualized server technology enables to minimize the machine down time of IT systems.

Risk Exposure	Description/Nature of Risks	Counter Measure/(s)
	<ul style="list-style-type: none"> • Interruption in Utility Services at BIA 	<ul style="list-style-type: none"> • Improvement of the Ground Water Harvesting system through additional bore wells in order to reduce the over dependence 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.
	<ul style="list-style-type: none"> • Risks associated with Sourcing 	<ul style="list-style-type: none"> • 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 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 their financial credentials. 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. • AASL annually reviews the Creditworthiness of registered suppliers and blacklist defaulters based on their negative performance.

Risk Management *Contd.*

Risk Exposure	Description/Nature of Risks	Counter Measure/(s)
4. Security Risks	<ul style="list-style-type: none"> Risks associated with Aviation Security namely global terrorism, drug trafficking, dangerous liquids and solids, un-quarantined animals and plants, unruly passengers, contrabands and touting for customers etc. 	<ul style="list-style-type: none"> 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.
5. Safety Risks	<ul style="list-style-type: none"> Aircraft Incidents/Accidents in the Colombo Flight Information Region 	<ul style="list-style-type: none"> 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 in-house "Safety Management System" described under MDA further enhances the effectiveness in our approach in minimizing the safety risks.
6. Financial Risks	<ul style="list-style-type: none"> Adverse Exchange Rate Fluctuations and Liquidity Risks 	<ul style="list-style-type: none"> 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.
	<ul style="list-style-type: none"> Adverse Interest Rate Fluctuations 	<ul style="list-style-type: none"> We aim to minimize Interest Rate Risk and improve yields by purchasing a number of bonds along the short to long term maturity spectrum.

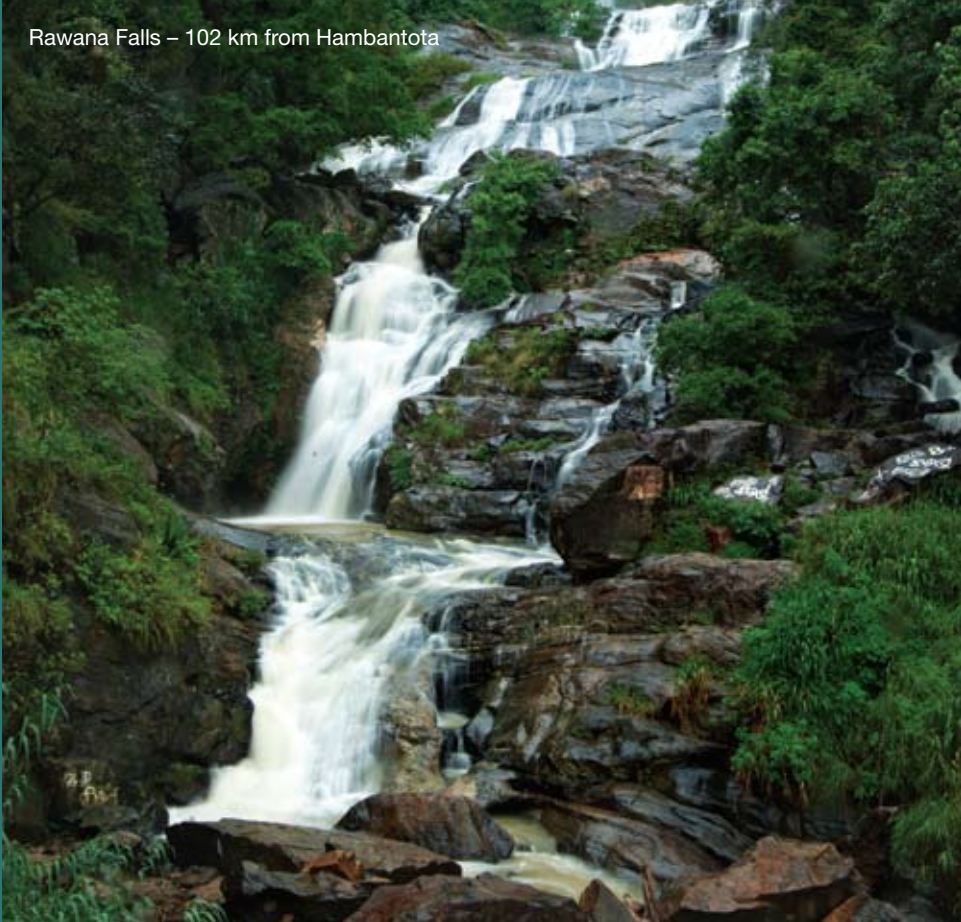
Risk Exposure	Description/Nature of Risks	Counter Measure/(s)
	<ul style="list-style-type: none"> Risk of Default by the Debtors 	<ul style="list-style-type: none"> Prior to permitting or extending a credit line, AASL obtains bank guarantees from all their debtors, based on Predetermined Limits of Credit 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 non-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.
7. Human Resources Risk	<ul style="list-style-type: none"> Loss of Trained and Skilled Employees and Brain drain 	<ul style="list-style-type: none"> 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.
	<ul style="list-style-type: none"> Inappropriate Labour Union Actions 	<ul style="list-style-type: none"> 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.





FLORA AND FAUNA

Rawana Falls – 102 km from Hambantota



Knuckles Forest - 132 km from Katunayake



Horton Plains – 136 km from Katunayake





Singharaja Forest – 123 Km from Hambantota



Singharaja Forest – 123 Km from Hambantota

Sri Lanka is a country that is blessed with a diversity of flora and fauna that enthralls visitors from far and wide. With an abundance of breath-taking waterfalls and plant life that cannot be found anywhere else in the world, Serendib enchants and captivates, and where better to start off your adventure into cool green climes than from our renowned aviation hubs.



FINANCIAL REPORTS

Company Accounts 88 Auditors' Report 89 Income Statement 90 Balance Sheet 91 Statement of Changes in Equity 92 Cash Flow Statement 93 Notes to the Financial Statements 94

Retained Revenue Fund Accounts 112 Auditors' Report 113 Income Statement 114 Balance Sheet 115 Cash Flow Statement 116 Notes to the Financial Statements 117

Voted Fund Accounts (Development projects) 123 Auditor General's Report 124 Income Statement 128 Balance Sheet 129 Cash Flow Statement 130 Notes to the Financial Statements 131 Explanatory Notes on the Report of the Auditor General 138

COMPANY ACCOUNTS

Auditors' Report 89 Income Statement 90 Balance Sheet 91 Statement of Changes in Equity 92 Cash Flow Statement 93 Notes to the Financial Statements 94

AUDITORS' REPORT

GSM/SKS/JJ

Chartered Accountants201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : (0) 11 2463500

Fax Gen : (0) 11 2697369

Tax : (0) 11 5578180

eysl@lk.ey.com

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AIRPORT AND
AVIATION SERVICES (SRI LANKA) (PRIVATE)
LIMITED****Report on the Financial Statements**

We have audited the accompanying financial statements of Airport and Aviation Services (Sri Lanka) (Private) Limited which comprise the balance sheet as at 31 December 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. 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

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 policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2011 and the financial statements give a true and fair view of the Company's state of affairs as at 31 December 2011 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Without qualifying our opinion, we draw attention to Note 2.1.1 to the financial statements, on the Company having initiated the process to implement the cabinet approval granted in 2005 to amalgamate the assets and liabilities of the Airports and the Company.

Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.

June 12, 2012
Colombo

INCOME STATEMENT

Year ended 31 December 2011	Note	2011 Rs.	2010 Rs.
Revenue	13	7,168,016,440	5,664,267,126
Other Income	14	498,723,104	395,404,449
		7,666,739,544	6,059,671,575
Staff Cost		(3,106,384,728)	(2,807,809,779)
Repairs and Maintenance Expenses		(242,362,996)	(197,232,045)
Administration and Establishment Expenses		(1,197,238,634)	(1,189,614,474)
Profit Before Tax	15	3,120,753,186	1,865,015,277
Income Tax Expense	16	(748,473,247)	(703,167,618)
Profit for the year		2,372,279,939	1,161,847,659
Earnings Per Share - Basic	17	11,861.28	5,809.18

The accounting policies and notes on pages 94 through 111 form an integral part of the financial statements.

BALANCE SHEET

As at 31 December 2011	Note	2011 Rs.	2010 Rs.
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	3	1,806,557,314	1,215,698,548
Deferred Tax Asset	16.2	567,067,330	554,701,014
Investments	4	2,300,000,000	300,000,000
		4,673,624,644	2,070,399,562
Current Assets			
Inventories	5	295,251,326	242,014,763
Trade and Other Receivables	6	2,391,668,742	1,539,682,107
Investments in Treasury Bills /Bonds Repurchase			
Agreements and Fixed Deposits	4	3,883,172,125	5,543,049,308
Cash and Bank Balances		269,178,629	259,874,934
		6,839,270,822	7,584,621,112
Total Assets		11,512,895,466	9,655,020,674
EQUITY AND LIABILITIES			
Equity Attributable to Equity Holders			
Stated Capital	7	20,000,200	20,000,200
Reserves	8	91,624,459	91,624,459
Retained Earnings		6,617,484,119	6,351,619,780
Total Equity		6,729,108,778	6,463,244,439
Non-Current Liabilities and Deferred Income			
Retirement Benefit Liability	10	2,160,443,789	2,019,270,343
Deferred Government Grants	11	20,142,593	24,925,751
		2,180,586,382	2,044,196,094
Current Liabilities			
Trade and Other Payables	12	2,169,593,835	858,330,631
Income Tax Liabilities		422,212,509	281,516,371
Interest Bearing Liabilities	9	11,393,962	7,733,139
		2,603,200,306	1,147,580,141
Total Equity and Liabilities		11,512,895,466	9,655,020,674

These Financial Statements are in compliance with the requirements of the Companies Act No : 07 of 2007.



Head of Finance

The Board of Directors is responsible for the preparation and presentation of these financial statements. Signed for and on behalf of the Board by,



Director



Director

The accounting policies and notes on pages 94 through 111 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011		Stated Capital Rs.	Other Reserves Rs.	Retained Earnings Rs.	Total Rs.
	Note				
Balance as at 31 December 2009		20,000,200	91,624,459	5,789,772,121	5,901,396,780
Dividend Paid - 2009		-	-	(200,000,000)	(200,000,000)
Dividend Paid - 2010		-	-	(400,000,000)	(400,000,000)
Profit for the year		-	-	1,161,847,659	1,161,847,659
Balance as at 31 December 2010	7	20,000,200	91,624,459	6,351,619,780	6,463,244,439
Dividend Paid - 2010		-	-	(552,649,600)	(552,649,600)
Dividend Paid - 2011		-	-	(800,000,000)	(800,000,000)
Dividend Paid - 2012		-	-	(753,766,000)	(753,766,000)
Profit for the year		-	-	2,372,279,939	2,372,279,939
Balance as at 31 December 2011		20,000,200	91,624,459	6,617,484,119	6,729,108,778

The accounting policies and notes on pages 94 through 111 form an integral part of the financial statements.

CASH FLOW STATEMENT

Year ended 31 December 2011	Note	2011 Rs.	2010 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		3,120,753,186	1,865,015,277
Adjustments for			
Depreciation	3	134,145,872	87,003,033
Provision for Non Moving Stock		2,018,045	4,345,264
Provision for Doubtful Debts		44,541,153	21,443,963
Income from Investments		(482,520,679)	(367,248,557)
Property, Plant and Equipment written off		7,014,007	-
(Profit) on sales of Property, Plant and Equipment		(7,817,549)	(2,895,205)
Amortization of deferred government grants	11	(4,783,158)	(13,956,615)
Provision for Defined Benefit Plan	10	236,009,031	170,091,888
Operating Profit before Working Capital Changes		3,049,359,908	1,763,799,048
(Increase)/ Decrease in Inventories		(55,254,608)	(13,740,237)
(Increase)/ Decrease in Trade and Other Receivables		(809,023,361)	460,499,822
Increase /(Decrease) in Trade and Other Payables		1,317,877,108	46,626,899
Cash Generated from Operations		3,502,959,047	2,257,185,532
Defined Benefit Plan Costs Paid	10	(94,835,585)	(98,196,440)
Taxes Paid		(620,143,422)	(370,138,431)
Net Cash Flows from Operating Activities		2,787,980,040	1,788,850,661
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property, Plant and Equipment		(738,839,679)	(531,256,738)
(Investment)/Redemption in Treasury Bills / Bond repurchase agreement and Fixed Deposit		1,236,710,411	(1,253,661,586)
Investment in Debentures		(2,000,000,000)	(300,000,000)
Proceeds from Sale of Property, Plant and Equipment		8,024,676	3,126,407
Interest Received		395,016,252	309,536,220
Net Cash used in from Investing Activities		(1,099,088,340)	(1,772,255,697)
Cash Flows from /(Used in) Financing Activities			
Dividends Paid		(2,106,415,600)	(600,000,000)
Grant Received during the year	11	-	163,413,538
Net Cash Flow from/(used in) finance activities		(2,106,415,600)	(436,586,462)
Net Increase/(Decrease) in Cash and Cash Equivalents		(417,523,900)	(419,991,498)
Cash and Cash Equivalents at the beginning of the year	18	1,375,406,383	1,795,397,881
Cash and Cash Equivalents at the end of the year	18	957,882,483	1,375,406,383

The accounting policies and notes on pages 94 through 111 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

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 Authorisation for Issue

The Financial Statements of Airport and Aviation Services (Sri Lanka) (Private) Limited for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Board of Directors on June 12, 2012.

2. GENERAL POLICIES

2.1 Basis of Preparation

These financial statements presented in Sri Lanka Rupees have been prepared on a historical cost basis unless otherwise indicated. The preparation and presentation of these Financial Statements is in compliance with the Companies Act. No. 07 of 2007.

2.1.1 According to the Cabinet Approval dated 17 August 2005 the process for amalgamation of assets and liabilities of the Airport with those of the Company has already been initiated, along with the necessary legislative amendments as follows.

a). The Company has completed the valuation of assets through the chief valuer as per the directive under paragraph 3.6 of the said cabinet memorandum and the valuation report to be submitted by the Department of Valuation.

b). The Company has requested that the Ministry of Aviation takes the necessary action to initiate the statutory amendments mentioned under paragraph 3.5 of the said cabinet memorandum. Accordingly the Civil Aviation Act No.14 of 2010 has been gazatted on 04 November 2010 and subsequent regulations to the new Act are to be put in place.

c). The Civil Aviation Authority has referred this matter to the Hon. Attorney General for an opinion on the method of transferring assets under the Civil Aviation Authority Act.

The Hon. Attorney General convened a consultation with the officials of the Company and those of the Ministry of Civil Aviation and the Civil Aviation Authority in February 2012. Currently, the Company, Ministry of Civil Aviation and the Civil Aviation Authority are awaiting the Hon. Attorney General 's opinion in this regard.

According to the conditions of the cabinet approval entire Airport Revenue with the exception of 1/3rd of Embarkation levy accrues to the Company, while the funding for Airport Debt servicing is provided to the Treasury out of this revenue until the completion of the aforementioned amalgamation at which point all airport assets and the associated liabilities would be reflected in the books of the Company.

2.1.2 Statement of Compliance

The balance sheet, statements of income, changes in equity and cash flows, together with accounting policies and notes, ("Financial Statements") of the Company as at 31 December 2011 and for the year then ended, comply with the Sri Lanka Accounting Standards (SLAS), except for the effects on the financial statements of the matter referred to in Note 2.1.1 to these financial statements.

2.1.3 Comparative Information

The accounting policies have been consistently applied by the Company with those used in the previous year. Certain prior year figures and phases have been re-arranged whenever necessary to confirm the Current year's Presentation.

2.1.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with SLAS, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Estimates/Judgements made by management in the application of SLAS that have a significant effect on the financial statements are mentioned below.

	Policy	Note
Property, plant & equipment, depreciation	2.2.8	3
Deferred tax	2.2.2	16.2
Inventories – allowance for obsolete and slow moving Items	2.2.4	5
Employee benefit liabilities	2.2.11	10
Trade and other receivables provision for doubtful debts	2.2.5	6

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.2.1 Foreign Currency Translation**

The Financial Statements are presented in Sri Lanka Rupees, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in

a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.2.2 Taxation**Current Taxes**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act.

Deferred Taxation

Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Notes to the Financial Statements *Contd.*

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Sales Tax

Revenues, expenses and assets are recognised net of the amount of sales tax except where the sales tax incurred on a purchase of an asset or service is not recoverable from the taxation authorities in which case the sales tax is recognised as a part of the cost of the asset or part of the expense items as applicable and receivable and payable are stated with the amount of sales tax included. The amount of sales tax recoverable and payable in respect of taxation authorities is included as a part of receivables and payables in the Balance Sheet.

2.2.3 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

2.2.4 Inventories

Inventories are valued at cost after making due allowances for obsolete and slow moving items.

Spare parts and consumables for fire equipment brought before 31.12.2003 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 FIFO basis.

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

2.2.5 Trade and Other Receivables

Trade receivables are stated at the amounts they are estimated to realise net of allowances for bad and doubtful receivables.

Other receivables and dues from Related Parties are recognized at cost less allowances for bad and doubtful receivables.

2.2.6 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.

2.2.7 Investments

Initial Recognition

The Company invests in debentures, repurchase agreements and fixed deposits.

Cost of investment includes purchase cost. The Company distinguishes and presents current and non current investments in the balance Sheet based on the period of the underline investment.

Measurement

Investments are stated at the cost.

2.2.8 Property, Plant and Equipment

Plant and equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is calculated on a straight line basis over the useful life of the assets.

When each major inspection is performed, its cost is recognised 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 derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition 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 derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

2.2.9 Investment Properties

The Company earns rental income from renting certain Airport assets. However, these assets cannot be separately identified pending the matters discussed in Note no. 2.1.1.

2.2.10 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where 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.

2.2.11 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 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 Sri Lanka Accounting Standard No 16, Employee Benefits (Revised 2006) which is based on the Projected Unit Credit Method as discussed in the said Standard.

The item is stated under retirement benefit liability in the Balance Sheet.

Defined Contribution Plans – Employees' Provident Fund and 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.

2.2.12 Grants and Subsidies

The monetary grants related to assets are recognised as cost and deferred in the balance sheet and credited to the income statement over the useful life of the asset.

2.2.13 Impairment of Non Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication

Notes to the Financial Statements *Contd.*

exists, the Company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

2.3 Revenue Recognition

Revenue is recognised 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 recognised in the accounting period in which the services are rendered or performed.

b) Interest

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

c) Rental income

Rental income is recognised on an accrual basis.

d) Franchise Fee and Concessions

Franchise fees and concessions are recognised on an accrual basis in accordance with the substance of the relevant agreement.

e) Others

Other income is recognised on an accrual basis.

2.4 Effect of Sri Lanka Accounting Standards Issued but not yet effective:

The Company will be adopting the new Sri Lanka Accounting Standards (new SLAS) comprising LKAS and SLFRS applicable for financial period commencing from 01 January 2012 as issued by the Institute of Chartered Accountants of Sri Lanka.

The Institute of Chartered Accountants of Sri Lanka has resolved an amendment to Sri Lanka Accounting Standard 10, whereby the provision contained in paragraphs 30 and 31 of SLAS 10 – Accounting Policies, Changes in Accounting Estimates and Errors, would not be applicable for financial statements prepared in respect of financial periods commencing before 1 January 2012 and hence the impact of this transition is not required to be disclosed in these financial statements.

3. PROPERTY, PLANT AND EQUIPMENT**3.1 Gross Carrying Amounts**

	Balance As at 01.01.2011 Rs.	Additions /Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31.12.2011 Rs.
At Cost				
Land	45,540,000	-	-	45,540,000
Buildings	148,020,278	10,519,851	-	158,540,129
Plant and Machinery	180,572,434	18,648,325	1,864,025	197,356,734
Motor Vehicles	329,909,234	71,927,530	9,130,879	392,705,885
Furniture and Fittings	106,010,114	7,929,760	14,247,292	99,692,582
Office Equipment	141,122,732	18,170,902	5,688,733	153,604,901
Communication Equipment	178,077,023	153,630,655	2,573,261	329,134,417
Fire and Safety Equipment	49,091,207	2,362,199	696,668	50,756,738
Training Equipment	6,852,057	-	641,173	6,210,884
Other Equipment	144,966,436	26,056,717	7,164,176	163,858,977
Fencing and Gates	8,599,653	-	-	8,599,653
Cargo Village Equipment Installation Cost	14,894,420	-	-	14,894,420
Roads and Roadways	40,914,404	772,423	-	41,686,827
Structures	17,743,347	6,429,506	-	24,172,853
Water Supply and Drainage System	15,141,618	1,808,512	-	16,950,130
Navigational Equipment	-	166,297,212	-	166,297,212
Total Value of Depreciable Assets	1,427,454,958	484,553,592	42,006,207	1,870,002,343

3.2 In the Course of Construction

	Balance As At 01.01.2011 Rs.	Incurred During the Year Rs.	Transfers Rs.	Balance As At 31.12.2011 Rs.
Capital Work in Progress	581,370,770	560,769,649	306,483,562	835,656,857
Total Gross Carrying Amount	2,008,825,727	1,045,323,241	348,489,769	2,705,659,200

Notes to the Financial Statements *Contd.*

3.3 Depreciation

At Cost	Balance As At 01.01.2011 Rs.	Charge for the Year Rs.	Disposals/ Transfers Rs.	Balance As at 31.12.2011 Rs.
Buildings	5,935,807	8,142,533	-	14,078,340
Plant and Machinery	122,144,184	28,650,869	405,676	150,389,377
Motor Vehicles	237,964,392	33,988,170	7,035,617	264,916,945
Furniture and Fittings	61,649,904	6,922,958	8,650,891	59,921,971
Office Equipment	112,503,757	13,988,332	5,200,099	121,291,990
Communication Equipment	85,641,134	19,123,800	1,372,666	103,392,268
Fire and Safety Equipment	30,154,502	3,261,518	328,503	33,087,517
Training Equipment	6,851,880	-	641,167	6,210,713
Other Equipment	105,450,335	8,699,994	4,536,547	109,613,782
Fencing and Gates	1,982,242	1,074,957	-	3,057,199
Cargo Village Equipment				
Installation Cost	13,125,643	884,388	-	14,010,031
Roads and Roadways	5,054,569	2,084,341	-	7,138,910
Structures	3,842,819	3,021,607	-	6,864,426
Water Supply and Drainage System	826,012	2,118,766	-	2,944,778
Navigational Equipment	-	2,183,639	-	2,183,639
Total Depreciation	793,127,180	134,145,872	28,171,166	899,101,886

3.4 Net Book Values

	2011 Rs.	2010 Rs.
At Cost		
Land	45,540,000	45,540,000
Buildings	144,461,789	142,452,832
Plant and Machinery	46,967,357	58,428,250
Motor Vehicles	127,788,940	91,944,842
Furniture and Fittings	39,770,611	43,991,849
Office Equipment	32,312,911	28,618,975
Communication Equipment	225,742,149	92,435,889
Fire and Safety Equipment	17,669,221	18,936,705
Training Equipment	171	177
Other Equipment	54,245,195	39,516,101
Fencing and Gates	5,542,455	6,617,412
Cargo Village Equipment Installation Cost	884,389	1,768,777
Roads and Roadways	34,547,916	35,859,834
Structures	17,308,427	13,900,528
Water Supply & Drainage System	14,005,352	14,315,606
Navigational Equipment	164,113,573	-
	970,900,457	634,327,778
In the Course of Construction		
Capital Work in Progress	835,656,857	581,370,770
	835,656,857	581,370,770
Total Carrying Amount of Property, Plant and Equipment	1,806,557,314	1,215,698,548

3.5 The useful lives of the assets is estimated as follows

	2011	2010
Buildings	Over 20 Years	Over 20 Years
Plant and Machinery	Over 04 Years	Over 04 Years
Motor Vehicles	Over 04 Years	Over 04 Years
Furniture and Fittings	Over 08 Years	Over 08 Years
Office Equipment	Over 04 Years	Over 04 Years
Communication Equipment	Over 08 Years	Over 08 Years
Fire & Safety Equipment	Over 08 Years	Over 08 Years
Training Equipment	Over 04 Years	Over 04 Years
Other Equipment	Over 08 Years	Over 08 Years
Fencing and Gates	Over 08 Years	Over 08 Years
Cargo Village Equipment Installation Cost	Over 20 Years	Over 20 Years
Roads and Roadways	Over 20 Years	Over 20 Years
Structures	Over 08 Years	Over 08 Years
Water Supply & Drainage System	Over 08 Years	Over 08 Years
Navigational Equipment	Over 08 Years	-

3.6 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs. 738,839,679/-, (2010 - Rs. 531,256,738/-) for cash.

3.7 Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs.605,140,053/- , (2010 -Rs. 580,314,840/-).

4. INVESTMENTS

	2011 Rs.	2010 Rs.
Non Current Investments		
Investments in Debentures (Traded debentures for period of 5 years)	2,300,000,000	300,000,000
	2,300,000,000	300,000,000
Current Investments		
Fixed Deposits	1,387,035,030	2,219,792,933
Investments in Treasury Bills	-	1,099,999,999
Investments in Treasury Bills/Bonds under Repurchase Agreements	2,496,137,095	2,223,256,376
	3,883,172,125	5,543,049,308

Notes to the Financial Statements *Contd.***5. INVENTORIES**

	2011 Rs.	2010 Rs.
General	39,311,550	34,588,846
Electronics	103,910,461	100,063,319
Engineering	110,593,411	106,943,212
Fuel	8,541,481	7,784,423
Fire	22,084,517	20,108,425
Goods in Transit	63,995,242	23,693,829
	348,436,662	293,182,054
Less : Allowance for Slow moving Stock	(53,185,336)	(51,167,291)
	295,251,326	242,014,763

	2011 Rs.	2010 Rs.
6 TRADE AND OTHER RECEIVABLES		
Trade Debtors - Other	1,768,254,417	1,261,309,038
Less: Provision for Doubtful Debts	(272,380,269)	(246,777,199)
	1,495,874,148	1,014,531,839
Other Debtors - Related Parties (6.1)	475,775,413	5,000,000
- Other (6.2)	362,609,088	420,638,663
Advances and Prepayments	73,640,361	91,927,304
Less: Provision for Doubtful Debts	(99,236,343)	(80,298,259)
Loans to Company Officers	83,006,075	87,882,560
	2,391,668,742	1,539,682,107

6.1 Other dues receivable from Related Parties

	Relationship	2011 Rs.	2010 Rs.
Voted Fund	Common Management	475,775,413	5,000,000
		475,775,413	5,000,000

6.2 2011 – Nil

2010- this balance includes interest receivable from Mihin Lanka (Pvt) Ltd amounting to Rs. 106 Mn arising on the loan granted to the said Company in the previous years.

7. STATED CAPITAL

	2011 Number	Rs.	2010 Number	Rs.
Fully Paid Ordinary Shares	200,002	20,000,200	200,002	20,000,200
	200,002	20,000,200	200,002	20,000,200

8. RESERVES

	2011 Rs.	2010 Rs.
Net Assets taken over from Airports Authority	91,624,459	91,624,459

This reserve represents the net assets transferred to the Company from the Airports Authority which was dissolved upon the incorporation of the Company.

9. INTEREST BEARING LIABILITIES

	2011 Amount Repayable Within 1 Year Rs.	2011 Amount Repayable After 1 Year Rs.	2011 Total Rs.	2010 Amount Repayable Within 1 Year Rs.	2010 Amount Repayable After 1 Year Rs.	2010 Total Rs.
Bank Overdrafts (18)	11,393,962	-	11,393,962	7,733,139	-	7,733,139
	11,393,962	-	11,393,962	7,733,139	-	7,733,139

10. RETIREMENT BENEFIT LIABILITY
Retirement Benefits Obligation-Gratuity

	2011 Rs.	2010 Rs.
As at beginning of the year	2,019,270,343	1,947,374,895
Gratuity Charge	154,762,233	142,903,738
Interest Cost	196,878,858	189,869,053
Payments made during the year	(94,835,585)	(98,196,440)
(Gain)/ Loss arising from changes in the Assumptions	(115,632,060)	(162,680,903)
As at end of the year	2,160,443,789	2,019,270,343

The employee benefits liability of the Company is based on the Gratuity Formula method in appendix E of SLAS 16 - Employee Benefits. The principle assumptions used in determining the cost of employee benefits were:

	2011	2010
Discount Rate	9.75%	9.75%
Future Salary Increases	10%	10%
Staff Turnover	3%	3%
Retirement Age	57 years	57 years

Notes to the Financial Statements *Contd.***11. DEFERRED GOVERNMENT GRANTS**

	2011 Rs.	2010 Rs.
Treasury Grant		
At the beginning of the year (11.1)	24,925,751	28,468,828
Grant Received during the year for the Company	-	36,913,538
Grant Received during the year on behalf of Voted Fund for Mattala Airport Project	-	126,500,000
Less : Amortized during the year (11.1)	(4,783,158)	(13,956,615)
Less : Transfer to Voted Fund	-	(153,000,000)
At the end of the year	20,142,593	24,925,751

11.1 This grant includes,

- a. The Company received this grant in 1992 for an expansion in Cargo Village. This grant has been deferred over the useful life of the Cargo Village Equipments, which is estimated as 20 years.
- b. The Company received a grant amounting to Rs. 36.9 Mn in 2010 for a new Microwave connection link established at Piduruthalagala during the year 2008. This grant has been deferred over the useful life of the Communication Equipment, which is estimated as 8 years from the year 2008.

12. TRADE AND OTHER PAYABLES

	2011 Rs.	2010 Rs.
Trade Payable - Others	32,740,100	47,140,520
Other Payables - Related Parties (12.1)	1,199,294,686	76,053,482
Refundable Deposits	184,791,611	179,464,445
Sundry Creditors including Accrued Expenses	752,767,438	555,672,184
	2,169,593,835	858,330,631

12.1 Other dues Payable to Related Parties

	Relationship	2011 Rs.	2010 Rs.
Retained Revenue Fund	Common Management	1,199,294,686	44,059,493
Voted Fund	Common Management	-	31,993,989
		1,199,294,686	76,053,482

13. REVENUE

	2011 Rs.	2010 Rs.
Aeronautical	2,142,091,945	1,919,484,233
Non-Aeronautical	5,020,272,588	3,738,671,896
	7,162,364,533	5,658,156,129
Miscellaneous Revenue	5,651,907	6,110,997
	7,168,016,440	5,664,267,126
13.1 Aeronautical		
Landing Charges	1,405,166,783	1,257,157,734
Landing Charges - Domestic	7,886,138	4,007,551
Aerobridge Charges	229,475,562	199,067,548
Over Flying Charges	499,563,462	459,251,400
Total	2,142,091,945	1,919,484,233
13.2 Non - Aeronautical		
Embarkation Levy	2,130,669,400	1,915,367,025
Less: Amount paid to Treasury (2.1.1)	(1,791,255,109)	(1,751,755,681)
	339,414,291	163,611,344
Rental	1,664,220,652	1,499,305,957
Concession	2,052,249,519	1,324,391,346
Entry Permits	290,920,261	198,783,661
Parking Fees - vehicles	81,286,185	66,055,140
Turnover Payment - SLCS 10%	28,468,683	20,976,905
Franchise Fee on Ground Handling - SLA	177,641,771	155,688,296
Ground Handling - Domestic - RMA/BIA	14,346,935	14,537,265
Franchise Fee - SLCS 4%	148,956,310	118,607,572
Other Non - Aeronautical Income	215,831,460	173,033,306
Training Centre Income	6,936,521	3,681,104
Total	5,020,272,588	3,738,671,896
Total Aeronautical and Non-Aeronautical Revenue	7,162,364,533	5,658,156,129

14. OTHER INCOME

Interest on Treasury Bills/Bonds Under Repurchase Agreements	320,079,996	140,546,197
Interest on USD Fixed Deposits	47,835,427	125,555,013
Interest on Rupee Fixed Deposits	74,484,747	84,804,251
Interest on Debenture	40,120,509	16,343,096
Interest on Staff Loans	3,460,246	3,492,624
Amortisation of Government Grant	4,783,158	13,956,615
Operating Profit on Fuel Filling Station (Note 14.1)	7,959,021	1,041,053
Other Interest Income	-	9,665,600
	498,723,104	395,404,449

Notes to the Financial Statements *Contd.***14.1 Operating Profit on Fuel Filling Station**

	2011 Rs.	2010 Rs.
Sales	789,726,508	658,949,713
Less: Turnover Tax	-	(74,876)
	789,726,508	658,874,837
Less: Cost of Sales	(769,793,070)	(645,883,769)
Gross Profit	19,933,438	12,991,068
Less : Personnel & Administration Expenses	(12,026,505)	(11,980,615)
Sundry Income	52,088	30,600
Operating Profit	7,959,021	1,041,053

15. PROFIT/(LOSS) BEFORE TAX
Stated after Charging /(Crediting)

Allowance/(Reversal) for Doubtful Debts	44,541,153	21,443,963
Depreciation	134,145,872	87,003,032
Personnel Costs includes		
- Directors' Emoluments	12,357,649	10,464,107
- Defined Benefit Plan Costs -Gratuity	236,009,031	168,077,804
- Defined Contribution Plan Costs - EPF & ETF	259,308,795	244,194,339
Legal Fees	801,447	838,707
(Profit)/Loss on Disposal of Property, Plant and Equipment	(7,817,549)	(2,895,205)
Donations	726,400	96,856
Exchange (Gain)/ Loss	(46,237,481)	80,019,502

16. INCOME TAX EXPENSE

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

Income Statement	2011 Rs.	2010 Rs.
Current Income Tax		
Current Tax Charge (16.1)	770,182,642	594,933,380
Under/(Over) Provision of current taxes in respect of prior years	(9,343,079)	(52,416,247)
	760,839,563	542,517,133
Deferred Income Tax		
Reversal in Respect of Deferred Taxation (Note 16.2)	(12,366,316)	145,857,070
Deemed Dividend Tax	-	14,793,415
	748,473,247	703,167,618

16.1 Reconciliation between Current Tax Expense/ (Income) and the product of Accounting Profit.

			2011 Rs.	2010 Rs.
Accounting Profit (Profit before Tax)			3,120,753,186	1,865,015,277
Aggregate Disallowed items			404,618,384	400,969,390
Aggregate Allowable Expenses			(341,373,753)	(206,787,543)
Income not subject to Tax			(433,391,850)	(384,507,808)
Taxable Profit			2,750,605,967	1,674,689,316
Statutory Tax Rate %			28%	35%
Current Income Tax Expense	28 % Taxable Income	2,750,476,247	770,169,670	586,141,261
	10% Agriculture	129,718	12,972	
SRL			-	8,792,119
			2,750,605,965	594,933,380

16.2 Deferred Tax and Income tax related to the following

		Balance Sheet		Income Statement	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Deferred Tax Liability					
Capital allowance for the tax purpose	66,494,975	40,106,955	26,388,020	32,627,477	
	66,494,975	40,106,955			
Deferred Tax Assets					
Defined Benefit Plan	604,924,263	565,395,696	(39,528,567)	116,121,380	
Provision for Doubtful Stocks and Debtors	22,998,116	22,433,063	(565,053)	4,087,423	
Deferred Government Grant	5,639,926	6,979,210	1,339,284	(6,979,210)	
	633,562,305	594,807,969			
Deferred income tax reversal			(12,366,316)	145,857,070	
Reflected in the Balance Sheet as follows:					
Deferred Tax Assets - Tax Rate 28%	633,562,305	594,807,969			
Deferred Tax Liability - Tax Rate 28%	(66,494,975)	(40,106,955)			
	567,067,330	554,701,014			

17. EARNINGS PER SHARE

- 17.1** 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.

Notes to the Financial Statements *Contd.***17.2 The following reflects the income and share data used in the basic Earnings Per Share computation.**

	2011 Rs.	2010 Rs.
Amount Used as the Numerator:		
Profit Attributable to Ordinary Shareholders	2,372,279,939	753,003,715
Number of Ordinary Shares Used as the Denominator:		
Weighted Average number of Ordinary Shares in issue	200,002	200,002

18. CASH AND CASH EQUIVALENTS IN CASH FLOW STATEMENT

Components of Cash and Cash Equivalents	2011 Rs.	2010 Rs.
Favourable Cash & Cash Equivalents balance		
Investments in Treasury Bills /Bonds Under Repurchase Agreements	700,097,816	1,123,264,588
	700,097,816	1,123,264,588
Cash and Bank Balances	269,178,629	259,874,934
	969,276,445	1,383,139,522
Unfavourable Cash & Cash Equivalents balance		
Bank Overdraft	(11,393,962)	(7,733,139)
	(11,393,962)	(7,733,139)
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement	957,882,483	1,375,406,383

19. COMMITMENTS AND CONTINGENCIES**19.1 Capital Expenditure Commitments**

19.1 a The Company has purchase commitments for acquisition of Property, Plant and Equipment incidental to ordinary course of business as at 31 December, as follows.

	2011 Rs.	2010 Rs.
Contracted but not Provided for	214.1 Mn	158.7 Mn
Authorised by the Board, but not Contracted for	3,017.4 Mn	2,111.9 Mn
	3,231.5 Mn	2,270.6 Mn

19.1 b The Company has entered in to a contract with China Harbour Engineering Company Limited to construct a New Airport at Mattala for a sum of US\$ 209 Mn during the year 2009.

19.2 Contingencies

- i) The Company is the defendant in the following lawsuits filed against the Company. Although there can be no assurance, the directors believe, based on the information currently available, that the ultimate resolution of such legal procedures would not likely have a material adverse effect on the results of operations, financial position or liquidity. Accordingly no provision for any liability has been made in these financial statements.
 - a) Members of the two Taxi Associations, have filed 133 cases against the Company demanding Rs. 62 Mn for breach of contract. Court order directed AASL to pay Rs. 40,000/- each to the plaintiffs of two cases in district court. These matters are now pending at the district court of Negambo to proceed with the trail.
 - b) Four cases filed by ex-employees against the Company demanding re-instatement with back wages for termination of employment are being heard at the Labour Tribunal.
 - c) An appeal filed against a Court Judgment regarding a bond violation case. If the appeal is not decided in favour of AASL, Company will have to pay Rs. 1,000,000/-.
 - d) Arbitration proceedings were laid by late A S K Fernando of Floorshine Service against the Company demanding Rs. 80Mn, for termination of Contract.

20. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The company is in the finalisation stage of JPY 28Bn loan from Japan International Corporation to expand the second terminal at the Bandaranaike International Airport.

Other than for the above, there are no material events occurring after the Balance Sheet date that require adjustment to or disclosure in the Financial Statements.

21. RELATED PARTY DISCLOSURES

The Company manages the Retained Revenue Fund and Voted Fund on behalf of the government. Expenses incurred by the company in respect of those are reimbursed on an actual basis. The balances from and due to related parties are disclosed in note 6 and 12 respectively.

Notes to the Financial Statements *Contd.*

Balance Sheet	Entities in which significant influence is held by the Company*		Entities either controlled or in which significant influence is held by the State**	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Assets				
Property, plant and equipment - WIP				
- Transferred for Mattala Project	30,234,519	171,728,300	-	-
Investments	-	-	6,183,172,125	5,843,049,309
Trade and Other Receivables -				
- Deposits Received	-	-	8,649,910	8,895,846
- Fund transfers made	475,000,000	43,000,000	-	-
Interest Receivable	-	-	87,504,427	197,375,721
Liabilities				
Trade and Other Payables -				
- Advances Received	-	-	86,941,048	45,211,759
- Fund Transfers for Loan Repayments	-	5,000,000	-	-
- Funds Transfers Received	1,155,000,000	153,000,000	-	-
- Dividend	-	-	2,106,415,600	600,000,000
Income Statement				
Aeronautical Revenue	-	-	726,837,581	667,850,476
Non-Aeronautical Revenue	-	29,800	1,514,414,965	1,165,137,231
Embarkation Levy	-	-	2,130,669,400	1,918,275,562
Payments made to the Treasury	-	-	1,791,255,109	1,751,755,681
Interest Income	-	-	482,520,678	376,914,158
Expenditure				
Supply of Goods and Services	-	-	2,294,800,684	1,845,457,302
Taxes	-	-	1,076,246,689	855,495,585
Reimbursement of Expenses and Claims	137,377	131,450	-	-
Reimbursement of Taxes	2,327,739	-	-	-

*Entities in which significant influence is held by the Company includes the Voted Fund & the Retained Revenue Fund. The management of these funds are performed by Airport & Aviation Services (Sri Lanka) Ltd.

**In carrying out normal operations, the Company has entered in to transactions including the supply and purchase of various goods and services, with 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 Tourists Board, Sri Lanka Bureau of Foreign Employment, Sri Lanka Handicraft Board and Mihin Lanka (Pvt) Ltd.

21.1 Transactions with Key Management Personnel*

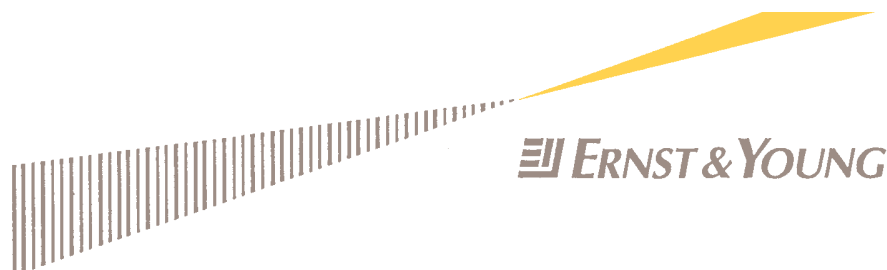
	2011 Rs.	2010 Rs.
Short-term employee benefits	12,357,649	10,464,107
	12,357,649	10,464,107

* The key management personnel of the Company are the members of its Board of Directors.

RETAINED REVENUE FUND ACCOUNTS

Auditors' Report **113** Income Statement **114** Balance
Sheet **115** Cash Flow Statement **116** Notes to the Financial
Statements **117**

AUDITORS' REPORT



Chartered Accountants

201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
eysl@lk.ey.com

GSM/SKS/JJ

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED RETAINED REVENUE FUND

Report on the Financial Statements

We have audited the accompanying financial statements of Retained Revenue Fund, which comprise the balance sheet as at 31 December 2011, the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective Responsibilities of Management and Auditors

These financial statements are the responsibility of the Management of Retained Revenue Fund. Our responsibility is to express an opinion on the accompanying financial statements based on our audit.

Basis of Opinion

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 about whether the said financial statements are free of material misstatements. Our audit procedures consist of examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by the management. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, except as described in Notes 1.1, 1.3, 3.1 and 5, the accompanying financial statements presents fairly, in all material respects, the Fund's state of affairs as at 31 December 2011 and its surplus and cash flows for the year then ended in accordance with the basis of preparation detailed in Note 1.

June 12, 2012
Colombo

INCOME STATEMENT

Year ended 31 December 2011

	2011 Rs.	2010 Rs.
Interest Income from Treasury Bills/Bonds under Repurchase Agreements	16,818,299	94,160,149
Administrative Expenses	(437,081)	(819,762)
Surplus for the year	16,381,218	93,340,387

The accounting policies and notes on pages 117 through 122 form an integral part of the financial statements.

BALANCE SHEET

As at 31 December 2011

	Note	2011 Rs.	2010 Rs.
ASSETS			
Non-Current Assets			
Projects Completed	2	2,840,798,045	2,841,320,659
Projects in Progress	2	3,391,772	3,391,772
		2,844,189,817	2,844,712,431
Current Assets			
Receivables	3	1,207,678,033	85,262,457
Treasury Bills under Repurchase Agreement		-	1,105,401,306
Cash and Bank Balances		127,110	3,019,528
		1,207,805,143	1,193,683,291
Total Assets		4,051,994,960	4,038,395,722
ACCUMULATED FUND AND LIABILITIES			
Accumulated Fund	4	3,983,102,513	3,966,721,295
Contributions from Other Sources	5	62,323,991	62,323,991
Total Fund		4,045,426,504	4,029,045,286
Current Liabilities			
Trade and Other Payables	6	6,568,456	9,350,436
		6,568,456	9,350,436
Total Fund and Liabilities		4,051,994,960	4,038,395,722

The Board of Directors of Airport and Aviation Services (Sri Lanka) (Private) Limited is responsible for the preparation and presentation of these financial statements. Signed for and on behalf of the Board by.



Director



Director

On behalf of Retained Revenue Fund

The accounting policies and notes on pages 117 through 122 form an integral part of the financial statements.

11 May 2012

Colombo

CASH FLOW STATEMENT

Year ended 31 December 2011

	Note	2011 Rs.	2010 Rs.
Cash Flows From / (Used in) Operating Activities			
Surplus for the Year		16,381,218	93,340,387
Adjustments for			
Loss on Disposal of Property, Plant and Equipment		322,389	654,123
Interest Income from Treasury Bills/Bonds under Repurchase Agreements		(16,818,299)	(94,160,149)
Operating Profit / (Loss) before Working Capital Changes		(114,692)	(165,639)
(Increase) / Decrease in Receivables		(1,122,415,576)	933,257
Increase / (Decrease) in Trade and Other Payables		(2,781,980)	(3,706,046)
Net Cash From / (Used in) Operating Activities		(1,125,312,248)	(2,938,428)
Cash Flows from / (Used in) Investing Activities			
Interest Income Received		16,818,299	77,576,860
Investment/Redemption of in Treasury Bills and Repurchase Agreement		1,105,401,306	(77,576,860)
Incurred on Projects	2	(34,969)	(704,078)
Transfer of Project in progress to AASL		-	4,879,895
Proceeds from Disposal of Assets		235,193	5,150
Net Cash Flows from / (Used in) Investing Activities		1,122,419,829	4,180,967
Net Increase / (Decrease) in Cash and Cash Equivalents		(2,892,418)	1,242,539
Cash and Cash Equivalents at the beginning of the year	7	3,019,528	1,776,989
Cash and Cash Equivalents at the end of the year	7	127,110	3,019,528

The accounting policies and notes on pages 117 through 122 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

1. SIGNIFICANT ACCOUNTING POLICIES**1.1 Basis of Preparation**

The balance sheet, statements of income and cash flows, together with accounting policies and notes, ("Financial Statements") of the Fund as at 31 December 2011 and for the year then ended comply with the Sri Lanka Accounting Standards (SLAS) other than as described below.

- a) Under the Air Navigation Act, the management of capital assets has been entrusted to Airport and Aviation Services (Sri Lanka) (Private) Limited (AASL), but the ownership of the Assets remains with the Government of Sri Lanka. In the absence of recognition of income generated by utilising such assets employed in these financial statements an Income Statement fully compliant with SLAS, cannot be prepared and presented.

According to the Cabinet Approval dated 17 August 2005 the process for amalgamation of assets and liabilities of the Airports with those of AASL has already been initiated along with the necessary legislative amendments as follows.

- i). AASL completed the valuation of assets through the chief valuer as per the directive under paragraph 3.6 of the said cabinet memorandum.
- ii). AASL has requested that the Ministry of Aviation take the necessary actions to initiate the statutory amendments mentioned under paragraph 3.5 of the said cabinet memorandum. Accordingly the Civil Aviation Act No.14 of 2010 has been gazatted on 04 November 2010 and subsequent regulations to the new Act are to be put in place.

The Civil Aviation Authority has referred this matter to the Hon. Attorney General for an opinion on the method of transferring assets under the Civil Aviation Authority Act.

The Hon. Attorney General convened a consultation with the officials of the Company and those of the Ministry of Civil Aviation and the Civil Aviation Authority in February 2012. Currently, the Company, Ministry of Civil Aviation and the Civil Aviation Authority are awaiting the Hon. Attorney General's opinion in this regard.

According to a cabinet approval dated 17 August 2005, the Government Revenue and Embarkation Levy, part of which was previously recognized under Retained Revenue Fund is, with effect from January 01, 2006, accounted for as revenue of Airport and Aviation Services (Sri Lanka) (Private) Limited (AASL).

- b). Grants received have not been amortised as more fully described in Note 5.

1.2 Projects in Progress

The Fund capitalises the costs of developing projects under "project in progress". These costs are transferred to property, plant & equipment when significant development activity is completed, or expensed at the time the Company determines that the particular project will no longer be viable / developed.

1.3 Projects Completed
a) Cost

Projects completed are recorded at cost. Accounting for depreciation on Projects Completed has not been affected in the financial statements due to the reason given under 1.1 above.

b) Depreciation

A statement showing the notional depreciation charge for the year, the cumulative depreciation and written down value of assets as at 31 December 2011 has been prepared and shown in Note 2.

1.4 Income Statement**1.4.1 Interest**

Interest Income is recognized as the interest accrued (taking into account the effective yield on the asset) unless collectability is in doubt.

Notes to the Financial Statements *Contd.***2. PROPERTY, PLANT AND EQUIPMENT****2.1 Gross Carrying Amounts**

	Balance As at 01.01.2011 Rs.	Additions/ Transfers Rs.	Disposals Rs.	Balance As at 31.12.2011 Rs.
Buildings	1,169,140,333	1,242	-	1,169,141,575
Communication Equipment	173,805,059	-	328,000	173,477,059
Plant and Machinery	226,310,707	-	-	226,310,707
Structures	85,371,871	-	-	85,371,871
Equipment	64,780,367	-	150,000	64,630,367
Furniture	25,829,640	-	19,583	25,810,057
Hangers	1,215,392	-	-	1,215,392
Fixtures and Fittings	6,714,233	-	-	6,714,233
Fencing and Gates	101,760,831	-	-	101,760,831
Miscellaneous Capital Items	122,245,716	-	-	122,245,716
Electrical Installation	25,957,936	-	-	25,957,936
Apron Expansion	238,739,201	-	-	238,739,201
Fire and Rescue Vehicle	47,909,963	-	-	47,909,963
Motor Vehicle	16,789,531	-	-	16,789,531
Road and Roadways	8,225,274	-	-	8,225,274
Training Equipment	63,518,766	-	-	63,518,766
Navigational Equipment	407,963,417	-	-	407,963,417
Fire and Safety Equipment	4,968,264	-	-	4,968,264
Water Supply System	50,074,158	33,727	60,000	50,047,885
Total Value of Depreciable Assets	2,841,320,659	34,969	557,583	2,840,798,045

2.2 In the Course of Construction

	Balance As at 01.01.2011 Rs.	Incurred during the Year Rs.	Transfers Rs.	Balance As at 31.12.2011 Rs.
Projects in Progress	9,589,626	34,969	(34,969)	9,589,626
Provision for doubtful projects (Note 2.6)	(6,197,854)	-	-	(6,197,854)
	3,391,772	34,969	(34,969)	3,391,772
Total Gross Carrying Amount	2,844,712,431	34,969	(34,969)	2,844,189,817

2.3 Depreciation (Memorandum only)

At Cost	Balance As At 01.01.2011 Rs.	Charge for the year Rs.	Disposals Rs.	Balance As at 31.12.2011 Rs.
Buildings	474,533,296	58,011,863	-	532,545,159
Communication Equipment	143,650,378	13,650,674	328,000	156,973,052
Plant and Machinery	215,682,657	5,821,372	-	221,504,029
Structures	79,913,151	1,176,586	-	81,089,737
Equipment	46,093,652	5,785,358	150,000	51,729,010
Furniture	23,424,651	2,014,727	19,583	25,419,795
Hangers	933,031	60,770	-	993,801
Fixtures and Fittings	6,160,405	112,010	-	6,272,415
Fencing and Gates	71,261,032	7,395,642	-	78,656,674
Miscellaneous Capital Items	122,240,786	2,419	-	122,243,205
Electrical Installation	17,876,460	2,182,599	-	20,059,059
Apron Expansion	235,667,990	238,611	-	235,906,601
Fire and Rescue Vehicle	47,909,959	-	-	47,909,959
Motor Vehicle	16,789,519	-	-	16,789,519
Road & Roadways	2,863,094	411,264	-	3,274,358
Training Equipment	63,498,159	10,302	-	63,508,461
Navigational Equipment	277,619,663	43,462,939	-	321,082,602
Fire and Safety Equipment	3,183,424	516,467	-	3,699,891
Water Supply System	28,356,321	6,263,486	7,500	34,612,307
Total Depreciation	1,877,657,628	147,117,089	505,083	2,024,269,634

2.4 Net Book Values (Memorandum only)

	2011 Rs.	2010 Rs.
At Cost	816,528,411	963,663,031
Total Carrying Amount of Property, Plant and Equipment	816,528,411	963,663,031

2.5 Depreciation (Memorandum only)

The provision for depreciation is calculated for memorandum disclosure by using the straight line method on the cost of all property, plant and equipment in order to write off such amounts over the estimated useful lives. The principal annual rates used are:

Notes to the Financial Statements *Contd.*

	2011	2010
Buildings	Over 20 Years	Over 20 Years
Communication Equipment	Over 08 Years	Over 08 Years
Plant and Machinery	Over 04 Years	Over 04 Years
Structures	Over 08 Years	Over 08 Years
Equipment	Over 08 Years	Over 08 Years
Furniture	Over 08 Years	Over 08 Years
Hangers	Over 20 Years	Over 20 Years
Fixtures and Fittings	Over 08 Years	Over 08 Years
Fencing and Gates	Over 08 Years	Over 08 Years
Miscellaneous Capital Items	Over 08 Years	Over 08 Years
Electrical Installation	Over 08 Years	Over 08 Years
Apron Expansion	Over 20 Years	Over 20 Years
Fire and Rescue Vehicle	Over 04 Years	Over 04 Years
Motor Vehicle	Over 04 Years	Over 04 Years
Road and Roadways	Over 20 Years	Over 20 Years
Training Equipment	Over 08 Years	Over 08 Years
Navigational Equipment	Over 08 Years	Over 08 Years
Fire and Safety Equipment	Over 08 Years	Over 08 Years
Water Supply System	Over 08 Years	Over 08 Years

- 2.6** Included under Projects in Progress is an amount of Rs.6,197,854/- in respect of a holiday bungalow at Anuradhapura, which has been constructed without the approval of the local authority. A provision has been made in respect of this expenditure.

3. RECEIVABLES

	2011 Rs.	2010 Rs.
Advances on Project (3.1)	8,023,499	8,023,499
Refundable Deposits	359,846	359,846
Interest Income Receivable	-	32,819,618
Amount Due From Related Parties (3.2)	1,199,294,688	44,059,494
	<u>1,207,678,033</u>	<u>85,262,457</u>

- 3.1** Advances on projects includes an amount of 7,000,000/- (2010 - Rs. 7,000,000/-) paid for the purchase of a land in Kataragama. However, the title of such land has not been obtained by the Fund.

Currently, Company has obtained this land from the land commissioner under the license of a long term lease for a period of 30 years commencing from 2009. Company has also filed legal action against the initial seller to recover the advance. However, no provision has been made in these financial statements for such doubtful advance.

3.2 Amount Due From Related Parties

	2011 Rs.	2010 Rs.
Airport and Aviation Services (Sri Lanka) (Private) Limited	1,199,294,688	44,059,494
	1,199,294,688	44,059,494

4. ACCUMULATED FUND

As at beginning of the year	3,966,721,295	3,873,380,908
Surplus for the year	16,381,218	93,340,387
As at end of the year	3,983,102,513	3,966,721,295

5. CONTRIBUTIONS FROM OTHER SOURCES

5.1 Contribution from Other Sources	62,323,991	62,323,991
-------------------------------------	------------	------------

- 5.2 These represent grants received to finance expenditure of a capital nature. Out of the sum, an amount of Rs.56,243,991/- refers to assets having limited economic lives, but such grants are not being amortised over such periods in accordance with SLAS 24-Accounting for Government Grants and Disclosure of Government Assistance, for reasons explained in Note 1.1.

Had this procedure been followed the amount to be amortised in 2011 would be Rs.2,800,000/- whilst the cumulative amortisation as at 31/12/2011 would have amounted to Rs. 20,943,991/- (2010 - Rs. 18,143,991/-).

6. TRADE AND OTHER PAYABLES

	2011 Rs.	2010 Rs.
Retention	4,475,483	5,572,523
Audit Fees	159,660	144,600
Creditors	93,900	93,900
Amounts Due to Related Parties (6.1)	1,839,413	3,539,413
	6,568,456	9,350,436

6.1. Amounts Due to Related Parties

Voted Fund	1,839,413	3,539,413
	1,839,413	3,539,413

7. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

Bank Balances	127,110	3,019,528
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement	127,110	3,019,528

Notes to the Financial Statements *Contd.*

- 7.1** These deposits are placed in the name of Airport & Aviation Services (Sri Lanka) (Private) Limited on behalf of the Retained Revenue Fund.

8. COMMITMENT AND CONTINGENCIES**8.1 Contingencies**

The Retained Revenue Fund does not have significant contingencies as at the Balance Sheet date.

8.2 Commitments

Airport and Aviation Services (Sri Lanka) (Private) Limited and Voted Fund has undertaken the required capital commitments for the development of the Airports and related service (Refer Note 1.1).

9. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

10. RELATED PARTY DISCLOSURES

Expenses incurred by the fund are reimbursed on an actual basis. The balances from and due to related parties are disclosed in note 3 and 6 respectively.

The Fund has made the following payments to the Government owned institutions in relation to the supply of goods & services during the year. The fund also has short term investments with Government owned institutions.

	Entities either controlled or in which significant influence is held by the state*	
	2011	2010
Balance Sheet		
<i>Assets</i>		
Project in Progress	-	4,879,895
Amounts Due from Related Parties	1,199,294,688	44,059,494
Treasury Bills	-	1,105,401,306
Cash and Bank Balances	127,110	3,019,528
<i>Liabilities</i>		
Amounts Due to Related Parties	1,839,413	3,539,413
Income Statement		
Interest Income net of taxes withheld	16,818,299	94,160,149

*The Current accounts are being operating by Airport and Aviation Services (Sri Lanka) (Private) Limited.

VOTED FUND ACCOUNTS (DEVELOPMENT PROJECTS)

Auditor General's Report **124** Income Statement **128**
Balance Sheet **129** Cash Flow Statement **130** Notes to the
Financial Statements **131** Explanatory Notes on the Report
of the Auditor General **138**

AUDITOR GENERAL'S REPORT



විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
துலைவா } SC/A/AASL/2011/FA
My No

මගේ අංකය
உமது இல }
No.

දිනය
திகதி } June 18, 2012
Date

The Chairman,
Airport and Aviation Services (Sri Lanka) Ltd

Report of the Auditor General on the Financial Statements of the Airport and Aviation Services (Sri Lanka) Limited in respect of the Government Grants for Capital Expenditure for the year ended 31 December 2011 in terms of Section 14(2)(c) of the Finance Act, No. 38 of 1971

The audit of Financial Statements of the Airport and Aviation Services (Sri Lanka) Limited (AASL) in respect of Government Grants for Capital Expenditure for the year ended 31 December 2011 comprising the Balance Sheet as at 31 December 2011 and the Income Statement and Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory notes was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka and Section 13(1) of the Finance Act, No. 38 of 1971 and Sub-section 14 of Section 21(A) of the Air Navigation Act (Chapter 365) as amended by Section 3 of the Air Navigation (Special Provisions) Act No. 2 of 1982. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report. This report is also the detailed report on the Financial Statements relating to the Government Grants.

1.2 Audit of Financial Statements of the Airport and Aviation Services (Sri Lanka) Limited

The audit of the Financial Statements of the Airport and Aviation Services (Sri Lanka) Limited had been carried out by a firm of Chartered Accountants in public practice appointed in terms of Section 154(1) of the Companies Act, No. 7 of 2007 by the Airport and Aviation Services (Sri Lanka) Limited.

1.3 Management's Responsibility for the Financial Statement

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

අංක 306/72 පොල්දූව පාර,
බත්තරමුල්ල, ශ්‍රී ලංකාව

දුරකථනය
தொலைபேசி } 2887220
Telephone.

இல. 306/72, பொல்துவ வீதி,
புத்தரமுல்லை இலங்கை

ෆැක්ස් අංකය
பக்ஸ் இல } 2887221
Fax No.

No.306/72, Polduwa Road,
Battaramulla, Sri Lanka

ඉලෙක්ට්‍රොනික් තැපෑල
ஈ- மெயில் } oaggov@slt.net.lk
E-mail.

1.4 Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

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

1.5 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effect of the matters description in paragraph 2.2 of this report, the Financial Statements give a true and fair view of the state of affairs of the Airport and Aviation Services (Sri Lanka) Limited, so far as relating to the Government Grants for Capital Expenditure as at 31 December 2011 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Accounting standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The land with the book value of Rs.400,000 and the building with the book value of Rs.34,000 acquired in the year 1981 for the construction of the air communications towers had been transferred to the former owner of the land. But the transfer of the property had not been properly posted in the Assets Accounts.
- (b) The expenditure totaling Rs.841,542 incurred in the preceding years for civil construction works and installation of machinery had not been capitalized during the year under review.
- (c) The expenditure of non-capital nature such as the costs of food and beverages entertainment expenses, accommodation charges, cost of fuel and electricity representing maintenance and administrative expenses relating to the Construction of the Mattala International Airport Project had also been included in the Capital Work-in-progress Account. As such it does not indicate the correctness of the Capital Work-in-progress Account. Maintenance and Administrative Expenditure amounting to Rs.12,230,699 had been shown in the Capital Work-in-progress Account in the year under review alone.

Auditor General's Report *Contd.***2.2.2 Unexplained Differences**

The deposit made in a Divisional Secretariat for the acquisition of lands, according to the financial statements of the Company amounted to Rs.8,801,648 whereas amounting to letter of confirmation of balance of the Divisional Secretariat that amounted to Rs.11,838,796. As such the unexplained difference amounted to Rs.3,037,148.

2.2.3 Lack of Evidence for Audit

The following items of account could not be satisfactorily vouched in audit due to the unavailability of the evidence identified against the items.

Subject	Value Rs.	Evidence not made available
(a) Trade and Other Receivables	27,476,147	Confirmation of Balances
(b) Trade and Other Payables	92,298,976	Confirmation of Balances
(c) Expenditure of Fuel	1,159,964	Mattala International Airport Construction Work Site
		(i) Register of Fuel obtained
		(ii) Certified copies of Register of Fuel obtained
		(iii) Registration Certificates, of vehicles Transfer Certificates, Revenue Licences and Insurance Policies of Motor Vehicles
(d) Capital Work-in-progress Account (Hotel Bills including Accommodation Charges)	385,665	(i) List of Participant Officers
		(ii) Approved Programme of Work
		(iii) Receipts

2.2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance observed during the course of audit are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Section 11 of the Finance Act, No. 38 of 1971	A sum of Rs.60,269,490 had been invested in Treasury Bills without obtaining the concurrence of the Minister in charge of the subject of Finance.
(b) Section 13(5)(b) of the Finance Act, No. 38 of 1971	As in the preceding years, the Board of Survey of the assets together with a summary report on the existence of the assets, had not been presented with the annual financial statements to the Auditor General in the year under review as well.
(c) Section 10 of the Employees Provident Fund Act, No. 15 of 1958 and Section 16 of the Employees Trust Fund Act, No. 46 of 1980	Even though the Company had paid Rs.17,402,767 during the 03 preceding years as the daily wages of the labourers deployed in the contribution of the Mattala International Airport. The contribution to the Employees Provident Fund had not been recovered and remitted to the Fund. In addition the employers contribution to the Employees Provident Fund and Employees Trust Fund had also not been remitted to those Funds.

2.2.5 Transactions of Contentious Nature

A sum of Rs.920,000 had been paid in 04 instances up to 11 January 2011 on a contract for Rs.430,000 awarded in the year 2010 for the preparation of a Biodiversity Survey and Wildlife Management Plan. Nevertheless, it could not be established audit that the contractor had produced particulars of his past experience of the contractor in the preparation of a Biodiversity Survey and Wildlife Management Plan in the surrounding areas of international airports.

3. Financial Review**3.1 Financial Results**

According to the financial statements presented, the operation of the Company relating to the Government Grants for Capital expenditure for the year under review had resulted a net surplus of Rs.5,722,869 as against the net deficit of Rs.1,037,743 in the financial results for the preceding year. Thus an improvement of Rs.6,760,612 in the financial results was indicated. The increase in the interest income had been the reason for the improvement.

4. Operating Review**4.1 Resources of the Company Supplied to other Government Institutions**

The following resources of the Company had been deployed in the service of the Government Ministries and other institutions contrary to the provisions in the Treasury Circular No. PED/12 of 02 June 2003.

Item	Observations
(a) Human Resources	Sixteen numbers of the staff of the Company had been released to various Ministries and other Government institutions during the year under review and company had paid a sum of Rs.8,558,408 as the salaries and allowances of 15 of those employees.
(b) Motor Vehicles	(i) Twelve motor vehicles of the Company had been released for the use of various Ministries and former Ministers. The Company had spent a sum of Rs.3,410,723 during the year under review as the maintenance expenditure of ten of those motor vehicles.
	(ii) Thirteen motor cycle of the Company had been released to Sri Lanka Air Force and the Department of Police. The Company had spent a sum of Rs.1,660,943 during the year under review on fuel and maintenance of those motor vehicles.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

- (a) Acquisition of Lands and Transfers
- (b) Contract Administration
- (c) Customs Duty and Reimbursement of Duty
- (d) Fuel



H.A.S. Samaraweera
Auditor General

INCOME STATEMENT

Year ended 31 December 2011

	2011 Rs.	2010 Rs.
Interest Income	5,817,818	20,176
Administrative Expenses	44,949	(1,057,919)
Surplus / (Deficit) for the year	5,772,869	(1,037,743)

The accounting policies and notes on pages 131 through 141 form an integral part of the financial statements.

BALANCE SHEET

As at 31 December 2011

	Note	2011 Rs.	2010 Rs.
ASSETS			
Non-Current Assets			
Property Plant & Equipment	2	23,274,287,411	23,268,943,135
Projects in Progress	2	8,601,857,844	166,848,605
		31,876,145,255	23,435,791,740
Current Assets			
Trade & Other Receivables	3	4,219,212,849	5,544,487,373
Cash and Cash Equivalents	4	62,269,490	116,455,469
		4,281,482,339	5,660,942,842
Total Assets		36,157,627,593	29,096,734,582
ACCUMULATED FUND AND LIABILITIES			
Treasury & other Contributions	5	34,182,452,849	28,325,046,285
Net Assets Taken Over From Airport Authority		801,102,309	801,102,309
Accumulated Fund	6	(120,940,120)	(126,712,988)
Total Fund		34,862,615,038	28,999,435,606
Current Liabilities			
Trade and Other Payables	7	1,295,012,555	97,298,976
		1,295,012,555	97,298,976
Total Fund and Liabilities		36,157,627,593	29,096,734,582

The Board of Directors of Airport and Aviation Services (Sri Lanka) Limited is responsible for the preparation and presentation of these financial statements. Approved and signed for and on behalf of the Board.


Chairman

Director

The accounting policies and notes on pages 131 through 141 form an integral part of the financial statements.

CASH FLOW STATEMENT

Year ended 31 December 2011

	Note	2011 Rs.	2010 Rs.
Cash Flows From / (Used in) Operating Activities			
Surplus/(Deficit) for the year		5,772,869	(1,037,743)
Adjustments for			
(Profit)/Loss on disposal of Property, Plant and Equipment		-	837,018
Operating Profit / (Loss) before Working Capital Changes		5,772,869	(200,725)
(Increase) / Decrease in Receivables		1,325,274,524	(5,398,994,250)
Increase / (Decrease) in Trade and Other Payables		1,197,713,579	(98,000,000)
Net Cash From / (Used in) Operating Activities		2,528,760,972	(5,497,194,975)
Cash Flows from / (Used in) Investing Activities			
Proceeds from sale of Fixed Assets		-	24,650
Incurred on Projects	2	(8,435,009,239)	(166,848,605)
Purchase of Fixed Assets		(5,344,276)	(16,861,971)
Net Cash Flows from / (Used in) Investing Activities		(8,440,353,515)	(183,685,926)
Cash Flows From Financing Activities			
Treasury & other Contributions		5,857,406,563	5,774,660,000
Net Cash flow from/(Used in) Financing Activities		5,857,406,563	5,774,660,000
Net Increase / (Decrease) in Cash and Cash Equivalents		(54,185,979)	93,779,099
Cash and Cash Equivalents at the beginning of the year	4	116,455,469	22,676,370
Cash and Cash Equivalents at the end of the year	4	62,269,490	116,455,469

The accounting policies and notes on pages 131 through 141 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of Preparation

The balance sheet, statements of income and cash flows, together with accounting policies and notes, ("Financial Statements") of the Fund as at 31 December 2011 and for the year then ended comply with the Sri Lanka Accounting Standards other than as described below.

a) Under the Air Navigation Act, the management of capital assets has been entrusted to Airport and Aviation Services (Sri Lanka) Limited (AASL), but the ownership of the Assets remains with the Government of Sri Lanka. In the absence of recognition of income generated by utilising such assets employed in these financial statements an Income Statement fully compliant with SLAS, cannot be prepared and presented.

b) However, Income & Expenditure Statement has been prepared, without charging the annual depreciation for the year reference in the same format as per the last year's accounts.

1.2 Financial statements have been prepared on the historical cost basis with generally accepted accounting principles. No adjustments have been made for inflationary factors affecting the financial statement.

1.3 All known liabilities have been accounted for, in preparing financial statement.

1.4 Projects in Progress

The Fund capitalises the costs of developing projects under "project in progress". These costs are transferred to property, plant & equipment when significant development activity is completed, or expensed at the time the Company determines that the particular project will no longer be viable / developed.

1.5 Projects Completed

a.) Cost

Project completed are stated at cost. Accounting for depreciation on completed projects has not been provided in the financial statement due to the reason given under 1.1 above.

b.) Depreciation

Depreciation has not been provided in the income statement, however a statement showing a depreciation charge for the year and the cumulative & written down value of assets as at 31/12/2011 has been prepared on memorandum basis and given as a notes to the accounts (refer Note - 2)

The Provision for depreciation is calculated in the schedule attached by using the straight line method on the cost of all property plant and equipment, in order to write off such amounts over the estimated useful lives by equal installments. The annual depreciation of assets for the current year is Rs. 1,084,538,534/-

Property, Plant and Equipment acquired prior to 1st January 2006, fully depreciated in the year of disposal but none in the year of purchase. Property, plant and equipment acquired after 1st January 2006 are depreciated from the month the assets are available for use over their estimated useful lives.

Therefore as advised by the Director General of Public Enterprises letter dated 10th October 2003 and previously agreed with the Auditor General, depreciation has not been charged to the account and instead disclosed as a note to the accounts.

Cabinet approval has now been granted to amalgamate all airport assets. Once the related legal formalities are complete, depreciation could be charged to the Income & Expenditure Account.

1.6 Income Statement Interest

Interest Income is recognized as the interest accrued (taking into account the effective yield on the asset) unless collectability is in doubt.

The revenue generated with the fixed assets of this fund accrue to AASL and dealt with in a separate set of book (i,e) the books of AASL, as the agent. Hence there is no revenue source against which depreciation be charged in the Income Statement. If the depreciation is charged would result in the depletion of government capital contribution.

Notes to the Financial Statements *Contd.***1.7 Balance Sheet****a) Treasury Contribution – Local**

Payments in respect of Development projects have been recognized under Treasury Contribution Local.

b) Treasury Contribution – Foreign

Direct Foreign Aids and Reimbursable Foreign Aids in respect of Development Projects have been recognized under Treasury Contribution Foreign.

c) Income & Expenditure Account

As per Treasury Directive an Income & Expenditure Account for the Development Project has been prepared taking into account the Interest income from Treasury Bills, Bank Charges, Debit Tax. This results in profit of Rs.5,772,869/- for the year and Accumulative loss of Rs. 120,940,120/= up to year as at 31/12/2011.

d) Directors' Interest in Contracts with Airport & Aviation Services (SL) Ltd.

No Director of the Company was directly or indirectly involved in any contract with the Development Projects during the year ended 31.12.2011.

2. PROPERTY, PLANT AND EQUIPMENT

	Balance As at 01.01.2011 Rs.	Additions Rs.	Transfers Rs.	Disposals Rs.	Balance As at 31.12.2011 Rs.
2.1 Gross Carrying Amounts					
Land	759,102,604		(8,236,914)	-	750,865,689
Road & Roadways	192,220,184	-	-	-	192,220,184
Buildings	4,624,465,693	-	(4,602,618)		4,619,863,074
Communication Equipment	994,368,023	188,663	653,314		995,210,000
Plant & Machinery	3,212,334,934	1,131,247	-	-	3,213,466,181
Motor Vehicles	84,450,777	2,095,250	-	-	86,546,027
Fire Rescue Vehicles	167,477,115	-	-	-	167,477,115
Structures	56,340,251	-	-	-	56,340,251
Navigational Equipment	3,176,570,829	-	-	-	3,176,570,829
Equipment	113,375,278	144,380	-	-	113,519,658
Furniture	404,663,686	1,022,697			405,686,383
Hangars	7,188,779	-	-	-	7,188,779
Fixture & Fittings	158,337,209	-			158,337,209
Fencing & Gate	42,488,994	-	-	-	42,488,994
Apron	1,319,386,394	-	(910,466)	-	1,318,475,929
Taxiways	411,311,373	-	-	-	411,311,373
Electrical Installation	474,299,666	-	(1,906,659)	-	472,393,007
Aero Bridges	1,013,248,411	-			1,013,248,411
Sewage Disposal System	280,690,397	-	-	-	280,690,397
Water Supply & Drainage System	245,566,027	-	11,797,986	-	257,364,012
Equipment - Office	46,493,319	426,042	4,157,494		51,076,855
Equipment - Other	325,724,506	335,997	(952,135)	-	325,108,368
Equipment - Fire & Safety	94,772,800	-	-	-	94,772,800
Runway	1,779,315,364	-	-	-	1,779,315,364
Terminal Building	2,449,441,310	-	-	-	2,449,441,310
Ancillary Buildings	835,309,213	-	-	-	835,309,213
Total Value of Depreciable Assets	23,268,943,135	5,344,276	-	-	23,274,287,411

2.2 In the Course of Construction

	Balance As at 01.01.2011 Rs.	Incurred during the Year Rs.	Transfers Rs.	Disposals Rs.	Balance As at 31.12.2011 Rs.
Projects in Progress	166,848,605	8,435,009,239	-	-	8,601,857,844
	166,848,605	8,435,009,239	-	-	8,601,857,844
Total Gross Carrying Amount	23,435,791,740	8,435,009,239	-	-	31,876,145,255

Notes to the Financial Statements *Contd.*

2.3 Depreciation (Memorandum only)

At Cost	Balance As At 01.01.2011 Rs.	Charge for the year Rs.	Disposals Rs.	Balance As at 31.12.2011 Rs.
Road & Roadways	58,489,151	8,773,394	-	67,262,544
Buildings	1,164,517,990	220,033,887	-	1,384,551,876
Communication Equipment	592,872,820	106,496,716	-	699,369,536
Plant & Machinery	3,093,664,241	118,798,075	-	3,212,462,316
Motor Vehicles	84,450,777	983,541	-	84,450,777
Fire Rescue Vehicles	167,477,111	4	-	167,477,114
Structures	56,340,231	20	-	56,340,251
Navigational Equipment	2,448,793,694	221,572,931	-	2,670,366,624
Equipment	111,280,706	2,094,572	-	113,375,278
Furniture	329,368,915	13,135,886	-	342,504,801
Hangars	7,188,775	3	-	7,188,779
Fixture & Fittings	106,860,625	17,228,706	-	124,089,331
Fencing & Gate	30,794,609	3,612,521	-	34,407,129
Apron	570,082,011	51,364,499	-	621,446,510
Taxiways	150,079,599	20,565,569	-	170,645,168
Electrical Installation	312,013,796	40,642,778	-	352,656,575
Aero Bridges	584,439,778	126,656,051	-	711,095,830
Sewage Disposal System	260,145,573	20,544,824	-	280,690,397
Water Supply & Drainage System	152,160,949	31,140,887	-	183,301,836
Equipment - Office	45,778,206	1,862,257	-	47,640,463
Equipment - Other	304,594,846	9,267,711	-	313,862,557
Equipment - Fire & Safety	54,662,440	11,241,676	-	65,904,116
Runway	1,710,358,116	6,895,725	-	1,717,253,841
Terminal Building	2,435,465,369	13,975,941	-	2,449,441,310
Ancillary Buildings	797,658,853	37,650,361	-	835,309,214
	-	-	-	
	15,629,539,178	1,084,538,534	-	16,713,094,171

2.4 Net Book Values (Memorandum only)

	2011 Rs.	2010 Rs.
At Cost	15,163,051,083	6,722,697,569
Total Carrying Amount of Property, Plant and Equipment	15,163,051,083	6,722,697,569

2.5 Depreciation (Memorandum only)

The provision for depreciation is calculated for memorandum disclosure by using the straight line method on the cost of all property, plant and equipment in order to write off such amounts over the estimated useful lives. The principal annual rates used are:

	2011	2010
Road & Roadways	5.0%	5.0%
Buildings	5.0%	5.0%
Communication Equipment	12.5%	12.5%
Plant & Machinery	25.0%	25.0%
Motor Vehicles	25.0%	25.0%
Fire Rescue Vehicles	25.0%	25.0%
Structures	12.5%	12.5%
Navigational Equipment	12.5%	12.5%
Equipment	12.5%	12.5%
Furniture	12.5%	12.5%
Hangars	12.5%	12.5%
Fixture & Fittings	12.5%	12.5%
Fencing & Gate	12.5%	12.5%
Apron	5.0%	5.0%
Taxiways	5.0%	5.0%
Electrical Installation	12.5%	12.5%
Aero Bridges	12.5%	12.5%
Sewage Disposal System	25.0%	12.5%
Water Supply & Drainage System	12.5%	12.5%
Equipment - Office	25.0%	25.0%
Equipment - Other	12.5%	12.5%
Equipment - Fire & Safety	12.5%	12.5%
Runway	5.0%	5.0%
Terminal Building	5.0%	5.0%
Ancillary Buildings	5.0%	5.0%

3. TRADE & OTHER RECEIVABLES

	2011 Rs.	2010 Rs.
Deposits & Advance (3.1)	4,214,850,628	5,506,433,795
Amount Due From Related Parties (3.2)	1,839,413	35,533,402
Other Receivables (3.3)	2,522,808	2,520,176
	4,219,212,849	5,544,487,373

Notes to the Financial Statements *Contd.*

3.1 Deposits & Advances

	2011 Rs.	2010 Rs.
Deposits		
Div.secretary - Katana	4,083,648	4,083,648
Div.secretary - Gampaha	4,718,000	4,718,000
Div.secretary - Mt.Lavinia	24,976,147	24,972,147
Advance on Project	298,250	-
Advance to Suppliers	1,028,411	-
Mobilization Advance		
China Harbour Engineering Co.Ltd	4,179,746,172	5,472,660,000
	4,214,850,628	5,506,433,795

3.2 AMOUNTS DUE FROM RELATED PARTIES

Current Account With Company	-	26,993,989
Current Account With Retained Revenue	1,839,413	3,539,413
	1,839,413	30,533,402

3.3 OTHER RECEIVABLES

Debtors (Sri Lankan Airline)	2,500,000	2,500,000
Interest Income Receivable	22,808	20,176
	2,522,808	2,520,176

4. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

Bank Balances

Bank Of Ceylon Corporate Branch C/A 0000000451	983,122	5,418,150
Bank Of Ceylon Corporate Branch C/A 0000001600	1,127,032	3,037,319
Investment in Treasury Bills	60,159,336	108,000,000
Total Cash and Cash Equivalents	62,269,490	116,455,469

5. TREASURY & OTHER CONTRIBUTIONS

Treasury Contribution - (Local)	8,597,499,362	8,580,977,361
Treasury Contribution - (Foreign)	25,389,190,683	19,548,306,120
Defence Ministry Contribution	109,661,415	109,661,415
Ministry of Tourism & Civil Aviation Contribution	40,000,000	40,000,000
Retained Revenue Contribution	32,000,000	32,000,000
AASL Contribution	14,101,390	14,101,390
	34,182,452,849	28,325,046,285

6. ACCUMULATED FUND

	2011 Rs.	2010 Rs.
As at beginning of the year	(126,712,989)	(125,675,246)
Surplus / (Deficit) for the year	5,772,869	(1,037,743)
As at end of the year	(120,940,120)	(126,712,989)

7. TRADE AND OTHER PAYABLES

Amounts Due to Related Parties (7.1)	475,775,413	-
Creditors (7.2)	92,298,976	92,298,976
Retention	726,938,166	
	1,295,012,555	92,298,976

7.1. Amounts due to Related Parties

Current Account With Company	475,775,413	-
	475,775,413	-

7.2. TRADE CREDITORS

Taisei Mitsubishi Joint Venture	92,298,976	92,298,976
	92,298,976	92,298,976

8. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

EXPLANATORY NOTES ON THE REPORT OF THE AUDITOR GENERAL

2.2. Comments on Financial Statements

2.2.1 Accounting Deficiencies

a. Land & Building value at Yakvila – Rs. 4,340,490.77 - incurred in 1981

The Director of Civil Aviation has given an approval to transfer the said land to the previous land owner as per the Government Land Acquisition process, by letter dated May 04, 1990 addressed to GA Kurunegala. Action has already been taken to write-off the cost of the Land from the Fixed Assets Register.

b. Capitalization of Expenses – Rs. 891,542

1. Civil construction works at Talangama Rs. 772,566.50 incurred in 1991 for renovation to the Talangama RX Station building. Action will be taken to capitalize under buildings.
2. Land clearing at Ratmalana Radar site Rs. 118,975 incurred in 1985. This expenditure was incurred for the preparation of site to install the Radar equipment. Action will be taken to transfer this expenditure to the relevant assets account.

c. Mattala Airport Operating Expenses

The Projects are right now progressing well and scheduled to be completed in first quarter of 2013. As soon as the project is completed Work in Progress Account will be cleared via transferring all capital items into respective Fixed Assets Accounts.

Since the project is in progress, all these directly attributable expenses such as Civil Construction and Project Administration Expenses can be capitalized as per the Sri Lanka Accounting Standards No. LKAS 16.

However, this expenditure has been incurred out of the Company Funds and not from the Government allocation.

2.2.2 Unexplained Differences

As per our records the details of the deposit amount in respect of land acquisition on BIA development of Rs. 8,801,648 are as follows:

Deposit Date	Divisional Secretary	Deposit Amount Rs.
1) 31.12.1997	Katana	2,083,648.24
2) 16.12.1998	Gampaha / Katana	4,718,000.00
3) 22.02.2008	Katana	2,000,000.00
		<u>8,801,648.00</u>

As per the confirmation sent by the Divisional Secretary- Katana dated 12.10.2011 above deposit amounting to Rs. 6,801,648 (1 & 2 above) and of Rs. 2,000,000 deposited on 22.02.2008 (Receipt number G/21 – 484,546) are in agreement with our recorded balance of Rs. 8,801,648.

Action will be taken to get the information from Divisional Secretary Katana for difference of Rs. 3,037,148/-.

2.2.3 Lack of Evidence for Audit

a. Advances & Receivables - Rs. 27,476,147

Relevant Confirmations were sent to the respective parties on April 27, 2012 with a copy to Auditor General to obtain the confirmation of balances directly.

b. Trade Creditors – Rs. 92,298,976

Relevant Confirmations have already been sent to Taisei Mitsubishi Joint Venture on April 27, 2012 with a copy to Auditor General to obtain the confirmation of balances directly.

c. Fuel Cost Rs.1,159,964

- i, ii. During the year 2011, AASL used two fuel suppliers namely K A Benet and Kuruppuarchchi & Sons for refueling. For this purpose Site Office maintained Fuel Issuing /Order Books (with duplicate copies) and no party was allowed to get fuel from the said suppliers without taking an approved fuel issuing order issued by the site with two authorized signatories. After refueling the driver was required to provide the original signed fuel bill (after pasting the copy of the same in the Vehicle running chart) to the site. Then site office prepare the schedule for reimbursement and forward it to the Civil Engineering (P&D) with original fuel bills. Thereafter, Civil Engineering (P&D) Division cross check the details with the Site Office and prepares a schedule for reimbursement for the period and forwards to finance for payment with the approval of Head of Civil Engineering (P&D).

Therefore at a given time, **verification of fuel expenses can be done satisfactorily** using one or all of the following ways & means.

- a) Counterfoils of the Fuel Issuing Order Books at the Site Office
- b) Schedule of fuel reimbursements maintained by Civil Engineering (P&D) Division
- c) Running Charts of the respective vehicles

Further, in order to strengthen the procedures in respect of fuel administration, the following prudential steps have been taken by AASL during year 2011.

- 1) On 1st June 2011 new measures were introduced via the Internal Circular on "Releasing Cash Advances for HIADP – Mattala" issued to all Heads of the Departments restricting refueling using cash advances.
- 2) On June 27, 2011 Internal Circular of "the Procedure for settlement of fuel bills" was issued to Head of Civil Engineering (P&D) formalizing the steps to be followed.
- 3) A Transport Supervisor was appointed to the Site in order to strengthen the process further.

However, the Site Office does not maintain a "Fuel Issuing Register" as pointed out by the Auditors and necessary action will be taken to introduce such Register in the future.

- iii. During the year 2011, there were 14 vehicles running at the site on regular basis and the Certification of Registration (CRs), License & Insurance documents are available for inspection on request. (all CRs are in the custody of HR)

d. Hotel Accommodation and Related Expenses Rs. 385,665

This has been incurred in respect of AASL Officers visited to Mattala Progress Review Meetings with the Officers of the Ministry of Civil Aviation. Supporting documents are available for inspection.

However, this expenditure has been incurred out of the Company Funds and not from the Government allocation.

2.2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions**a. Section 11 of the Finance Act No.38 of 1971**

The temporary investments referred to in the report are mainly due to the Treasury Receipts for the outstanding settlement of Taisei Mitsubishi Joint Venture. This amount has been temporary invested in rollover basis in Treasury Bills (07 Days) until the settlement will be finalized and making payments to the Contractor upon clarification of certain matters on their claim. To avoid having idle assets, action has been taken to invest in Repurchase Agreements. Now the matter has almost been finalized and the settlement can be made in the near future.

Explanatory Notes on the Report of
the Auditor General *Contd.***b. Section 13 (5) (b) of the Finance Act No.38 of 1971**

Physical Verification for assets are being carried out on continuous basis and 40% of the assets have been covered by Physical Verifications and the balance could not be completed due to a shortage of staff. This will be covered with the recruitment of trainees in June 2012 and the verification of assets in all locations will be completed before end of 2012.

Complete report will be submitted at the end of financial year 2012.

c. Section 10 of the Employees Provident Fund Act No.15 of 1952 and Section 16 of the Employees Trust Fund Act No. 46 of 1980

These Casual Workers are being employed on urgent on call duties and they have not been recruited on permanent, temporary or casual basis due to practical difficulties. Most of these workers are engaged in on an off farming activity and therefore, it is not viable to recruit them on monthly wage basis. Due to that reason it is not required to pay either EPF or ETF in accordance with the respective Sections of the above Acts.

2.2.5 Transactions of Contentious Nature**Payment for Professional Fees to Bio diversely Survey and Wild Life Management Plan**

For the purpose quotations were called from the following expertise in the field.

- 1) Professor S P Samarawickrama – University of Moratuwa (President of the Team appointed to prepare the Environmental Study Report – Mattala Airport)
- 2) Dr. Dewaka Weerasinghe – University of Colombo (Environmental Study Report for Weerawila has been prepared by Dr. Dewaka Weerasinghe)
- 3) Lecturer Wasantha Rathnayake - University of Sabaragamuwa
He has more than 20 years experience in the field and employed in Department of Wild Life Conservation as a Director. Further he has served as an expert in both Mattala and Weerawila Environmental Studies.

Though, Initial approved contract value was Rs.770,000 later due to emerged unexpected social and environmental reasons agreed and expected time frame was extended. As a result Environmental Study team had to spend more time and effort on the study resulting additional approved estimate of Rs.150,000.

3. Financial and Operating Review**3.1 Financial Results**

Recorded Net Profit for the year of Rs. 5,722,869, compared to the Net Loss of Rs.1,037,743 for the previous year mainly due to the short term investment made in Government Securities.

4. Operational Review**4.1 Resources of the Company Supplied to other Government Institutions****a. Human Resources**

Since the AASL come under the purview of Aviation Ministry, we may have to facilitate their requirements. Therefore, on request of the Civil Aviation Ministry 16 number of employees of AASL was released to the Ministry to attend AASL related works.

b. Motor Vehicles

The vehicles referred have been released to the Aviation Ministry on temporarily basis upon request. Since the vehicles are released to the Ministry on temporarily basis, AASL is undertaking the repair cost to maintain the vehicles in good condition.

Due to high terrorist threats, during the year 2008 Management of AASL decided to provide motor bicycles to Sri Lanka Air Force and Sri Lanka Police Unit at BIA on temporarily basis to strengthen the security at airport. With this important decision AASL could maintain the airport security at high standards. Therefore Repair & Maintenance cost of these Motor Vehicles are considered to be incurred for the airport operation.

5. Systems and Controls**a. Acquisitions & Transfer of Lands**

Relevant systems and controls are adopted under the provision of Land Acquisition Act. Regarding the payment of compensation, a report on disbursement of funds for payment of compensation for land owners is obtained from the respective Acquisition Officer, who makes the payment based on procedures as per the Land Acquisition Act.

b. Contract Administration

Contract Administration carried out in accordance with Administration Manuals issued and updated in accordance with the Treasury Guidelines. At the Finance Division separate Records and Ledgers are maintained for the purpose of Contract Administration.

c. Reimbursement of Duties & Taxes

Reimbursements are done on the production of all related correspondence including cusdecs and other documents which have been certified by the Engineer as well as the Project Director.

In addition respective Payment Certificates are being thoroughly checked by the Finance Division in order to ensure the accuracy of the amount being paid.

This image shows a single sheet of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

