

Speed & Quality

departures			
time	to / via	flight	
15:10	JEDDAH	UL	
15:10	JEDDAH	SV	
16:35	CHENNAI	AI	
18:30	MALE	UL	
18:30	MALE	UL	
18:30	CHENNAI	UL	
18:30	CHENNAI	MJ	
18:35	BANGALORE	UL	
18:35	BANGALORE	MJ	
18:40	TRICHY	MJ	
18:40	TRICHY	UL	

Annual Report 2012

Airport & Aviation Services (Sri Lanka) Ltd

Vision

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

Mission

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



Speed & Quality

In the rigorous competitive environment, to be among winners, airport Chairmen/ CEOs will need to define new strategies, develop new business models/ infrastructure and adopt new value propositions. Yet, only doing that will not work out for Etching Milestones and Wearing Crowns, unless those have been blended with a special “Strategic Secret” called “Speed and Quality”.

That’s the success story behind all AASL achievements. We at AASL do everything speedily while benchmarking the highest quality. Under the crown of AASL, every brainchild will soon turn to reality. One archetypal established paradigm is Mattala Rajapaksha International Airport (MRIA).MRIA proves that the following equation is absolutely correct...

AASL = Speed & Quality

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Financial & Performance Highlights

"It's all about Winner's Story ..."

Financial Highlights

Year Ended 31 December 2012	2012 Rs.Mn.	2011 Rs.Mn.	+/- %*	2011 Rs.Mn.	2010 Rs.Mn.	+/- %*
Turnover	11,114	9,290	19.6%	9,290	8,272	12.3%
Operating expenses before depreciation	5,214	4,599	-13.4%	4,599	3,669	-25.3%
EBITD	5,899	4,692	25.7%	4,692	4,603	1.9%
Depreciation of fixed assets	1,011	1,135	10.9%	1,135	(3,024)	-137.5%
Finance costs	1,030	1,413	27.3%	1,413	2,018	29.8%
Profit Before Taxation	3,859	2,140	80.3%	2,140	4,609	-61.8%
Income Tax	1,121	751	-49.3%	751	721	-4.2%
Profit After Taxation	2,738	1,389	97.1%	1,389	4,888	-71.6%
Profit attributable to equity shareholders	2,738	1,389	97.1%	1,389	4,888	-71.6%
Dividends	-	2,106	100%	2,106	600	-251%
Cash & Cash Equivalents Balance as at 31 st December	4,424	4,203	5.3%	4,203	3,514	19.6%

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

Performance Highlights

		2012	2011	2010
Financial Highlights				
Total Revenue	Rs.Mn.	11,114	9,290	8,272
Net Profit before tax	Rs.Mn.	3,859	2,140	5,609
Shareholders Fund as at December 31 st	Rs.Mn.	4,217	1,274	1,877
Total Carrying Amount of Non-Current Assets as at December 31 st	Rs.Mn.	42,044	25,647	15,607
Total Current Asset as at December 31 st	Rs.Mn.	7,488	10,625	14,345
Total Current Liabilities as at December 31 st	Rs.Mn.	4,181	4,011	2,953
Total Capital Expenditure for the year	Rs.Mn.	17,449	9,165	544
Cash & Cash Equivalents at the year end	Rs.Mn.	4,425	4,203	7,020
Operating Highlights				
International Flight Movements	Nos.	48,416	43,454	34,088
Passenger Movement*	Nos.	7,079,920	6,145,532	5,259,648
Cargo Movement**	M.T.	186,618	168,577	167,130
Total no.of Employees as at December 31 st	Nos.	3,445	3,306	3,179
Highlights in Ratios				
Net Profit before tax to total revenue	%	34.7	23	67.8
Net Profit before tax to share holders fund	%	91.5	167.9	298.9
Total Revenue to total Assets	Times	0.2	0.3	0.3
Current asset to Current liabilities	Times	1.8	2.6	4.9
Total assets per Employee	Rs'000	14,378	10,972	9,422
Total staff cost per employee	Rs'000	1,020.2	942.0	887.8
Revenue per Passenger	Rs	1,570	1,512	1,573
Profit after tax per Passenger	Rs	387	226	929
Aircraft Movement per Employee	Nos.	14	13	11
Passengers per Aircraft	Nos.	146	141	154
Passengers per Employee	Nos.	2,055	1,859	1,654
Total cost per Flight Handled	Rs'000	164.4	176.4	123.1
Return on Net Assets	%	65	109	260
Return on Total Assets	%	6	4	16
Earning Per Share	Rs.	13,688	6,943	24,441
Profitability Ratio	%	25	15	59
Quick Assets Ratio	Times	1.7	2.6	4.8
Total Income to Total Expenditure	Times	1.5	1.3	3.1

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

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



Chairman's Review

“The Leading Role... navigation at the forefront on a clear strategic path while keeping steady vigil on internal performance...”



Chairman's Review



Prasanna J Wickramasuriya *WWW RWP RSP*
Chairman

We are the trustees of this country and we are tasked with building a sustainable and development oriented progressive country for our young people and that we must take seriously. It is a responsibility we have been given and that responsibility remains at the core of everything we do at AASL.

Total Revenue

Rs 11.11 Bn  by 20%

Total Expenditure

Rs 7.9 Bn  by 1%

Profit Before Tax

Rs 3.9 Bn  by 80%

Profit After Tax

Rs 2.7 Bn  by 97%

Total Equity

Rs 4.21 Bn  by 231%

Total Assets

Rs 49.5 Bn  by 37%

Earnings Per Share

Rs. 13,688  by 97%

Dear Shareholders,

What a transformation we are seeing in Sri Lanka as the country traverse towards the national vision of positioning Sri Lanka as the aviation hub in the South Asian Region by 2015. In this context, we at Airport and Aviation Services Sri Lanka Ltd (AASL) have set a vision for ourselves too, a vision that is ideally aligned with this national vision, but reaching out to an even larger strata, where AASL becomes the driver of this aviation hub in the Asian Region. Given the global milieu, we do know that the challenges will be many and the hurdles to conquer will be numerous but, as we have always believed, even the skies do not limit us. We must dream big and dream wide; we must look at horizons that are beyond our line of vision; we must always be optimistic and be pragmatic about how we would achieve our vision.

Our plans must be well envisioned and implemented, taking into account external threats and we must be aware of our weaknesses. At the same time, we must exploit those opportunities that are always around us and ensure that we maximize on them because the foundations we lay and the trusses we construct today, are not for us, but a legacy and an inheritance we leave for future generations. We are the trustees of this country and we are tasked with building a sustainable and development oriented progressive country for our young people and that we must take seriously. It is

a responsibility we have been given and that responsibility remains at the core of everything we do at AASL.

It is in this backdrop, dear shareholder, that I, on behalf of the Board of Directors of AASL, present to you the Annual Report and audited Financial Statements for the year ending December 31st 2012.

Looking back at 2012

It certainly has not been an easy year for the global economy. Four years after the onset of the cataclysmic financial downturn, most developed countries continue to struggle, caught up as they are in a quagmire of turmoil, instability, double dip recession, bailouts and in some cases, even bankruptcy. A growing number of developed economies experienced downward spiraling dynamics due to high unemployment, sluggish domestic demand amidst risk of excessive near-term fiscal tightening, high public debt burdens, heightened sovereign risks and financial sector susceptibility. There were also high expectations of the BRIC economies, Asia, the Middle East, Africa and other developing economies cushioning the downward spiral but given the larger influence of developed economies, especially in terms of trade and commerce, these blocs, while displaying growth, did not climb to the levels expected. The external vulnerabilities were very evident although, low income economies seemed to have performed the best in these adverse times.

The Amalgamated Financial Statements presented in this report is the very first being presented since AASL adopted the International Financial Reporting Standards (IFRS) and firmly entrenches our commitment to maintaining that culture of absolute compliance.

The AASL Factor in Tumultuous Times

We have made a core promise to ourselves at AASL and that nothing is impossible for us. Having overcome some extreme challenges in the last three decades, AASL's motto of being optimistic at all times, has been the panacea for our progress, success and achievements. We have always believed in perceiving our problems or challenges pragmatically, being much focused on righting our weaknesses and consciously seeking gaps that exist and bridging them. It is these underlying rudiments therefore that saw us look at the difficulties arising from permeating effects of the global economic downturn which prompted limitations in traditional long haul markets, with much optimism. It is pertinent to mention that Europe, one of our biggest trade and tourism markets suffered serious negative impacts during the year due to the global fiscal downturn and the heralding problems undoubtedly impacted the tourism, trade and aviation sectors considerably, stemming from the stagnant global environment.

It is indeed very commendable therefore that AASL continued its growth momentum, building on last year's record breaking profits to deliver a financial and operational performance that is extremely impressive as well exemplified by the 97% increase in the Profit After Taxation posted for 2012 at a momentous Rs. 2.73 Bn, compared to last year's Rs. 1.38 Bn. I will showcase a synopsis of our financial performance below, while there is a more detailed review of our financial performance in the "Financial Review" in the later pages of this Report.

It is also to be noted that AASL recorded significant growth curves in revenue, profits and contribution to the national economy by way of taxation.

Profit Before Taxation inclined by a significant 80.3% to stand at Rs 3.9 Bn, while total revenue increased by 19.6% to Rs. 11.1 Bn. We did see a marginal rise of 4% in total expenditure which is posted at Rs. 7.9 Bn, primarily due to the development of business areas currently underway aligned with the national development agenda. The Balance Sheet posts Rs. 4.2 Bn total equity growth of 231%, while total assets also saw an increase of 37% to Rs. 49.5 Bn. Our shareholders will be most pleased that EPS shows a noteworthy growth curve of 97.1% to be posted at Rs 13,687.57.

From a breakdown of revenue streams, total airport revenue increased by 19.6% to Rs. 11.11 Bn compared to Rs. 9.3 Bn in 2011, while aeronautical revenue inclined 26% to be posted at Rs. 2.7 Bn. Non-aeronautical revenue also moved upwards by 17% to Rs. 8 Bn. Other income displayed similar upward momentum inclining significantly by 29% to Rs. 426 Mn from Rs. 331 Mn in 2011, primarily due to Rs. 704 Mn of interest income earned an Exchange gain of Rs. 255 Mn, prompted by the Rupee depreciation.

The company's financial management has always been known to be prudent, where risk vs return is pragmatically managed. As a result, investment income from Fixed Deposits rose 32% to Rs. 99 Mn from Rs. 74 Mn and Debentures increased impressively by 563% to Rs. 266 Mn from Rs. 40 Mn.

The improved financial results were largely fueled by growth in passenger numbers which increased by 15% as a result of Sri Lanka's aggressive tourism development drive. The national goal is to increase tourism arrivals into the country to 2.5 million by 2016. 2012 saw arrivals in excess of 1 million, well above the established target for the year. Total passenger movements increased by 15% to 7,079,920 in 2012 from 6,145,532 in 2011, both figures being over capacity at BIA.

A fundamental shift in passenger demographics is very evident across Sri Lanka's travel paradigms. Strong growth emanated from Eastern Europe (43.6%), Africa (39.6%) East Asia (38%) and Latin America and the Caribbean (56%) compared with corresponding figures of 2011, although a slight decline was observed from the Middle Eastern region. From a country perspective, Ukraine posted a formidable 124% growth, the Philippines an impressive 178% and Taiwan 81%. Buoyed by very positive international travel reviews, Sri Lanka steadily climbed to be positioned among the top hot spot tourist destinations in the world.

This was further emphasized when BIA saw the world's most technologically superior commercial aircraft, the Airbus A380 touch down for refueling and Tiger Airways, which operates a fleet of 32 Airbus A320s commence flights into Sri Lanka. During the year under review total aircraft movements at BIA, increased by 12% to 48,416 from 43,454 recorded in 2011 and cargo movements increased by 11% to 186,618 MT from 168,577 MT.

Developing on the AASL Strategic 4G Growth Model

The 4G Growth Model we established has surely constructed a strong and sustainable foundation to build our business in these burgeoning times, efficiently, productively and on a socially responsible platform. As mentioned earlier, the aviation sector has faced chaos in years past where growth of the sector seemed near impossible. Turbulence was a daily occurrence and the tailwind cyclonic. The industry was in definite turmoil and hence, prompted the question, "Do we remain on the ground until the storms subside or simply use the rudder to pilot ourselves into better times?" The answer was simple:

Fly! We began observing challenges as opportunities and threats as avenues for growth.

The 4G Growth Model therefore saw a complete transformation in our focus, where from being a reactive infrastructure builder and service provider; AASL became a proactive strategically led growth engine for stakeholder partnerships, marketing, training & development and IT. We are now well positioned as an imperative value addition to the country's development agenda, while the 4G Growth Model has added the necessary fundamentals to sustain and fuel our business growth, while being the stimulator in taking AASL towards our vision of being the Regional Aviation Hub as envisioned in the Mahinda Chinthana Vision for the Future.

The very proactive discussions we had with our stakeholders, at the brainstorming of our Strategic Plan 2013-2017 held in January 2013 was extremely enlightening. As Chairman, it gave me great pleasure to share our theme, 'Synergizing for the Best Formulae in Aviation' with you, to ensure that you are a partner in the plans we have for the future. Another positive aspect brought in by our external stakeholders at this discussion is that we were able to identify key planning strategies and infuse measures to leverage on common synergies. This forum also opened up communication avenues for progressive two way dialogue, which is vital if we are to collectively contribute towards our country's development. Among the shareholders present were representatives from the Ministry of Civil Aviation, SriLankan Airlines, Treasury, Tourism Promotions Bureau, Sri Lanka Association of Inbound Tour Operators (SLAITO), Sri Lanka Association of Airline Representatives (SLAAR), Travel Agents Association of Sri Lanka (TAASL), Sri Lanka Freight Forwarders Association (SLFFA), STING Consultants and our Enterprise Resources Planning (ERP) Solution Provider (E-Wis).

Etching Milestones, Wearing Crowns

One of the country's most significant milestones was the progress made towards completing Sri Lanka's second International Airport, the Mattala Rajapaksa International Airport in Hambantota, which was inaugurated in March 2013, well within the original date plan. Even though this Annual Report covers operational performance until end December 2012, given that my message is dated 18th June 2013, it is pertinent that this successful achievement is mentioned in this report. The first test flight landed in October 2012 to calibrate air navigational aids and other germane equipment, which process was implemented by the Civil Aviation Authority of Pakistan, using a special Beech Craft Super King 200 aircraft. Accuracy of navigational aids and all equipment was verified as conforming to international standards.

This airport, which is a key component within Sri Lanka's accelerated development programme under the Mahinda Chinthana Development Vision, serves the long felt need of a second international airport that can not only feed the increasing numbers of tourists but also the burgeoning role in global trade and commerce expected, given that

Sri Lanka's geographic advantage can be well exploited by both air and sea. The airport, together with the completion of the Hambantota Port, will, in the medium to long term, be the axis in providing complete logistics solutions and support for trade zones, cargo and passenger hubs and prompt considerable direct and indirect employment generation.

AASL is most proud to be a spearhead partner in this project, which saw an investment of US \$19 Mn in domestic investment, while a US \$190 Mn concessionary loan from the Exim Bank of China, collates an estimated investment of US \$209 Mn for Phase I of the project. This further underlines our commitment to being a key driver in the country's development plan, while laying the foundation and constructing the trusses for infrastructure those future generations can surely build upon, to position Sri Lanka as a regional leader in aviation.

Another milestone achieved by AASL, which further etches our commitment to become a visionary aviation services provider, was the landmark agreement signed with Japan International Cooperation Agency (JICA) for the granting of a concessionary direct loan of JPY 28 Bn to AASL. This loan would be channeled towards the Bandaranaike International Airport Development Project (BIADP) Phase 2 Stage II, which when completed will add and modernise capacity and competencies within BIA, while having the value addition of being an eco-friendly airport.

We are a state owned entity and remain very aware that we are accountable to the nation for our actions and decisions. We have always maintained a culture of compliance and transparency, where governance and ethics form a strong foundation to our business operations. Best practices therefore are infused to ensure that we maintain this culture and our 4G Growth Model has a strong undertone of governance that permeates across all areas of operational business, building on a platform of excellence. The Financial Statements presented in this report is the very first being presented since AASL adopted the Sri Lanka Financial Reporting Standards (SLFRS/LKR) in compliance with the international Financial Reporting Standards (IFRS) and firmly entrenches our commitment to maintaining that culture of absolute compliance. This is further augmented with the development imperatives we have introduced into our IT processes and systems which is currently seeing the implementation of our first ERP System, yet another milestone in our annals. The ERP System augments our dedication to ensuring accountability, transparency and quality decision making via a vis timely information flow.

The numbers of kudos presented to AASL this year have been many. It was certainly a proud moment when we were awarded a Merit Certificate at the Sri Lanka National Energy Efficiency Award 2012 in the Large Scale State Sector Buildings Category organised by the Sri Lanka Sustainable Energy Authority of the Ministry of Power and Energy. The accolade exemplifies our commitment to efficient energy management systems and astute imperatives infused for prudent energy management. We

were also placed among the Top 20 State Organisations in Sri Lanka in the LMD State 20 honour roll, a crown we have continued to wear with pride for a some years now. AASL was also awarded a joint Gold award at the National Business Excellence Award (NBEA) 2012 conducted by the National Chamber of Commerce competing in the State Services category, which emphasizes on entities' business excellence, adding a holistic approach to qualitative and quantitative performance and results. The Colombo Shipping Academy accorded AASL with a medal for Outstanding Contribution in the Commercial Sector at the Global Commerce Excellence Awards in December as well.

One of our most exciting and memorable chapters this year was the notching of great success post a Universal Security Audit Programme conducted by the International Civil Aviation Organisation (ICAO). This audit ascertains the degree of conformance to implemented Standards and Recommended Practices (SARPs) on Aviation Security as per ICAO Annex 17, the National Civil Aviation Security Programme (NCASP) and Airport Security Programme. We were adjudged as having a creditable 85.06% compliance to security related SARPs, benchmarked against the global average of 67.8% in audited results from 145 countries. According to the audit results, the assurance maintained that, 'Sri Lankan skies are well secure.'

This is well augmented in the fact that AASL has maintained an unassailable safety record which continues to be reflected in a zero accident environment being reflected in the Colombo Flight Information Region (FIR). I commend

the uncompromising diligence displayed by all aviation industry stakeholders in ensuring we maintain this 100% safety and accident free record.

AASL was an active participant at the World Routes Development Forum 2012 held in Abu Dhabi where we undertook the responsibility of promoting the MRIA via one to one meetings with representatives of potential airlines that could fly into the airport.

It is with a great pleasure to bring up that in December 2012 the civil aviation sector completes 100 years of service beginning with the first plane performing its successful flight at the Race Course Grounds in Colombo on 7 December 1912. Its centenary celebrations gathering all stakeholders were held at Temple Trees under the patronage of President Mahinda Rajapaksa.

Donning Wings to Fly

As you know, at AASL we plan big, because for us, even the sky poses no limits. We have set our sights on gaining an even bigger slice seen in the growth of tourism in the Asia Pacific region as this will be a strategic step towards achieving our vision. This will be the ideal stepping stone in building on Sri Lanka's growing popularity as a tourist destination and eventually an economic hub which will fuel the aviation industry. Well within the forecasts indicating that the 6 million volume in passenger movements will double within the next decade, as detailed above, AASL touched a total of 7,079,920 passengers in 2012, which envisages that forecast actually being surpassed in a decade.



Centenary Celebrations of Aviation - Gathering of all stakeholders with his excellency the president Mahinda Rajapaksa at Temple Trees

One of the country's most significant milestones was the progress made towards completing Sri Lanka's second International Airport, the Mattala Rajapaksa International Airport in Hambantota, which was inaugurated in March 2013, well within the original date plan.

Asia is well positioned to become the new global engine of growth, followed by Australasia and the Americas and this will naturally fuel infrastructure development in all sectors including aviation. It is imperative therefore that infrastructure investment decisions are made on careful analysis of trends and opportunities. One of these is the strong growth observed in the aviation market in the region which has seen an increase of both leisure and business travellers. International travel too has increased into and out of the region with a majority of international traffic driven by airlines from Western Europe and South Asia. AASL is also a key driver in encouraging domestic air traffic, which once the macro infrastructure and economic framework is in place, will see an increased range of routes available within Sri Lanka. Global trade too is expected to expand over time and buoyed by technological developments and intense competition, there will be high demand for specialisation areas. There is an assured trend of hubs evolving in vital geographic locations which would need to be complimented by total logistics solutions including road, air and sea as well as related value addition and support services.

Based on these forecasts and other indicators, the new terminal to be constructed under BIADP Phase 2 Stage II will fuel passenger handling capabilities at BIA, increasing by an impressive factor of one and half times on current volumes. However, with these increases, we envisage congestion both airside and landside and have implemented a short term solution of using the domestic terminal as a hybrid to channel low cost international and domestic carriers. Plans also include developing the Ratmalana City Airport to imbibe the private jet traffic, the airport hotel project, domestic terminal building, runway overlaying and widening and the duty free internal trade zone.

AASL will continue working towards our vision and being a key driver in the country's national development agenda given that our 4G Growth Model is well aligned to being a proactive partner to these. Exploring new partnerships and opportunities that will eventually add value to the macro picture of Sri Lanka to become a regional aviation hub is surely being pursued. Into this equation, we remain very cognizant of adding the tenets of economic, social

and environmental sustainability, where the triple bottom lines will be the imperative for all decision making. We believe that a well balanced equitable business will always bring in the desired results and in the long term, build a constructive, consistent and sustainable on-going business that will surely be an asset to the country and its citizens.

My Sincere Appreciations

The year has been immensely challenging given the embattled global economic meltdown permeating across all countries and impacting even the better performing nations. However, you are already aware of the commendable performance that AASL has displayed this year which is resultant of the extraordinary contribution each of our stakeholders has committedly made, inspiring us to continue raising the bar and improve on our already ambitious goals. While thanking each of you for being core drivers in our journey, may I also urge you to remain aligned with our vision and help us achieve those goals.

My appreciation also extends to all passengers who travel through BIA as well as other strategic partners who have remained loyal and confident in our abilities to ensure that a safe passage is paramount to the sustainability of our business.

Our success would not have been possible if not for the leadership and unstinted support we continue to receive from the Minister of Civil Aviation, the Secretary to the Ministry of Civil Aviation, Director General of the Civil Aviation Authority and officials in those respective organizations.

My gratitude is also extended to my Board of Directors who continue to be a great source of encouragement in helping me helm this progressive organisation, while the AASL Team specially including the Heads of the Divisions, must surely be commended for their professionalism, integrity, innovative spirit and unbridled hard work to ensure that AASL eventually does become a spearhead and champion in the regional aviation industry.



Prasanna J Wickramasuriya *WWW RWP RSP*

Chairman

18th June 2013





Report of the Directors

*“Setting the sail to match
the changing winds to get
the required direction...”*

Board of Directors



Standing (L - R): Mrs M C G Mahipala - *Company Secretary*, Mr Yohan Jayaratne - *Executive Director*, Mr Kosala R Wickramanayake - *Director*, Mr Yoga Perera - *Director*,



Standing (L - R): Mr Prasanna J Wickramasuriya - *Chairman*, Mr Kamal S Ratwatte - *Vice Chairman*, Mr J R U De Silva - *Director*, Miss S N Gopallawa - *Directress*
Absent : Dr D S Jayaweera - *Director* , Mr Ananda Goonatileke - *Director*

Report of the Board of Directors on the affairs of the company

The Board of Directors of the Airport and Aviation Services (Sri Lanka) Ltd (AASL) are pleased to present their report on the affairs of the Company together with the audited financial statements for the year ended 31 December 2012. The details set out herein provide the pertinent information required by the Companies Act No. 7 of 2007 and are guided by the best accounting practices.

Construction activities of the second International Airport in Mattala, Hambantota continued during the year under review in an impressive gear under the supervision of AASL and was ceremonially opened by His Excellency the President Mahinda Rajapakse...

Principal Activities

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

The construction activities of the second International Airport in Mattala, Hambantota continued during the year under review in an impressive gear under the supervision of AASL and was ceremonially opened by His Excellency the President Mahinda Rajapakse on 18th March 2013.

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 the Sri Lanka Accounting Standards (SLFRS/LKAS) and requirements of the companies act No.7 of 2007.

The directors are satisfied that the financial statements presented on pages 82 to 117 give a true and fair view of the state of affairs of the company.

Financial Statements

Financial Statements of the Company are given on pages from 82 to 117 and Voted Fund Accounts are given on pages from 122 to 131 of the Annual Report.

Auditors' Report

The Auditors' Report on Financial Statements of the Company is given on page 81 In case of the Voted Funds accounts which have been audited by the Auditor General, their report is given on pages 119 of the Annual Report.

The Company has adopted revised Sri Lanka Accounting Standards, (LKS/SLFRS) during the year 2012 and has restated the prior years in compliance with the transitional changes

Significant Accounting Policies

The Company has adopted revised Sri Lanka Accounting Standards, (LKS/SLFRS) during the year 2012 and has restated the prior years in compliance with the transitional changes stated in the Sri Lanka Reporting Standards 01 on "First time adoption of Sri Lanka Accounting Standards".

The significant Accounting policies are given on pages from 86 to 93.

Corporate Social Responsibilities (CSR)

The total amount of contributions made under Corporate Social Responsibilities (CSR) by AASL during the year amounted to Rs. 14.2 Mn. This includes Rs. 0.5 Mn made as donations and Rs. 1.6 Mn spent on public relations and the balance on CSR projects.

Company reported the highest ever Profit Before Tax and Profit After Tax amounting to Rs.3.9 Bn and Rs 2.7 Bn respectively for the year 2012

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 appear on pages from 66 to 69.

Future Developments

The proposed expansion plans for the BIA in terms of increasing the passenger handling capacity by further 9 Mn and enhancing of infrastructure together with the construction and opening 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 plans are under way to upgrade the Domestic Airport Network as well as widening and overlaying of the BIA runway.

Turnover

The Company recorded the highest ever gross turnover amounting to Rs.11.1 Bn. A detailed analysis of turnover and profits is presented under Financial Review.

Operating Results

The Company reported the highest ever Profit Before Tax and Profit After Tax amounting to Rs.3.9 Bn and Rs 2.7 Bn respectively for the year 2012 which is an increase of 80 % & 97 % respectively compared to previous year.

	2012 Rs. Mn	2011 Rs. Mn
The profit for the year ended 31 December 2012 after payment of all operating expenditure and provision for depreciation	3,858.7	2,139.7
Less : Taxation	1,121.1	751.1
Profit for the year	2,737.5	1,388.6
Other comprehensive Income		
Gain/Loss arising from changes in actuarial assumption	205.0	115.6
Total comprehensive Income	2,942.6	1,504.2

Revenue Reserves

The reserves as at 31 December, 2012 for Company have been increased to Rs. 3,304 Mn, from Rs. 361Mn in 2011 as a result of amalgamation of assets and liabilities. The movement in Reserves of the Company is shown in the Statement of Changes in Equity on page 84.

Property, Plant and Equipment

The Net Book Value (NBV) of Property, Plant and Equipment (PPE) of AASL as at 31st December 2012 amounted to Rs. 39.2 Bn compared to that of Rs.22.8 Bn as at 31st December 2011.

Capital Expenditure of the Company is Rs 17,449 Mn in the year under review. (2011 – Rs. 9,165 Mn.) The movements in Property, Plant and Equipment during the year is set out in Note No. 5 of the Financial Statements.

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, 2012 is as follows:

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

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. Yohan Jayaratne	-	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

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 & Quality Assurance were the other members.

Disclosure of Directors dealing in shares or Debentures

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

Directors' Interest in Contracts and Proposed Contracts

No Director was directly or indirectly interested in contracts or proposed contracts connected to the Company's business during the year or as at 31st December 2012.

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. 11.6 Mn. 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 574,300/- being the cost of Travelling and Directors Fees for attending the Board Meetings.

Social and Environmental Responsibility

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

Corporate Governance

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

The Corporate Governance framework and its adoption are detailed in the Review of Corporate Governance.

Statutory Payments

The Board of 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.

Mattala Rajapaksha International Airport (MRIA) was ceremonially opened on 18th March 2013.

Going Concern

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

Auditors

Messers PricewaterhouseCoopers, Chartered Accountants, were appointed, in terms of Section 158 of the Company Act No. 7 of 2007, as Auditors of the Company .

The audit fee for the current year is Rs. 600,000/- (2011- Rs. 660,610/-) The fees paid to the Auditors for non audit services for the year Rs. 552,450/- (2011 – Rs 384, 500/-)

Annual General Meeting

The Annual General Meeting is scheduled to be held on 28th June, 2013 at the Board Room of AASL at 3.00 pm.

Acknowledgement

The Board of Directors wishes to congratulate the management team for their encouragement, professionalism, constructive criticisms and wisdom which obviously support to deliver greater triumphs to the company.

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.

Last but never least; gratitude goes to the all AASL staff with full team spirit for their commitment, integrity, imagination, tolerance, hard work and for being our most valuable intangible asset.

BY ORDER OF THE BOARD



Prasanna J Wickramasuriya *WWW RWP RSP*
Chairman

18th June, 2013



Senior Management

“Synergy, hard work, cohesion, camaraderie, shared aims, team spirit, companionship,...many more synonyms to benchmark them...”



Senior Management



Standing (L - R): Mr.S M R Rafeek - *Head of Projects*, Mr. G Withanage - *Head of Civil Engineering (Planning & Design)*, Mr. U J Lokuarachchi - *Head of Information Technology*
Sitting (L - R): Mr. J M A U Jayamanne - *Head of Electrical Engineering*, Ms. W C Tissera - *Head of Air Navigation Services*, Mr. W Wimalashanthy - *Head of Electronics & Air Navigation Engineering (Absent)*



Standing (L - R): Mr.W M G Karunaratne - *Head of Commercial & Properties*
Sitting (L - R): Mr. H A A K M Seneviratne - *Head of Civil Aviation Training*, Mr. L Dahanayake - *Head of Finance*, Mr. H P L Sirimanna - *Acting Head of Supply Chain Management*, Mrs. M C G Mahipala - *Head of HR/Company Secretary*, Mrs. M Ratnasinghe - *Head of Legal (Absent)*



Standing (L - R): Dr. S D A S Nishantha - *Company Medical Officer*, Mrs. K Munasinghe - *Head of Marketing*, Mr. H S Hettiarachchi - *Head of Airport Management*, Mr. A D N R De Alwis Gunasekara - *Head of Fire & Rescue Services*, Mr. K H C Kumarasinghe - *Head of Security Services*



Standing (L - R): Mr. D Wijesooriya - *Acting Head of Safety*, Mr. Cyril Wannigama - *Head of Internal Audit & Quality Assurance*
 Sitting (L - R): Mr. D N A Jayamaha - *Head of Civil Engineering (Maintenance)*, Mr. Manoj De Croose - *Deputy Head of Architecture, Landscaping & Interior Design*, Mr. R W Wijesinghe - *Acting Head of Mechanical Engineering*

Management Discussion & Analysis (MDA)

“The present was an egg laid by the past that had the future inside its shell...”





Management Discussion & Analysis

Global Travel – Macro Look

Passenger Traffic Grows by 4% in 2012 as Growth in Air Freight Remains Flat

Montréal, Québec, Canada, 07 February 2013 – Preliminary results point to an overall increase of +3.9% in global passenger traffic in 2012 as compared to the previous year. While the world's top international airports in North America and Europe posted more modest gains in passenger traffic, air transport markets in emerging economies continue to show buoyant activity. Double digit growth rates in passenger traffic were observed in Istanbul (IST; +20.2%), Jakarta (CGK; +14.4%), Dubai (DXB; +13.2%) and Bangkok (BKK; +10.6%) in 2012. Moderate growth of +2.5% was observed in December of 2012 as domestic passenger markets recoiled in Europe, Latin America, Africa and North America. Conversely, the Middle East and Asia-Pacific persistently post strong gains in international passenger traffic with growth of +12.3% and +9.0% respectively for the month of December.

An overall decline of -1.3% was registered in air freight for the month of December. Europe, Latin America-Caribbean, North America and Asia-Pacific experienced declines of -2.7%, -2.6%, -1.5% and -1.2% respectively. While the world's top air freight hubs, Hong Kong (HKG) and Memphis (MEM), achieved growth of +2.2% and +2.5% respectively, 57% of the top thirty airports in terms of air freight volume were in decline in 2012.

ACI World's Economics Director Rafael Echevarne commented, "Although we saw slightly lower year-over-year growth rates in passenger traffic in 2012 from month

to month as compared to 2011, the overall result for the year was in line with ACI forecasts, which factored in the slowdown in certain European and North American markets. Air freight had mixed results throughout 2012 with some months posting modest gains while other months posted declines. Amid the significant downside risks in the Euro area and the fiscal deadlock in the United States throughout the year, growth in air freight came to an overall halt in 2012. As the global economy and international trade picks up steam we are optimistic to see higher growth rates for both passenger and freight traffic in 2013."

Source: Airports Council International – Media Release

Everything revolves around customers

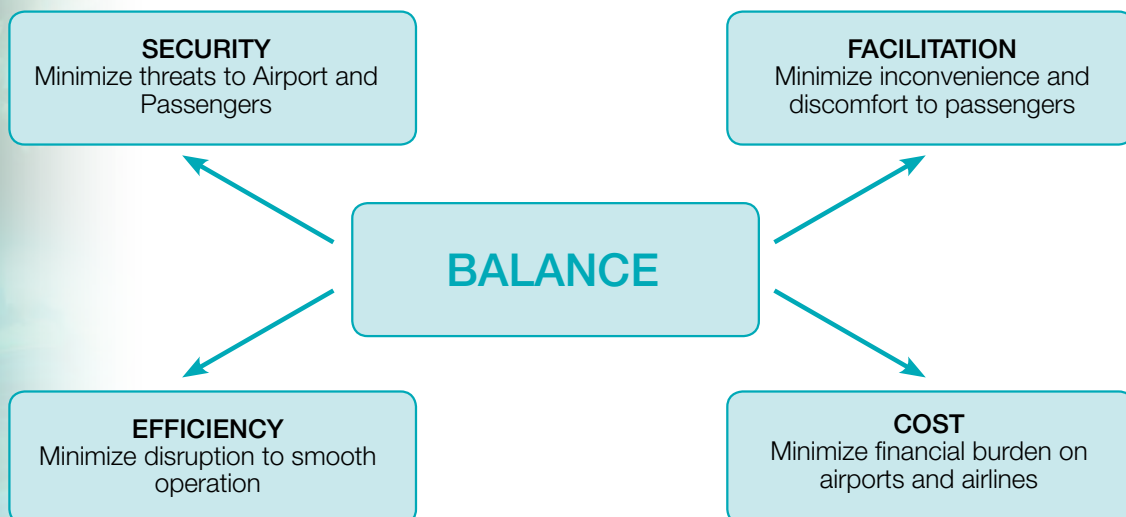
Need for Balance

The following grid which shows the different forces of dependence will finally revolves around one single stakeholder. That is the customer.

Since the passenger expectations naturally rise with wider travel experience, improvements to technology, demand for higher standards and improvements, the airport business has to live with highest appeals for infrastructure and technological improvements along with high standards required in facilitation, security and efficiency.

Since the above factors are going in different directions, we believe that both "Continuous Improvement" and "Competitive Edge" lies over how we succeed in managing the divergent interests dictated by each force. This is the screening mechanism we adopt in selection and execution of all our strategies and actions.

Forces of dependence



SECURITY AND SAFETY

Safety First

Safety is a number one priority of the passengers. So as AASL's executes its core business activity relates to air navigation keeping safety as the first priority. Year 2011 was remarkable in our safety records as the relative position of Sri Lanka in ICAO Universal Safety Oversight Audit Programme (USOAP) was proved as 4th out of 34 countries in Asia Pacific Region. Only three countries surpassed us. They were Rep of Korea who ranked first, Singapore who ranked second, and Japan who ranked third. Our Global Rank was 19th out of 191 Signatory states of ICAO. 2012 was yet another year AASL as the sole Air Navigational Service Provider in the Colombo FIR achieved the higher target level of KPIs set by us for Safety, which is a Critical Success Factor in our industry.

No significant aircraft incidents were recorded on ground or in the air, despite the significant increase in the air traffic density during the year. The main KPI defined on safety was well achieved. (Number of ATC Related Incidents per 100,000 aircraft movements remained unchanged in 2011 and 2012 below 4 per 100,000 aircraft movements in 2012= $(2 / 52090) \times 100000 = 3.84$ and 2011 = $(4 / 50199) \times 100000 = 3.98$

ICAO Universal Security Audit 2012

ICAO conducted its Universal Security Audit Programme (USAP) in Sri Lanka to ascertain the degree of conformance to the implemented Standards and Recommended Practices (SARPs) on Aviation Security as per ICAO Annex 17, National Civil Aviation Security Programme (NCASP) and Airport Security Programme (ASP) during the period 24th to 30th May 2012.

The Audit results showed a significant performance in Sri Lankan aviation security oversight activities with 85.06% of compliance with security related SARPs as against the world (global) average of 67.89% for 145 States, which have been audited hitherto. The Audit results give an assurance to the travelling public that the 'Sri Lankan Skies are well Secure'.

The ICAO Security Audit puts to test Sri Lanka's capability on effective implementation of critical elements of security oversight system. The critical elements (CE's) referred to are Aviation Security Legislation; Aviation Security Programmes and Regulations; State Appropriate Authority for Aviation Security and its Responsibilities; Personnel Qualifications and Training; Provision of Technical Guidance, Tools and Security – Critical Information; Certification and Approval Obligations; Quality Control Obligations; and Resolution of Security Concerns.

Aviation Security Screener

Convention to the ICAO Annex 17 and the National regulatory emphasized the need for certification of AVSEC personnel who perform screening functions by May 2012.

... demand for higher standards and improvements, the airport business has to live with highest appeals for infrastructure and technological improvements.

In compliance to this standard, at first place the AVSEC Division was able to get most outstanding senior resource personnel certified as "Certified Instructors" by the Director General of Civil Aviation of Sri Lanka.

These certified instructors work as a bridge to obtain "Screener Certification" for the divisional AVSEC personnel by developing skills, knowledge and attitudes of them up to the required standard. In the screener certification process the AVSEC division got 370 of AVSEC personnel certified by May 2012. This achievement has a tremendous effect for the high rating at the Universal Aviation Security oversight activities.

Security facility enhancements: Upgrading of Hold Baggage Screening

To meet the increased passenger volume the Aviation Security Division installed 04 x-ray screening equipment at the Check-in Counter area in compliance to Standards and Recommended Practices (SARPs) for hold baggage, considering the passenger facilitation at BIA. These x-ray equipments evade the passenger congestion and inconvenience.

Furthermore, 100% transfer hold baggage screening is conducted in collaboration with Sri Lankan Airlines to ensure the safety and security.

EFFICIENCY AND COST SAVINGS

Air Navigational Services - Adding value through Effective, Efficient and Economical Efforts

ATC Procedure Designed for MRIA & BIA – saving millions of Foreign Exchange

As a part of pre-requisites for the commencement of flight operations at MRIA in 2013, the designing of Instrument Flight Procedures for MRIA was an extremely expensive task. Various foreign organizations from the USA, France etc; have expertise in this field, indicated exorbitant prices for this undertaking, which was finally accomplished by a team of our own Air Traffic Controllers after receiving specialized training directly from ICAO.

This not only saved millions or billions of foreign exchange of our country, but also afforded the luxury and pride that 'we did it ourselves – a kind of self-sufficiency in professionalism!'

The procedures designed by our own team were highly acclaimed by the International Flight Calibration Team initially, and by all users thereafter to-date.

PBN Approaches & RNAV SID/STARs for BIA were also designed by ANS PANS-OPS Team.

- PBN - Performance Based Navigation
- RNAV - Area Navigation
- SIDs - Standard Instrument Departure Procedures
- STARs - Standard Terminal Arrival Routes
- PANS-OPS - Procedures for Air Navigation Services Aircraft Operations

All these ATC Procedures will be completed before the end of 2013.

AIS Dept of ANS Division launched the new Flight Plan Format of ICAO with effect from 15th November 2012

Under this format which is known as ICAO FPL-2012, airline operators are allowed to file Flight Plans 120 hours prior to the Estimated Time of Departure whereas the previous format allowed a mere 24 hours.

This early notification contributes immensely towards obtaining ATC approval for their desired cruising level, which in turn results in less fuel burning and a reduction in the emission of CO₂ to the environment.

Furthermore, this new format elaborates the description of the equipment of the aircraft for use of Satellite for communication, navigation and surveillance (CNS) which are essential components for Air Traffic Management (ATM) of the modern era of ANS.

This timely transition to new ICAO Flight Plan Format has improved the safety and efficiency of Air Traffic benefiting the traveling public in particular, as well as the general public.

Introduction of AMHS – user friendly message distribution to all recipients

The mechanism of the distribution or more precisely, the sharing of Aeronautical Messages saw a significant leap forward during the year 2012, with the global transition from the traditional AFTN to the modern user-friendly AMHS.

The Aero-Com Department of the ANS Division also timely implemented this transition by commissioning of the relevant new equipment in 2012.

This enabled the end-user to interact with the messages with more integrity and reliability in a more user-friendly manner from any remote terminal.

Transition to AIM completed - provision of info in e-format

The process of the transition from AIS to AIM under the ICAO's Global and Regional Plan marked another milestone in 2012 with the introduction of providing aeronautical information on e-format.

AIS Department of ANS Division also contributed efficiently towards timely publication of all relevant documents during the progressive period ahead of the opening of MRIA for international operations in 2013.

Annual Surveillance Audit of ISO 9001:2008

The AASL Quality Management System (QMS) covering key processes of the entity has been certified for the ISO 9001:2008 by the internationally renowned certification body M/s Det Norske Veritas (DNV) of Netherlands in 2010.

During the year, M/s DNV conducted an annual surveillance audit in June 2012 covering key processes of airport facilitation and air navigational services. Subsequent to the successful review, AASL was awarded a certification confirming compliance with ISO 9001:2008.

FACILITATION

Lost and found Aus \$ 2,500 at Katunayake

I left to Australia on December 18, 2012 via Singapore Airlines with my family to visit our daughter in Melbourne. I carried a sum of 2,500 Australian Dollars in cash (equivalent to Rs. 340,000/- at that time) with me. I did not realize until I reached Australia, that I had misplaced my purse when I left Katunayake.

On our return, I casually mentioned this matter to one of my friends in Colombo. He got in touch with one of his friends at the airport and this officer was able to trace the lost money. I was subsequently informed to contact the Security Day Pass Office at the Airport and Aviation Services Ltd. with credentials to prove that the money belonged to me. I went to the Day Pass office where the officers checked my documents and were convinced that my claim was genuine and thereafter the money that I have lost was handed over to me after completing regularities.

I was surprised to see that they had entered every dollar note, with its value and serial number in their records.

I wish to make special mention of Mr. M.R.M. Thasim who had found the purse and handed it over to the security office, for his honesty. Assistant Airport Manager Mr. Sena Nandaweera, Mr. T.D. Fernando, Ms. M.R.D.S. Menike and the rest of the staff who were very courteous and helpful. I am certain that I would not have got my money back, if not for their duty consciousness and honesty. Deeds like these make us believe that there are people who should receive commendation from the public.

(S. Samarajeewa – Kandy)

Achievements in airport operations

The largest Airbus, A 380, landed at the BIA for the first time in Sri Lanka.

The largest Airbus, A 380, landed on 9th January, 2012 for the first time in Sri Lanka which belongs to Emirates Airlines on its way to Dubai from Sydney. It landed here for refueling.

Infrastructure and other facilities improvements targeting the ultimate passenger satisfaction

Increase in the number of bus gates available

With the increase in passenger movements and exceeding the capacity of the terminal in the year 2011 and 2012, demand for bus gates have increased during peak hours. 2 Nos. bus gates and 8 Nos. contact gates available in the BIA was insufficient to cater for the increased demand for bus gates. Additional two bus gates constructed in the year 2012 has eased the demand for bus gates to an acceptable level.

Open an 'on Arrival Visa Counter' by Department of Immigration and Emigration

The new visa processing system implemented from 1st January 2012 has found that there were a 'considerable' number of visitors obtaining on-arrival visas. In this respect, there are currently three counters provided at the Bandaranaike International Airport (BIA) with adequate number of officers in place to assist visitors to the country with shorter processing cycle time of 5 minutes. The new ETA (Electronic Travel Authorization) system was launched alongside the new visa regulation that was introduced in October 2011. Initially visa processing fee of US \$ 50 was charged. Visitors are required to make ETA processing fee only in United States Dollars on arrival at the ETA counter at BIA.

Subsequently, authorities reduced the visa processing fee to US\$ 10 for SAARC countries and US\$ 20 for non-SAARC countries to help facilitate incoming visitors / tourists. Authorities also resolved the other issues pertaining to use of new ETA system.

Sri Lankan authorities also decided to give a special rate for SAARC nations to help increase tourist arrivals from SAARC Nations and also to strengthen the relationship among these nations.

Increased Check in counters by 5

As an interim measure to ease out the congestion exist at the terminal due to constraint in passenger check-in the number of check-in counters at BIA was increased to 55 from 50.

Further facility enhancement

Passenger Convenience

Opening up of a Bank of Ceylon new bank counter in Transit area.

Addition of 1 No. Sorting Bag belt in Arrival Baggage unloading area.

Refurbishing the toilets in arrival Customs area, relocating and refurbishing the Child care room, modifying and relocating the arrival lobby counters and refurbishing the outer porches and service roads.

Opening up of a Departure Silk Route Lounge facility for Sri Lankan Business Class passengers.

Passenger Health

During the recent outbreak of Ebola hemorrhagic fever in east African countries, a health desk was set up in Transit area in collaboration with Ministry of Health to screen the passengers who are travelling from those affected countries.

Sri Lanka was accepted as the newest member of CAPSCA – AP (Cooperative Arrangement for Prevention of Spread of Communicable disease thro' Air travel) during a workshop held in Thailand in December 2012.

As a more recent development, medical diversions of overflying aircrafts have increased by several folds and now the regional airlines feel confident that Colombo is capable of taking care of their passengers who become ill during the flight.

Improvements on RMA Aerodrome for International Corporate Jet Operations

The Company was successful in commencing international corporate jet operations at Ratmalana in 2012 to promote Ratmalana as a city airport. For this purpose runway was refurbished and apron markings including taxi-lanes were done up to meet the demand and potential interest shown by various airlines to commence international operations to / from Ratmalana.

Opportunities in the Retail and Properties Segment

Surpassing the last year's recorded retail sales of Rs. 12 Bn. for the first time in the history of the BIA, Gross retail sales exceeded Rs. 15 Bn. during the FY 2012, with retailers posting an overall growth of 20% in gross turnover over the previous year. The concession income earned from gross retail sales at the BIA duty free is the largest revenue component in AASL's revenue structure. The largest contributors at BIA's duty-free is the segment comprising of the Liquor, Tobacco, Confectionaries and Perfume product range, which posted a 40% growth, negating the 5.6% decline recorded in the Electrical, Electronic and Home appliances sector which usually contributes to 40% of the total turnover as the second largest contributor.

The next few largest contributors in terms of the turnover at BIA duty-free have changed their ranks in 2012 compared to 2011. Tea sector has become the highest performing sector among all the sectors recording a galloping 167% growth in turnover. (Rs. 301 Mn. turnover in 2012 as opposed to Rs. 112 Mn. turnover in 2011). The reason was three new tea operators commencing operations at departure duty free increasing the total departure tea stalls to nine numbers.

While clothing and accessories sector recording a growth of 36% in turnover, Watches, Gifts and Writing instruments sector achieved a marginal growth of 2% in turnover, Gem and jewellery turnover growth was 20%. 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 60% and 15% 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. "Roberto Cavalli" was the latest perfume brand added to the perfume range when "World Duty Free" duty free store was opened under the management of Autogrill Lanka Limited in 2012.

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

Enlightening stakeholder value – Statistics in 360 degree perspective

Customers

Customer Service	2012	2011
Number of front – office personnel	312	251
Number of customer interaction points manned by AASL front-office personnel	21	22
Number of duty free shops	105	102
Gastronomy- Number of food outlets*	05	05
Number of lounges	10	05
Number of hotel rooms available for transfer/transit pax	20	20

Employees

Team Strength	2012	2011
Number of employees	3,570	3,306
Number of recruitments	409	206
Gender distribution		
Number of female employees	660	618
Age distribution		
Number of employees aged below 40	1,808	1,782
Employee capability development		
Number of trainee hours	134,772	133,391
Number of training hours per employee		
- Local	114	112
- Foreign	31	19
Career progression initiatives		
Number of promotions	447	229
Job satisfaction		
Job satisfaction level (% of satisfied employees out of total employees)	Not measured	62%

The ICAO Audit results give an assurance to the travelling public that the 'Sri Lankan Skies are well Secure'

BIA's safety

	2012	2011
Air traffic services related incidents pertaining to the Calendar year	19	25
Air traffic services related Incidents Per 100,000 movement	4	4
Air traffic service related accidents	Nil	Nil

Passengers/Employee health and safety

	2012	2011
Passenger injury rate	Nil	Nil
Reportable Work accidents	Nil	Nil

Business partners

No of relationships (of which formal agreements are signed)

	2012	2011
Aged Over 20 years**	53	50
Aged between 15-20 years	36	30
Aged between 10-15 years	52	45
Aged Less than 10 years	138	96

Government

Contribution to the Government

	2012	2011
Taxes paid	867 Mn	620 Mn
Dividends paid	600 Mn	2,106 Mn

Environment

	2012	2011
Energy consumption per passenger in kwh/pax 6.29	5.27	5.99

Community

	2012	2011
Number of students enrolled at CATC	1,138	798
Number of vocational training students accommodated	45	51
Number of foreign trainees trained under CATC	3	26

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

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

Etching Milestones, Wearing Crowns
Sri Lanka National Energy Efficiency Award (SLNEEA) - 2012

AASL has been selected as a merit certificate winner under Large Scale State Sector Buildings category for Sri Lanka National Energy Efficiency Award 2012 by Sri Lanka Sustainable Energy Authority, Ministry of Power and Energy. This is in appreciation to the commitment of our organization towards efficient energy management systems and in recognition of our contribution to reduce energy use through energy management efforts during the past year.

AASL collects Gold at NBE Awards 2012

We are proud to announce that AASL has been honored by a Gold Award at National Business Excellence Awards (NBEA) 2012 conducted by National Chamber of Commerce (NCC) on 04th December, 2012 at Colombo Hilton. We competed under “State Services” in this competition and NIBM was the joint Gold winner.

Global Commerce Excellence Awards for AASL Chairman

Chairman AASL, Mr. Prasanna J Wickramasuriya was felicitated with a medal for his outstanding contributions in the commercial sector at the Global Commerce Excellence Awards ceremony held on 13th December 2012. The event was organized by the Colombo Shipping Academy under the leadership of the Central Bank of Sri Lanka.

AASL’s annual report was once again recognized at ICASL’s 48th Annual Reports Awards

AASL was awarded the certificate of compliance at the recently concluded ICASL Annual Report competition. This is the fifth consecutive year that AASL’s annual report was recognized since 2008. In 2009 and 2010 AASL received Bronze awards under the “Services” sector.

High service standards are maintained in Safety and Security

2012 presented many safety and security challenges which have been successfully addressed at the construction site - Mattala.

ICAO – Audit 2012

ICAO conducted its Universal Security Audit Programme (USAP) in Sri Lanka to ascertain the degree of conformance to the implemented Standards and Recommended Practices (SARPs) on Aviation Security as per ICAO Annex 17, National Civil Aviation Security Programme (NCASP) and Airport Security Programme (ASP) during the period 24th to 30th May, 2012.

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Certificate of National Energy Efficiency Award 2012

Mr. T M Burah, Deputy Security Marshal receives the Instructor Certification Award from the Director General of Civil Aviation of Sri Lanka.



Certificate Awarded by Director General of Civil Aviation

The largest Airbus, A 380, landed at BIA on 9th January, 2012 for the first time in Sri Lanka which belongs to Emirates Airlines on its way to Dubai from Sydney



AASL Collects Gold at NBE Awards 2012



Global Commerce Excellence Award 2012



Certificate of Compliance - ICASL Annual Report competition 2012

Diploma in Aviation - Award Ceremony

24 students who followed the first ever 'Diploma in Aviation Studies' Programme at the Civil Aviation Training Centre (CATC) received their Diplomas at a glittering award ceremony held at the Mount Lavinia Hotel on 15th February, 2012. This is the first Diploma level qualification in the aviation industry awarded by a state institution.

Strategic Planning

AASL's Strategic Planning process

AASL's business strategy is based on the premise that there is a constantly growing demand for air services in Sri Lanka and appropriate organization along with a modern and efficient infrastructure complying with the highest standards are required to meet this demand. According to the demand forecast analysis, both the existing international airport BIA and newly built-up airport MRIA will be attracted with thriving air traffic statistics.

The oil price volatility along with squeezed profit margins in the airline industry where our main clientele is formed has a negative impact on our industry.

Our strategic plan is built-up on the rational model and it is the consolidated result of several plans to govern our short, medium and long term activities.

This strategic planning process resulted in achievement of the objectives and goals set out in the Corporate Plan 2012-2016.

Our Strategic Planning brain storming sessions- Needy aviation business round ups

Since aviation industry is an economic engine in a country, the strategic planning of aviation industry is considered a serious affair which needs lot of synergies. When we analyze our stakeholder portfolio and their degree of engagement in our value chain AASL's strategic plans cannot be built-up in isolation. Therefore, in 2010 we made a major change in our approach in the strategic planning process by conducting our first ever brain storming session with industry stakeholders consisting of almost all key stakeholder Organizational representatives. We shared the strategic stirrings under the common theme "Towards One National Vision" and all stakeholder representatives agreed on a common theme in principal and very fruitful discussions were held on chosen topics for the benefit of the industry.

The rejoiced benefits and the increased stakeholder interest lead for the second similar kind of a brain storming session and was held in January 2013 for the planning horizon of 2013-2017 under the theme "synergizing for best formula in aviation" and we brought more innovation into our approach to make the forum a platform for startup discussions for needy aviation business round ups through intellectual panel discussions.



Chairman Addressing the Participants at CATC Diploma Awards



CATC Diploma Holders with the Director Board, DGCA & Managers

Formula for aviation Marketing was more towards MRIA within the year

Within a period of 1 year from forming a Marketing Division, AASL passed a busy period with full of events in their events calendar. Almost all Mattala Rajapaksa International Airport Promotional Tours which are shown were initiated and organized by them while the participants which represent foreign delegates, heads of missions, heads / representatives of organizations / bodies etc. were educated with the future plans ahead. The site progress tours were also facilitated with the assistance of civil engineers.

World Routes Development Forum (WRDF)

Routes organize world-renowned airline and airport networking events through its regional and global Route Development Forums. Each year, there is one global event and one regional event in Asia, Africa, Europe, the Americas and CIS respectively.

AASL participated as delegates at Routes Asia forum held in Chengdu, China from 15th April to 18th April 2012 and whilst in China ADAC extended invitations to all the airlines and airports attending Routes Asia to register for World Routes and join them in Abu Dhabi in Sept 2012.

AASL maintained an Exhibition stand at World Routes Development Forum (WRDF) 2013 held in Abu Dhabi from 29th Sept to 2nd Oct 2012 promoting MRIA.

A recently concluded marketing event was the BIA Christmas shopping festival 2012. The programme spanned a two months period from Dec-2012 to Jan - 2013. A record number of outlets participated in this promotion with a galaxy of prizes ranging from cars to cash prizes and daily instant prizes.



Marketing Campaign - Exhibition Stand at WRDF 2012



Winners - BIA Christmas Shopping Festival 2012



Freight Forwarders Association visit to Mattala



US Journalists visit to Mattala



British Parliamentarians visit to Mattala Airport in Progress



Members of Airline Operator Committee visit to Mattala



Airline Representatives visit to Mattala

Mattala Rajapakse International Airport (MRIA) – Ready to commission soon...

New Journeys begin here

Mattala Rajapakse International Airport was ceremonially opened by His Excellency the President Mahinda Rajapaksa on 18th March 2013.

The Mattala Rajapaksa International Airport (MRIA) has opened its doors to the world. This new and unique international hub promises to spearhead and facilitate the development in both the Southern and Eastern regions of Sri Lanka. The brainchild of His Excellency President Mahinda Rajapaksa, this second international airport, built as an unique eco-project, is set to transform the fast changing Southern and Eastern regions of the Island.

AASL has worked tirelessly to create a world class airport experience in Hambantota in order to help foster a new tourism product, investment in the surrounding areas creating a number of working opportunities for the local populous facilitating the establishment of a gateway for economic investment in Sri Lanka.

Strategically located to connect to over 60% of the world within eight hours MRJA will be the first airport in Sri Lanka to have A380 flight facilities. The new state of the art airport also boasts a vast 12,000 square-meter international terminal building as well as a 1 Mn Sq.ft duty free. It will

have ten international check-in counters, two domestic check-in counters, two contact gates and two passenger boarding gates. Future stage 2 extensions will further add 26 international check-in counters, eight domestic check-in counters, and 28 passenger boarding gates to the terminal.

The design theme is aimed at creating an eco-friendly airport. Care was taken so as to ensure that no ecological and environmental imbalances would arise during the construction of the airport, while the existing environmental conditions in the neighbourhood will remain undisturbed.

The design of buildings and the airport infrastructure is planned to immerge with the environment. One quarter of energy consumption is planned to be sourced from natural renewable energy. Existing water bodies will be preserved and new water bodies will be developed to maintain the ecological balance.

MRIA is set to provide an alternate air transport link to Sri Lanka. Its opening will avoid the traffic congestion at BIA by diverting some traffic. The airport is provided with two open-air parking lots, while car parking in the terminal building has 400 spaces. A remote parking area situated at a distance of 300m from the terminal building offers parking at cheaper prices.

MRIA, the new and unique international hub promises to spearhead and facilitate the development in both the Southern and Eastern regions of Sri Lanka.

The airport has a single runway (05/23), which is 3,500m long and 60m wide, that can handle larger aircraft such as the A-380. Construction of the runway was completed in July 2011. Two taxiways, TWY A and TWY B, will also be constructed.

MRIA is also expected to flourish the tourism and infrastructure of the country and encourage people to migrate to its surroundings. It will be an ideal location for aviation and aviation maintenance industries due to the abundant availability of land at a low cost. The surrounding neighbourhood is a large agricultural zone and the cargo facility in the airport will help to enhance the export capacities of the country and increase the economic activity.

The airborne verification of the calibration of navigational aids installed at the new airport was successfully concluded on 16th October 2012 which also witnessed the first test landing at the airport. The first phase targets an annual passenger movement of 1 Mn and a cargo throughput of 45,000 metric tons. On completion of this phase the airport will have

- A Runway of 3,500 m in length and 75 m in width capable of accommodating code F aircraft
- Two stub taxiways
- An apron to accommodate the facilitation of 9 to 11 parked aircraft
- Terminal building with floor area of 10,000 sq. meters
- 'State of the Art' 5000 square meter cargo Terminal equipped with all modern facilities
- Ground Navigational services
- Fire and Rescue facilities

Progress Review Visits - MRIA

His Excellency President Mahinda Rajapaksa made an inspection tour of the Mattala International Airport on 19th October 2012

His Excellency President Mahinda Rajapaksa made an inspection tour of the MRIA on 19th October 2012 to personally monitor the progress of the massive construction work of the emerging airport. During the tour the President closely inspected the Runway, Apron, Terminal Building and the Control Tower. Also, the President was briefed regarding the calibration process currently being carried out by the Civil Aviation authority of Pakistan with the use of a special aircraft.



Hon. President 's visit to Mattala Airport - Control Tower



Hon. President 's visit to Mattala Airport - Progress Review

Minister of Civil Aviation Hon. Piyankara Jayaratne, several other Ministers, Parliamentarian Hon. Namal Rajapaksa, and appropriate government officials were also present on the occasion.

Governor visit to MRIA

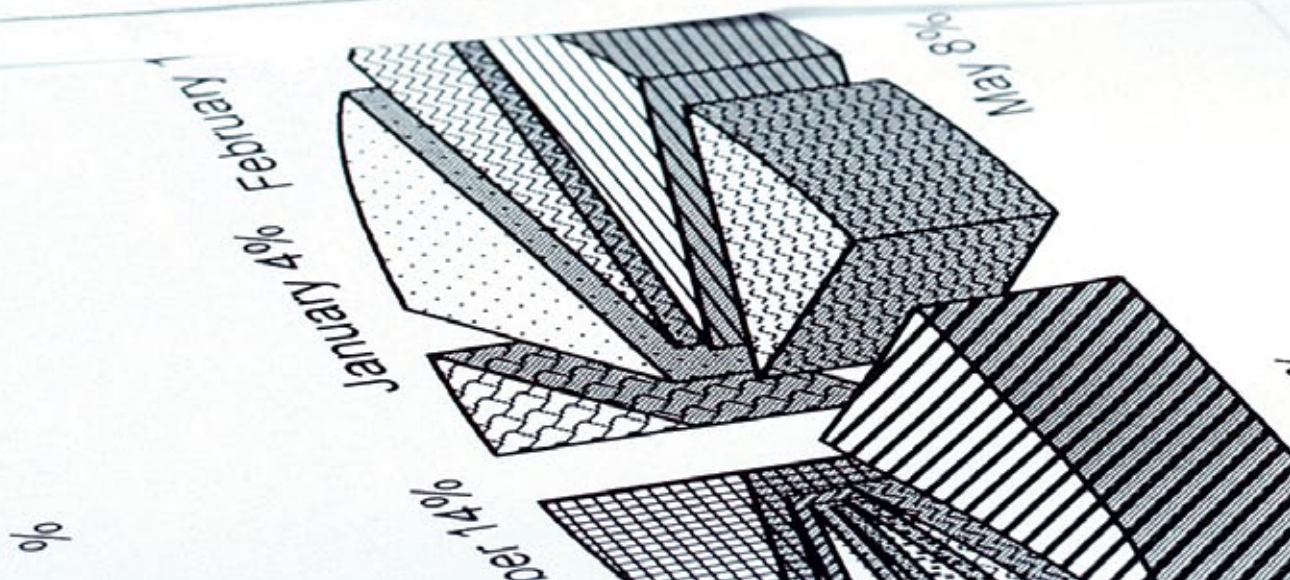
Governor of the Central Bank of Sri Lanka, Mr. Ajith Nivard Cabraal made a progress review visit to MRIA in July 2012.



Visit to Mattala by the Governor of the Central Bank

Financial Review

“Where the figures speak louder...”





June 1790
May
November

January
February
March
September

Month	Value
June	8.19
May	3.31
April	7.92
March	3.87
February	17.28
January	8.17
December	10.53
November	9.52
October	12.93
September	4.53
August	%

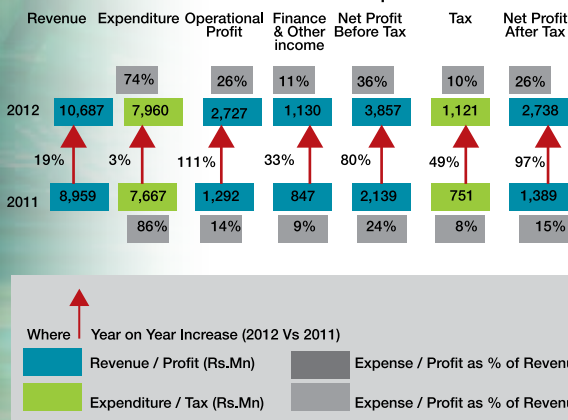
Financial Review

Financial Overview

AASL is a company incorporated and domiciled in Sri Lanka and fully owned by the Government of Sri Lanka (GOSL) and a member of International Civil Aviation Organisation (ICAO). Its main business line falls into managing the country's Bandaranaike International Airport (BIA). In addition it also manages domestic operations at Ratmalana Airport (RMA) and construction work at MRJA at Mattala, Hambantota during the year under review.

The financial performance of the company provides ample evidence about our stability, sustainable and continuous growth paradigms. Due to our unwavering strategic focus, astute management practices and adherence to corporate governance principles, we were able to secure rapid growth in operational activities enabling AASL to record a sound financial position.

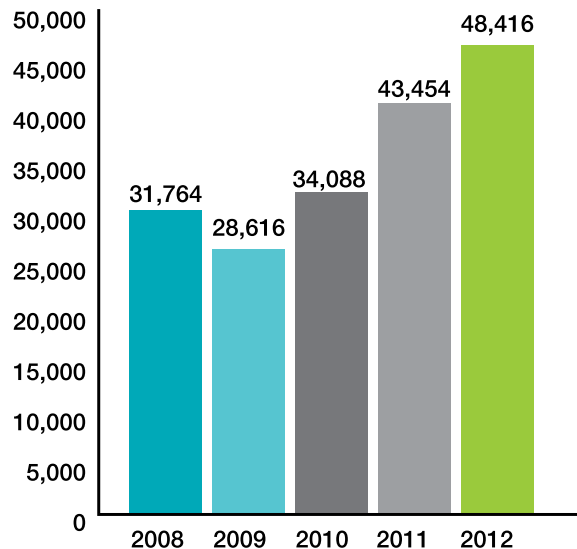
Graphical Representation of Statement of Income - Year on Year Comparison



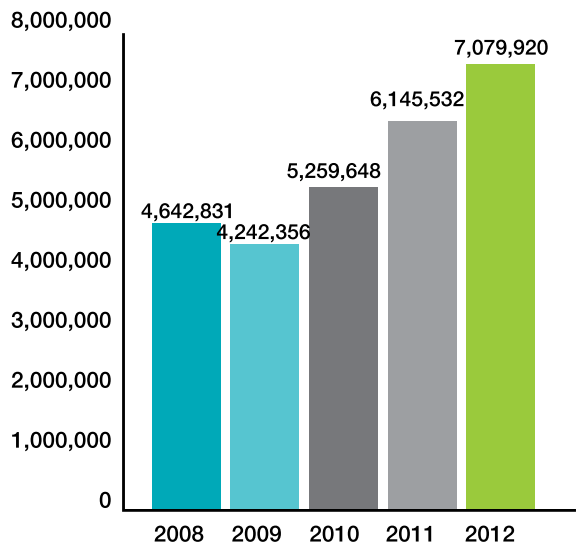
As per the graphical representation, there was a spectacular double digit growth in profits which were pushed high due to the rapid growth in aircraft and passenger movements at BIA. Hence forth it was a landmark year in AASL where the key financial indicators recorded remarkable results.

The key parameters which determine the revenue streams of AASL are aircraft movements and passenger movements. Aircraft movements depicted an upward shift of 11% in relation to preceding year whilst passenger movements depicted a 15% growth. Revenue sources such as Landing & Parking income and Aerobridge income are directly dependant upon aircraft movements, while Embarkation levy is directly dependant upon passenger movements.

Aircraft Movements

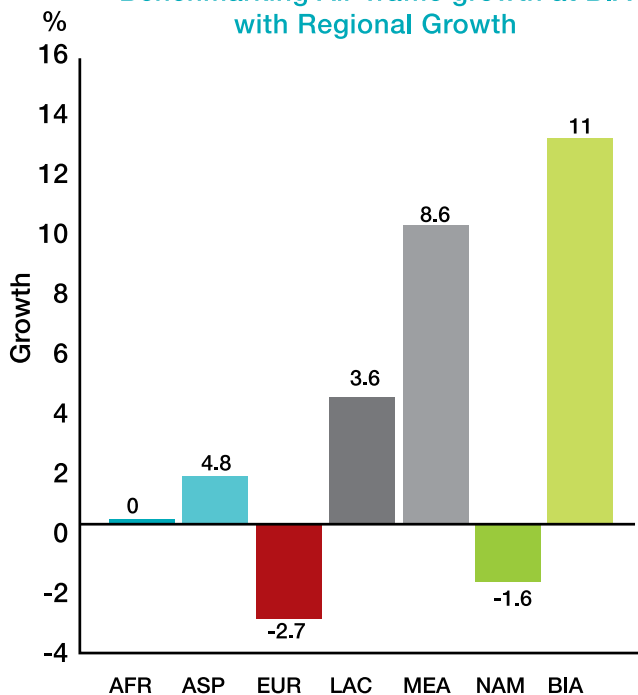


Passenger Movements

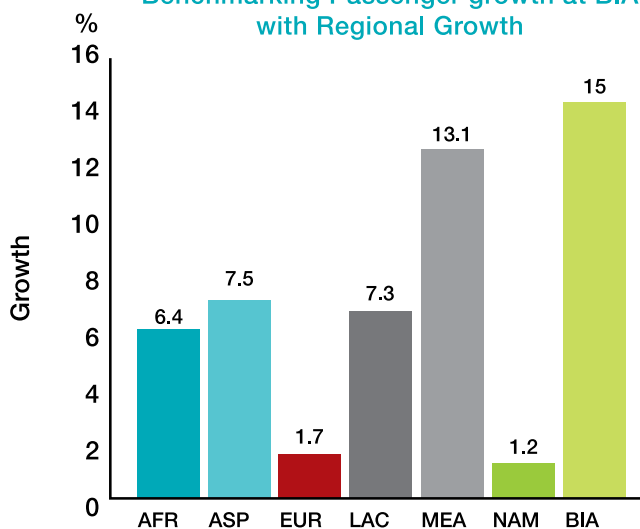


Airport Council International (ACI) preliminary traffic results which are based on reports from more than 1,093 airports in worldwide indicate a passenger traffic growth of 4% in the global arena, whilst the air traffic was on a -0.2% decline in relation to 2011. However our global presence with other regional airports could be further compared through the percentage growth in aircraft & passenger traffic in relation to 2011.

Benchmarking Air Traffic growth at BIA with Regional Growth



Benchmarking Passenger growth at BIA with Regional Growth

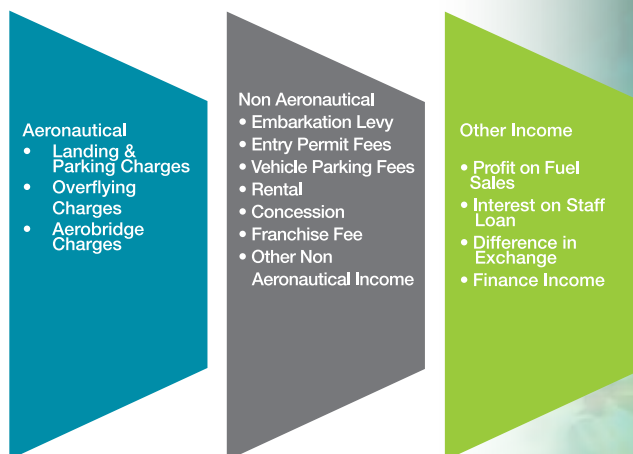


Narration :

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

Revenue

Revenue Categorisation



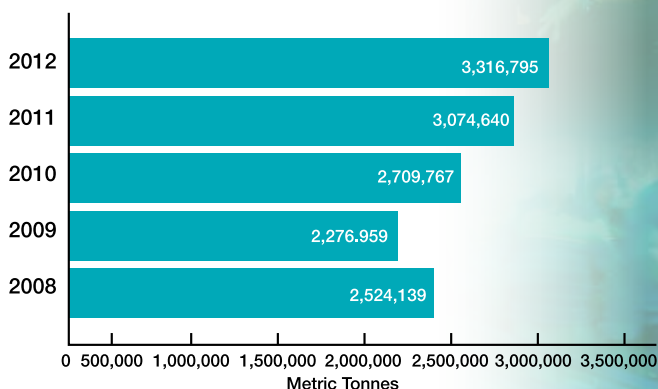
Operational Revenue

Even though we are faced with competition from other airports in the Asian Region we were able to secure total operational revenue of Rs. 10.7 Bn which resembled a 19% increase compared to preceding year. Non Aeronautical revenue stands at Rs. 8 Bn which accounts for 75% of total operational revenue whilst Aeronautical revenue was Rs. 2.7 Bn which accounts for 25%.

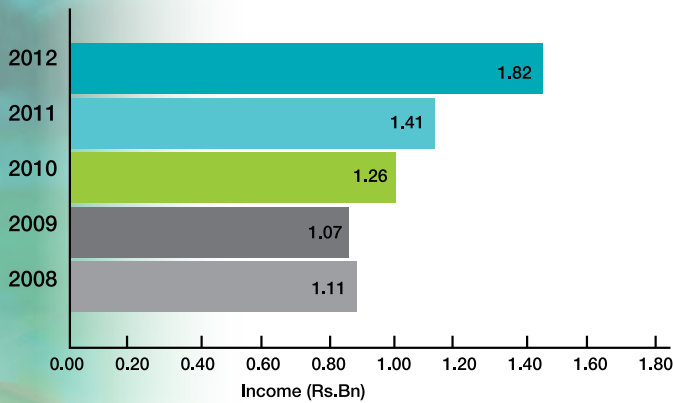
Aeronautical Revenue

Direct aircraft (airside) related revenue falls into this category. The contribution from Landing & Parking Charges amounts to 67% of total Aeronautical Revenue and recorded a growth of 29% in comparison to 2011. We were able to harness this growth primarily due to increase in aircraft movements from 43,454 in 2011 to 48,416 in 2012 which was a 11% growth and increase in Maximum Take off Weight (MTOW) from 3,074,640 in 2011 to 3,316,795 in 2012 which recorded a 8% growth. Accordingly The behavior of aircraft movements and MTOW over a five year period could be highlighted as follows;

Maximum Takeoff Weight (MTOW)

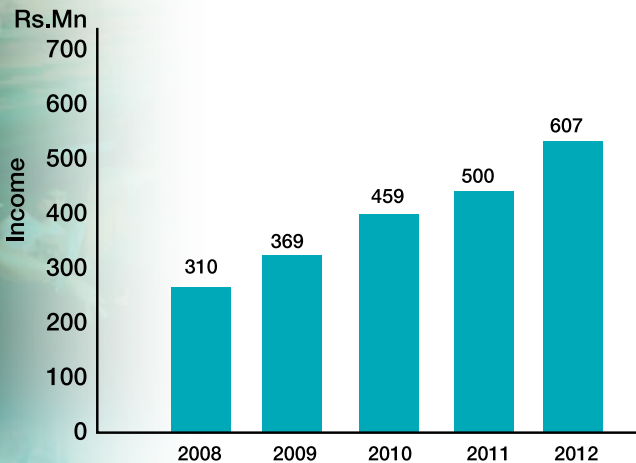


Landing Charges



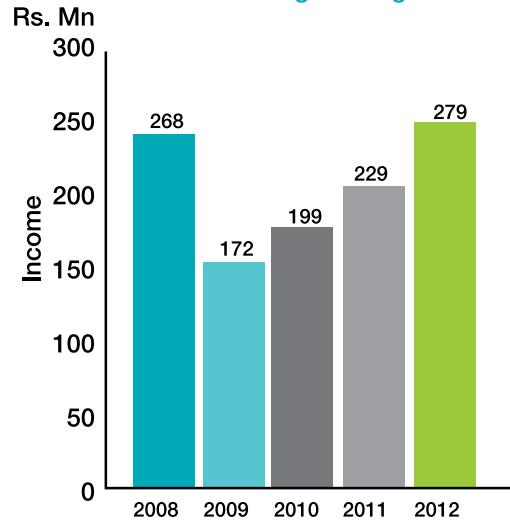
Overflying Charges revenue showcased a positive growth of 21% compared to financial year 2011. Overflying Charges revenue increase was due to 5% increase in overflying movements in comparison to 2011. Hence the overflying revenue accounts for 22% of aeronautical revenue. The overflying revenue over five years could be analysed as follows;

Overflying Charges



Aerobridge Charges revenue too recorded a growth of 22% which was triggered mainly by aircraft type and aerobridge usage duration. The Aerobridge income over 5 years could further be shown as follows;

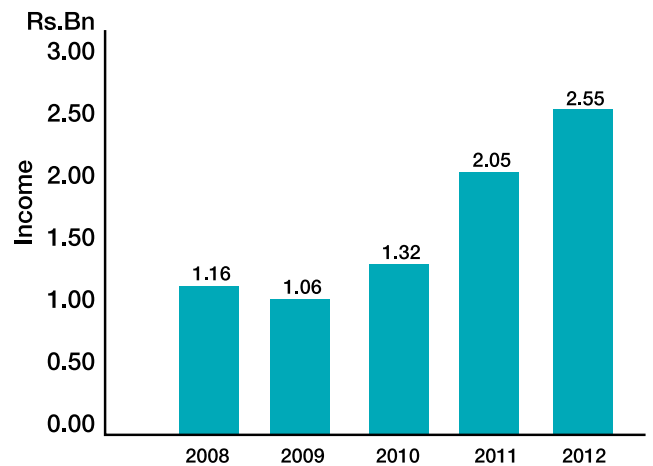
Aerobridge Charges



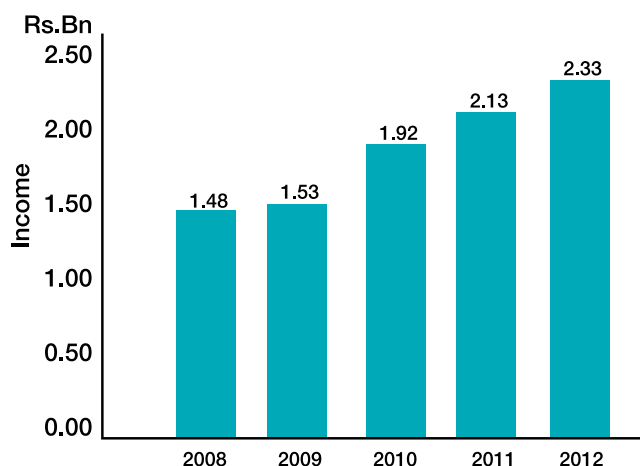
Non Aeronautical Revenue

This comprises of landside related commercial revenues. The Non Aeronautical income which heavily contributes to the bottom line of AASL stood at 17% growth in comparison to 2011. The Concession Income increase of 24% is one of the main contributors to this growth which accounts for 32% of Non Aeronautical Revenue. Increase in Concession income was primarily due to the increased growth reported from Tea segment which was on a slow growing phase in the preceding years. The Embarkation Levy recorded a 9% growth in relation to 2011 and captures a 29% share of Non Aeronautical Revenue. Rental Income amounts to 24% of Non Aeronautical Revenue & records a 15% increase in relation to 2011.

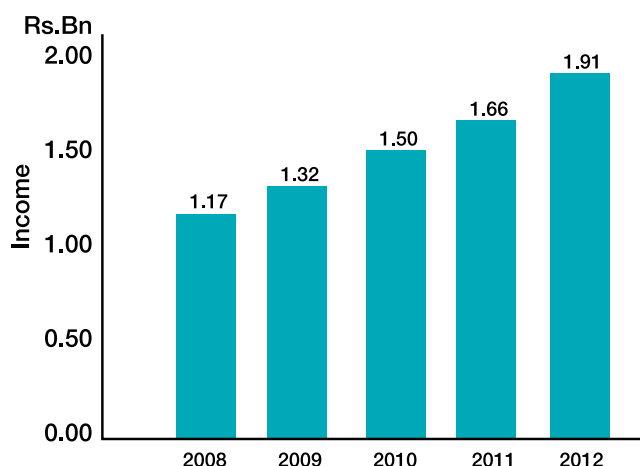
Concession Income



Embarkation Levy



Rental



Non Operational Revenue

This represents the Finance income and Other income of the company. Accordingly incomes generated from investments are broadly categorised under Finance income and Other Non Operational incomes are categorised as Other income.

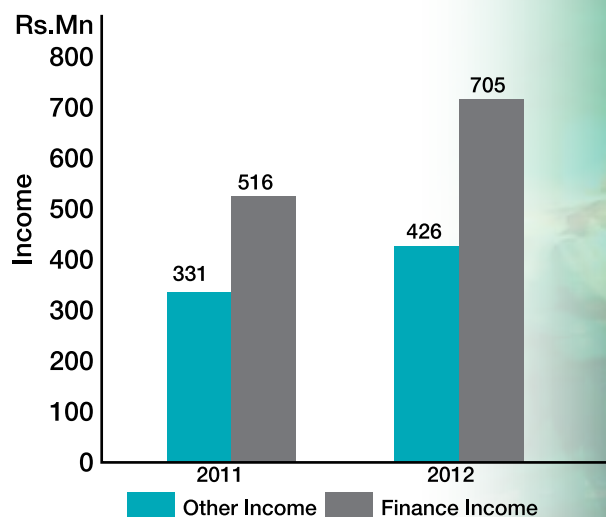
The aggregate of Other income stood at Rs. 426 Mn in 2012 when compared to Rs. 331Mn in 2011 reporting a growth of 29%. This was due to the increase in difference in exchange from Rs. 46Mn to Rs. 255Mn recording a 451% upward shift. Further Operating Profit on Fuel Filling Station increased from Rs. 8Mn to Rs. 12 Mn recording a growth of 52%.

Finance income showcased a growth of 36% for the year under review in relation to the preceding year. This is primarily due to the increase in Interest Income on Debentures from Rs. 40Mn to Rs. 266Mn resembling a staggering 563% growth and had a major impact on the increase in Non Operational Income. Further the interest

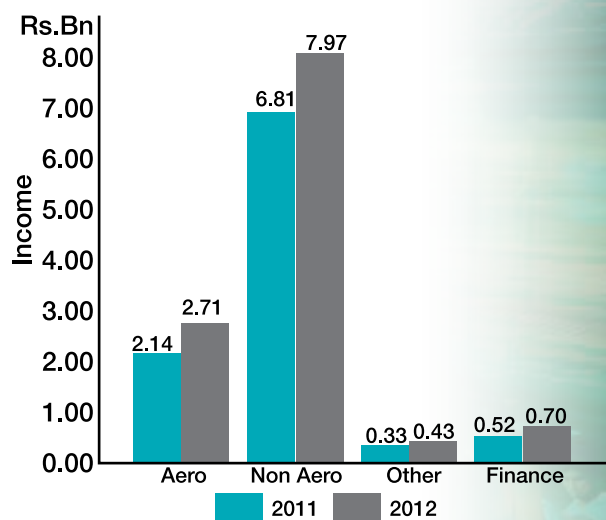
income received on Rupee Fixed Deposits was Rs. 99Mn in 2012 as opposed to Rs. 74 Mn in 2011 recording a 32% increase during the year under review due to increase in interest rates.

The values of Non Operating Income over a span of two years could be depicted as follows;

Non Operating Income



Revenue Analysis

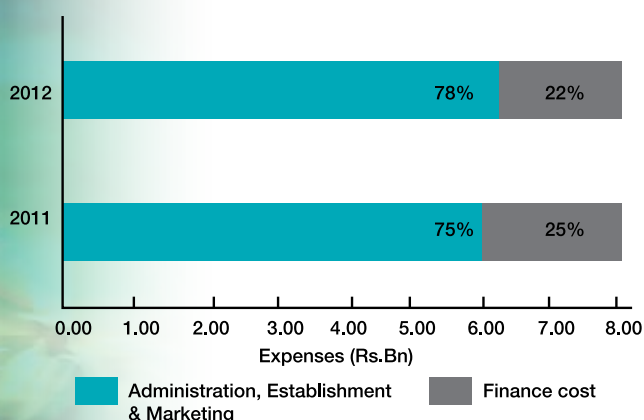


Operational Expenditure

Expenditure broadly classified under this category are Administration, Establishment & Marketing Expenses and Finance Cost. Our continuous strategic focus is on managing all cost in a aggressive manner. As a result we were able to reduce the cost to income ratio from 84% in preceding year to 74% in the year under review. However our operational expenditure increased to Rs. 8 Bn from Rs.7.7 Bn in 2011 which reflected a 4% increase. Even though the cost increase was present, operational revenue increase was in higher percentile of 19% and hence it

resulted in a drop in cost income ratio for 2012 as fixed nature expenses remained at same level. The expenditure composition & values could be further elaborated as follows;

Expenditure Analysis



Administration, Establishment and Marketing Expenses

This comprises of Personnel Cost, Administration & Establishment and Repairs and Maintenance cost expenses Cost. Hence in a nutshell all other costs other than Finance is classified under this category.

The major cost contributor in this expenditure classification is Personnel Cost which accommodates 56% of Administration, Establishment & Marketing Expenses. These are costs incurred for recruiting retaining and training of staff of AASL. Personnel Cost accounts for 44% of the total expenditure of the Company whilst being the highest cost component in our expenditure structure. In comparison to preceding year Personnel Cost in the current year indicated a 13% increase in expenditure. The Consolidated Salary cost of the company increased from Rs. 1.7 Bn to Rs. 2 Bn recording a 21% increase in 2012 was due to the new salary allowance incorporated to salary. The Staff Cost ratio in relation to total airport revenue stood at 33% in 2012 as opposed to 35% in 2011. The EPF & ETF, Overtime and Leave Encashment expenditure too have increased by 21%, 14% & 13% respectively. However the Gratuity Provision indicated 43% drop in comparison to 2011.

Electricity Expenses (Net of recoveries) represents 12% of Administration, Establishment & Marketing expenses. The Electricity Expenses as a whole accounts for a increase of 21% which was mainly triggered due to fuel adjustment charge of Rs. 149 Mn, which was applicable from March 2012 onwards. However Electricity Recoveries showcased a increase of 30% which was net off against Electricity Expenses.

Other expenses depicted a growth of 22% in the year under review compared to preceding year. This was mainly due to increase in Fuel cost by 47% due to price revisions experienced in the year 2012. However certain cost augmented at a rapid phase such as International Marketing expenditure which stood at 154% in comparison to 2011 due to heavy promotional activities carried out to promote Mattala Rajapakse International Airport (MRIA) in the international arena.

Accordingly allowances for Doubtful Debts to have depicted a upward shift of 80% due to revision of bad debt provision as per SLFRS implementation.

Repairs & Maintenance Expenses (R&M) categorized under this category depicted a drop from Rs. 242Mn to Rs. 210Mn in 2012 reflecting a decline of 14%. R&M expenses on Communication Equipment dropped from Rs. 31Mn in 2011 to Rs.16Mn in 2012 which shows a 49% major drop while R&M on Office Equipment too indicated a drop of Rs. 7Mn from Rs. 11Mn showing a drop of 65%. Further all other R&M costs too were on a declining trend.

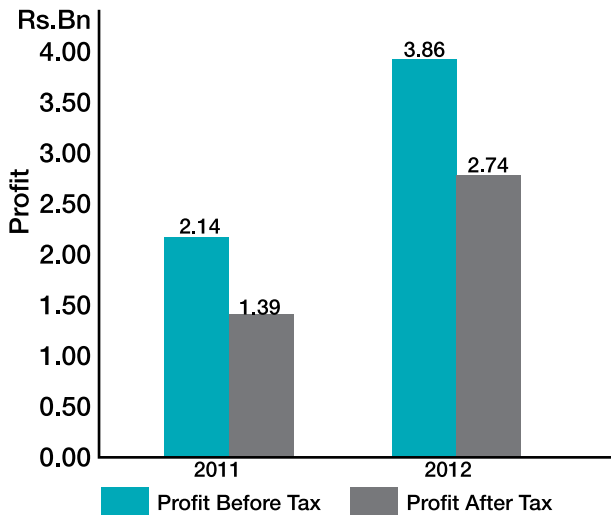
Finance Cost

This cost broadly categorises interest as well as other costs involved in borrowing funds. Finance cost comprises of loan interest & exchange loss on loan conversion which forms a significant component of 83%. In relation to 2011 the Exchange loss on foreign currency borrowings records a 13% drop in the year under review.

Profitability

The company recorded a Profit Before Tax of Rs. 3.9 Bn for the year ended 31st December 2012 which was a 80% momentous increase compared to Profit Before Tax of 2011 which stood at Rs.2.1 Bn. The Income Taxes recorded a 49% increase in relation to 2011. The AASL recorded a post-tax profit of Rs. 2.7 Bn in 2012 which was a 97% impressive growth in comparison to Rs.1.4 Bn in 2011. This provides ample evidence of company's strategic focus and sustainability of Airport business. Hence achieving the Profit After Tax of Rs. 2.7 Bn was the highest profit every recorded in our 29 year history. The company's profitability comparison can be depicted as shown below;

Profitability



Cash flow

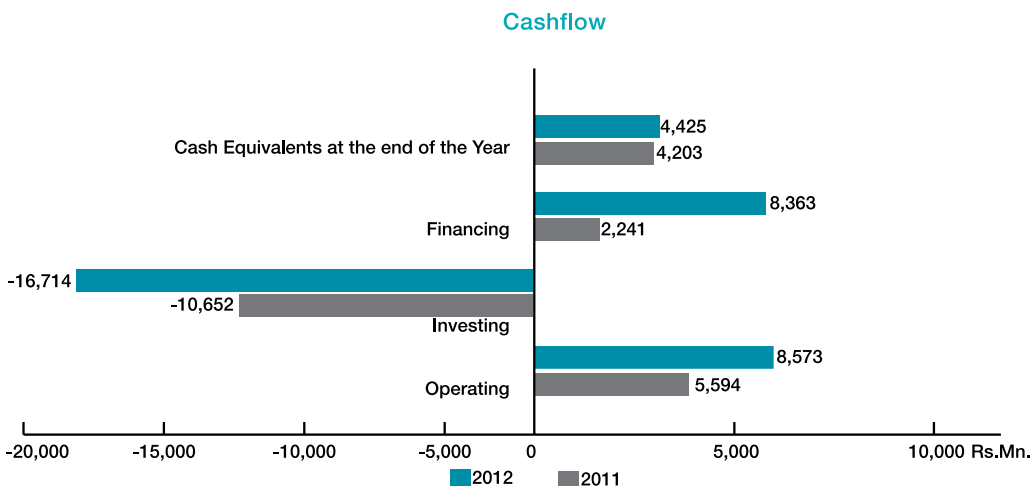
Cash flow generated from operating activities recorded an upward shift of 54% posting a figure of Rs. 8.6Bn in 2012 in comparison to Rs. 5.6 Bn in 2011. This is mainly due to increase in Net Profit and increase in Working Capital during the year in comparison to year 2011.

Net cash flow used in investing activities have shot up by 57% mainly due to aggressive acquisition of Property Plant & Equipment.

Net cash flow from financing activities indicated a staggering growth of 273% in 2012 primarily due to growth in Long Term Loan Receipts from Rs.5.8 Bn to Rs.10.2Bn recording a 74% growth.

Due to the reasons mentioned above overall Cash & Cash Equivalents indicated a favourable position as same as last year.

Cash flow position over a two year period is depicted below;



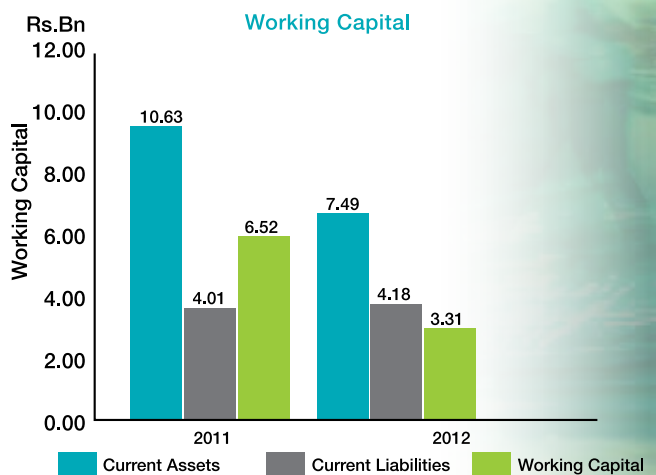
Balance Sheet

Capital Structure

This comprises of Rs.20Mn Stated Capital, Rs. 893 Mn Reserves and Rs. 3,304Mn Retained Earnings. Reserves Rs. 893Mn consists of assets transferred from Airport Authority to AASL upon incorporation. Retained earning increased from Rs. 0.36 Bn in 2011 to Rs. 3.3Bn in 2012 recording a staggering growth of 813%.

Working Capital

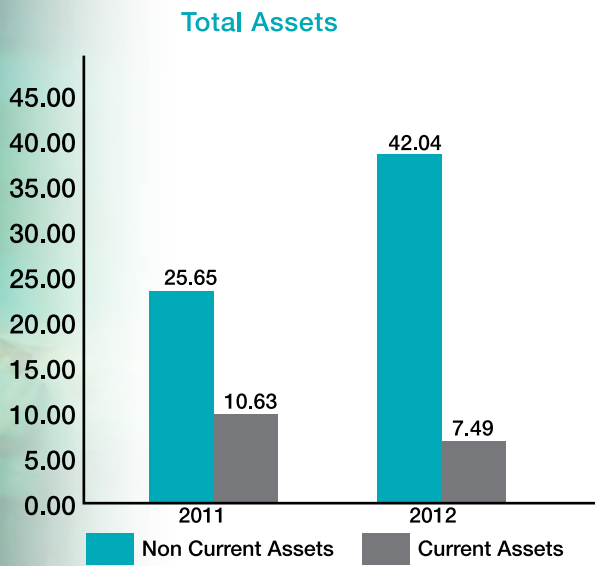
Working Capital shows AASL's adequacy of Current Assets (Short Term Assets) to meet obligation of Current Liabilities (Short Term Liabilities). Maintaining a ratio of 1.8 to 1 is regarded as financially healthy which signifies the operational efficiency. The working capital analysis over a span of two year is depicted as follows;



Assets

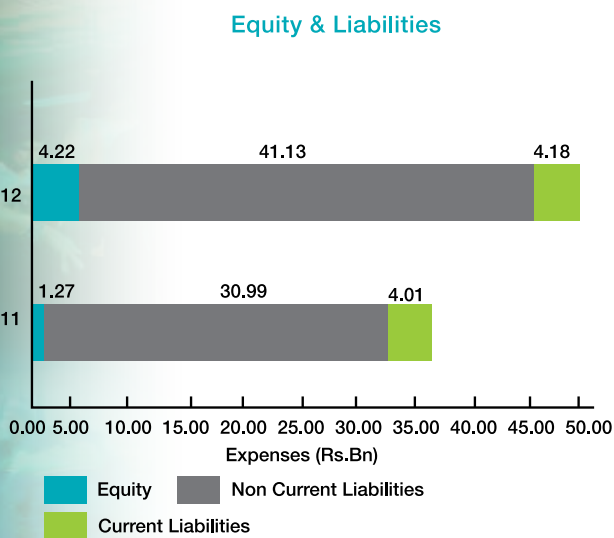
The total Asset Base of our company has grown from Rs. 36 Bn to Rs. 50 Bn which reflected a 37% growth compared to 2011, is mainly due to 70% growth in Non Current Assets while Current Asset base resembled a decline of 30%. This was due to capitalisation of mobilization advance of Rs. 4.2 Bn in the year 2012 catogorized under

the Trade and Other receivables. Our Asset composition could be depicted as follows;



Equities & Liabilities

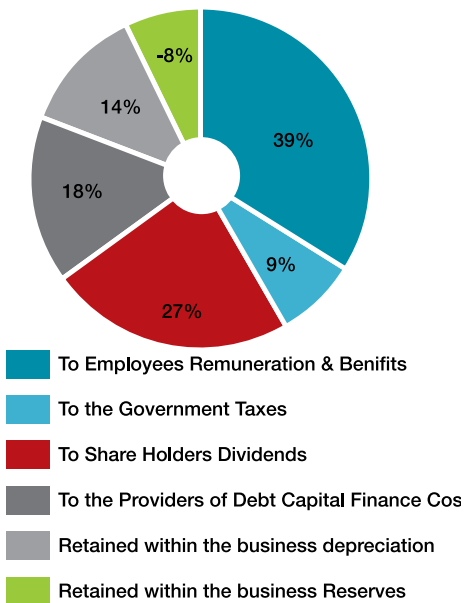
Non Current Liabilities and Differed income recorded a 33% increase in comparison to preceding year. This was mainly due to increase in Long Term Long Loans by 38% taken for development work of BIA and MRIA compared to 2011. The Current Liabilities stood at Rs. 4.2Bn in 2012 to Rs. 4Bn in 2011 recording a 4% reduction. The total Equity and Liabilities could be shown as below;



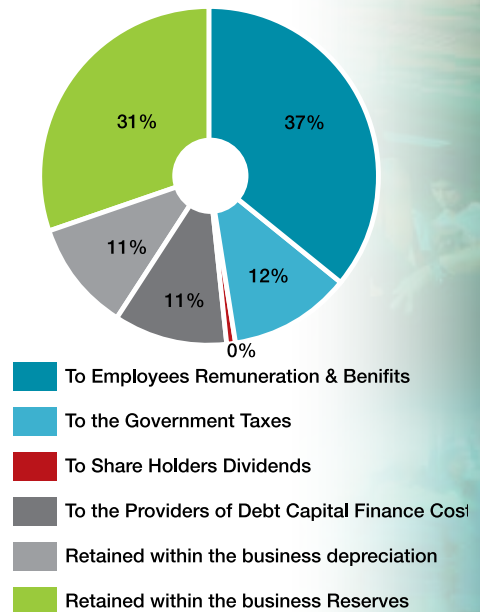
Statement of Value Addition

		2012		2011	
Revenue		10,687,381		8,959,272	
Other Income		426,332		331,038	
Gain arising on changes in Actuarial assumption		205,038		115,632	
		11,318,751		9,405,941	
Administration, Establishment & Marketing Expenses		(1,699,654)		(1,484,132)	
Value Addition		9,619,097		7,921,809	
Distribution of Value Added					
To Employees	Remuneration & Benefits	3,514,655	37%	3,114,391	39%
To the Government	Taxes	1,121,112	12%	751,113	9%
To Shareholders	Dividends	-	0%	2,106,416	27%
To providers of Debt Capital	Repayment	1,030,157	11%	1,417,468	18%
Retained within the business	Depreciation	1,010,595	11%	1,134,589	14%
Retained within the business	Reserves	2,942,579	31%	(602,168)	-8%
		9,619,097	100%	7,921,809	100%

Distribution of Value Added 2011



Distribution of Value Added 2012



Human Resources Management

*“Changing hands towards a
common goal...”*





Human Resources Management

Manpower Sourcing

Year 2012 posed new challenges to the Company with the proposed commencement of the 2nd International Airport at Mattala scheduled to be opened in year 2013. The optimum cadre requirement for the new airport had to be carefully assessed through close dialogue with the Heads of Division and the Management. The most critical skill areas were identified and action has been taken to provide such manpower as per the need. In this process we used all methods of sourcing based on the approved recruitment criterias for the positions. We recruited 409 staff during the year 2012 for all categories of vacancies and new positions at BIA and MRIA.

Recruitment for some posts for the new airport where skilled labour was needed, priority was given to the existing staff to obtain lateral promotions. Accordingly 70 lateral promotions were effected during the year.

The initiatives we have taken to address stagnation in career paths have been continued in the year 2012 as well. New schemes were approved by the management resolving employee grievances regarding career progression, while some promotion schemes approved in 2011 were implemented for the relevant staff categories in the year 2012. The new promotion schemes resolved issues of 809 employees belonging to several categories under semi-skilled, operational, supervisory and technical grades.

Employee Performance

The Human Resources Division monitored the performance of the employees during the year by obtaining evaluated performance appraisals in respect of 3,295 employees covering groups such as Management General, Management Operations, Supervisory, Clerical and Allied, Skilled and other grades.

Final performance evaluations of 2012 indicated that

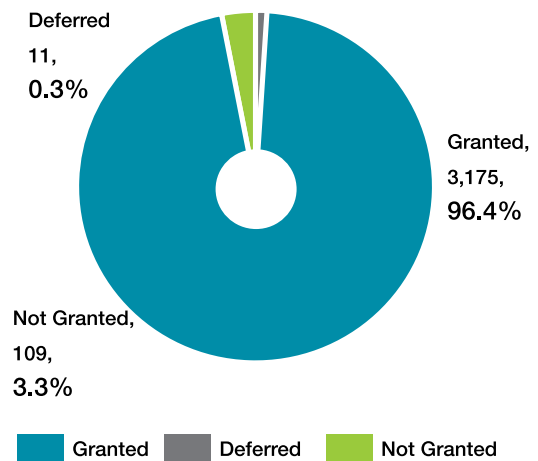
Category	Number	Percentage
Executives	227	7%
Supervisors/Technical Officers/Salesman	319	9%
Clerical and Allied	634	18%
Skilled and Semi-Skilled Workers	1,725	50%
Minor Employees and Unskilled	540	16%
Total Number of Employees	3,445	100%

... where skilled labour was needed, priority was given to the existing staff to obtain lateral promotions. Accordingly 70 lateral promotions were effected during the year

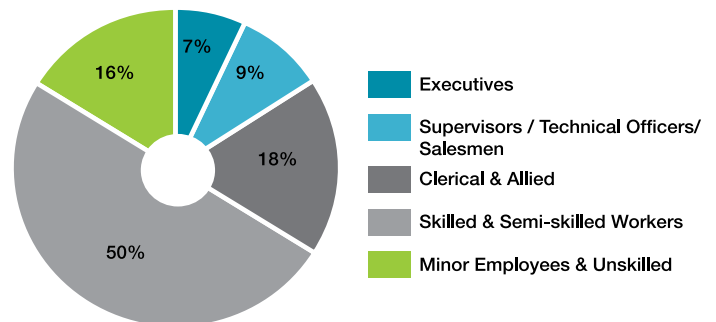
97% of our employees have successfully achieved the performance targets in terms of the Corporate Objectives and this is depicted by the chart below.

New Performance Appraisal System based on

Annual Increments - 2012



Staff Strength



“Management By Objective” (MBO) principles were initiated for the officers in Managerial positions of the Company and it is under review.

The company labour turnover rate during 2012 was 0.6 compared to 1.0 in 2011.

Building Capabilities

AASL believes that its achievements are the result of the competence and remarkable skills of their staff. When the achievement of the organization’s objectives is considered in the context of specific quantitative measures and divisional level objectives, training and development are considered the catalyst that bridges the gap between targeted achievement and current performance.

Therefore, a considerable amount of funds is set aside for staff training and development. Compared to the 1,365 staff who received local and foreign training in 2011, we were able to extend such opportunities to 1,751 staff during the year 2012. The total investment for training and development of staff for the year 2012 was Rs 66 Mn.

Training records of each employee is maintained, updated regularly and analyzed to ensure that the necessary skills and knowledge are monitored at appropriate intervals and action taken to improve skills as required. This is implemented by way of planned training schedules that are within budgetary allocations.

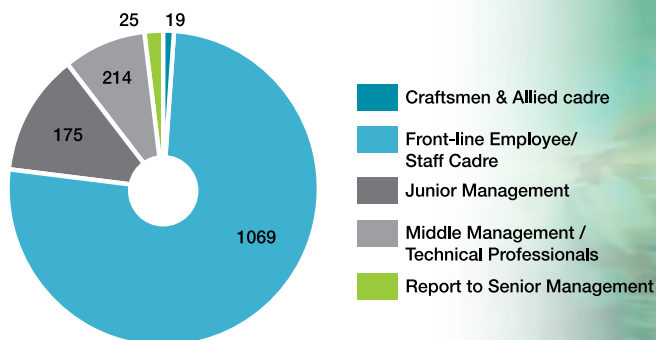
Local Training

Number of staff trained locally has increased as a result of special emphasis given for the focused groups like front line staff, in improving external customer satisfaction through personal development, front line skills, language skills etc.,. Other focused groups in the year 2012 were Technical grades, Craftsmen grades and middle management grades. Cost effective methods have been considered to utilize the training budget optimally in 2012. Accordingly the number of in-house training has been increased and outside training has been reduced comparatively. Professionally qualified resource persons of the relevant fields, have been invited to conduct training programmes internally. This is very economical than sending staff for outside training and also beneficial to staff as the curriculums are customized to suit our environment.

We firmly believe that staff needs outside exposure and therefore such training is organized based on the staff who require such skills.

Technical staff received comprehensive practical training locally and abroad for the use of new equipment to be installed at MRIA. Special attention was paid for the training

Staff Trained Locally - 2012



Reporting Level	No. of staff trained	
	2012	2011
Craftsmen & allied cadre	19	33
Front-Line Employee/Staff Cadre	1,069	903
Junior Management	175	89
Middle Management/Technical Professionals	214	193
Report to Senior Management	25	6
Total	1,502	1,224

of craftsman grades as well since it was a highly required skill area for the development of existing and the upcoming airport. Specially arranged technical training was provided for craftsmen in collaboration with Technical Colleges.

The Company conducted Special Training Programmes for all Drivers namely “Awareness programme for Drivers” and “Implementation of vehicle emission standards”. To make this a success, Company obtained the services of experienced resource personnel from the Department of Motor Traffic, Traffic Head Quarters and Sri Lanka Insurance Corporation. This training helped the drivers



Driver Training Programme in progress

to equip with the latest knowledge on road safety, driving etiquettes and better understanding of the vehicle fleet of over 300 vehicles ranging from light vehicles to heavy industrial vehicles.

Another novel programme initiated during 2012 was the Speechcraft workshop conducted for the Executives in collaboration with the Toastmasters Club of Srilankan Airlines. The programme consisted of 10 sessions and 20 nominees participated in this highly interactive programme with much commitment.

Foreign Training

Reporting Level	No of staff trained	
	2012	2011
Front-Line Employee/Staff Cadre	20	1
Junior Management	64	42
Middle Management/Technical Professionals	132	77
Report to Senior Management	28	18
Senior leadership / senior leaders / senior management	5	4
Total	249	142

... we were able to extend opportunities to 1,751 staff during the year 2012. The total investment for training and development of staff for the year 2012 was Rs 66 Mn.

Foreign training given to staff was increased with the introduction of new courses. This was done with the intention of enhancing the skills of relevant staff members including operational level. As a result international standards will be maintained while ensuring the safety of aircraft and passengers in the air within the Sri Lankan Flight Information Region. The other purpose was to provide enhanced services at BIA/MRIA and at the domestic airports in addition to maintaining safety of passengers and aircraft.

Radars Training / Familiarization to all Radar Controllers in Thailand

In order to ensure more efficient En-route/Area Radar Control Service across Colombo FIR, the ANS Division was successful in providing a rapid Refresher / Training in Radar Control in ATC Operational Centres of ‘Aerothermal’ in Bangkok, Thailand, which helped our controllers to acquire latest techniques and skills used in busy airports and airspaces to control and manage air traffic.

This exercise improved the overall capability of the provision of Air Navigation Services in terms of safety and efficiency which is greatly beneficial to our clientele, namely the airlines and the passengers.

In-house Training at Civil Aviation Training Centre

In October 2012, CATC underwent an assessment by the International Civil Aviation Organization (ICAO) in order to upgrade its ICAO TRAINAIR member status to TRAINAIR Plus. The assessment provided CATC with a distinctive opportunity to improve itself to be on par with its international counterparts by way of observations with respect to the training management system and other critical areas.

Continuing its efforts on improving the soft skills of the employees of AASL, CATC conducted 25 short duration training programmes for employees amounts to 2,832 training hours. The total training endeavour of the CATC for the year 2012 is 62,889 training hours. It included 6 training programmes for newly recruited employees of the company totaling up to 36,960 training hours.

Breakdown of training conducted is as follows:

Area	Number of training hours
Soft skills development	2,832
Training for new recruits	36,960
Programmes leading to career development	5,994
Instructional training	615
Awareness programmes	810
Refresher training	4,608
Training for external parties	11,070
Total	62,889

CATC earned an approximate income of Rs. 1,879,948 during the year, which included a foreign component.

Staff Welfare

One of the key welfare facilities that the Company provides for the employees is the Health Insurance Scheme. Out of the total employee population, 3,020 employees have obtained the membership of the scheme in order to receive benefits under 4 benefit schemes. The enhanced benefits over the year 2011, employees received benefits worth of RS.106 Mn during the year 2012.

The Company contributory Death Donation Scheme recorded a membership of 2,716 as at 31/12/2012. The scheme provides benefits for the employees and immediate family members at the occurrence of a death. The expeditious methods to receive benefits is available round the clock for the members and the total amount paid on account of deaths during the year 2012 was Rs. 5.3 Mn.

The employees of AASL travel from different areas and the Company is concerned with regard to their transport. For the purpose of facilitating transport to employees, the Company maintains a transport service where 26 routes are being operated at present from BIA and Ratmalana. At present this facility is enjoyed by nearly 2,000 employees at a nominal cost. The annual cost in providing this service amounted to Rs. 76,047,805/-.

There were no major work-related accidents or health hazards reported during the year. The safety standards specified by law, labour regulations and aviation regulatory bodies were provided to the employees.

Holiday Bungalow facilities

The Holiday Bungalow facility at Nuwara-Eliya, is a complex consisting of 5 apartments situated at the base of the Pidurutalagala mountain and has been fully utilised by our employees during the school vacations and long holidays. The entire complex and it's resident facilities were upgraded in 2011.

During the year 2012 1,049 employees utilized the holiday bungalow.

The garden of this Holiday Bungalow at the base of Pidurutalagala mountain won the second place of "The April Blooms Garden Show" for the 1st time, organized by the Municipal Council of Nuwara Eliya. This was under the category of "State Institutions- Large scale gardens".



Award winning Holiday bungalow garden at Nuwara Eliya



Award winning Holiday bungalow garden at Nuwara Eliya

Company introduced a transport scheme where 26 routes are being operated at present from BIA and Ratmalana. This facility is at present enjoyed by nearly 2,000 employees and is given at a nominal price.

Other People Initiatives

Human Resources Division took the leadership of obtaining a reasonable insurance premium of Rs.42 Mn to manage the risk connected with Airport Operators' Liability Insurance as previous years. In addition, around 350 fleet of vehicles was also managed with M/s Sri Lanka Insurance Co. Ltd at an annual premium of Rs.7.3 Mn.

The Management and the HR division always maintained amicable dialogues with all trade unions as the Company

believes that the existence of such interest groups is a must for the healthy work environment. The Management and HR division held periodical discussions with 26 trade based unions and 03 politically affiliated trade unions during the year in order to share the suggestions of both parties and resolve employee grievances. In addition, 03 charitable associations namely, Buddhist Association, Christian Association and Seva Vanitha Unit exist for the common well-being.

The Sports Welfare and Recreation Club plays an important role in developing staff collaboration and a healthy staff. The annual Get-together organized by the Sports Welfare and Recreation Club is an important social event of our social calendar.

Other Social Activities organized for AASL Staff

Ushering of New Year 2012 was ceremoniously conducted by the staff of AASL at BIA under the guidance and patronage of Acting Chairman Mr. Kamal Ratwatte amidst the blessings invoked by the religious dignitaries.

All Heads of Department and officials attached to various organizations functioning at BIA also attended the ceremony.



Award winning Holiday bungalow garden at Nuwara Eliya



Ushering of New Year 2012



Award winning Holiday bungalow garden at Nuwara Eliya

The Sinhala and Tamil New Year dawned on 13th April, 2012 at 7.20 pm. The pictures show a section of the BIA staff and passengers observing the New Year traditions of lighting the hearth and partaking of the first meal at the auspicious time.



AASL Staff Celebrates Sinhala & Tamil New Year 2012 with Passengers



AASL Staff Celebrates Sinhala & Tamil New Year 2012 with Passengers

“Vesak Bethi Gee Poojopaharaya” organised by Buddhist Association of AASL held at BIA Terminal Building on 11th May 2012.

Chairman AASL Mr. Prasanna Wickramasuriya, Vice Chairman Mr. Kamal Ratwatte, Artist Deepika Priyadarshani, Ishak Bohideen Beg, Pradeepa Dharmadasa were present at the occasion.



Vesak Bethi Gee 2012 organised by Buddhist Association

The annual Christmas programme was celebrated on the 20th of December 2012 at the Silk Route.



Christmas Carols 2012 organised by Christian Association

The annual Get together was celebrated on the 18th of February 2012 at the Viharamahadevi Park with a large gathering of AASL Staff.

“Saumya Rathree” Musical Programme was conducted on the 19th of May 2012 at BMICH.



Annual Staff get-together 2012 organised by Sports Welfare & Recreation Club



“Saumya Rathree” Musical Programme 2012

The path ahead

The future will present us with new challenges in HR Management. Technological developments, business expansions and aging workforce will be the forces to be reckoned with. Grooming leaders to take on the future successfully will be the task of today.





Sustainability Management

“We do not inherit the earth from our ancestors; we borrow it from our children. That’s why Sustainability Management is vital”

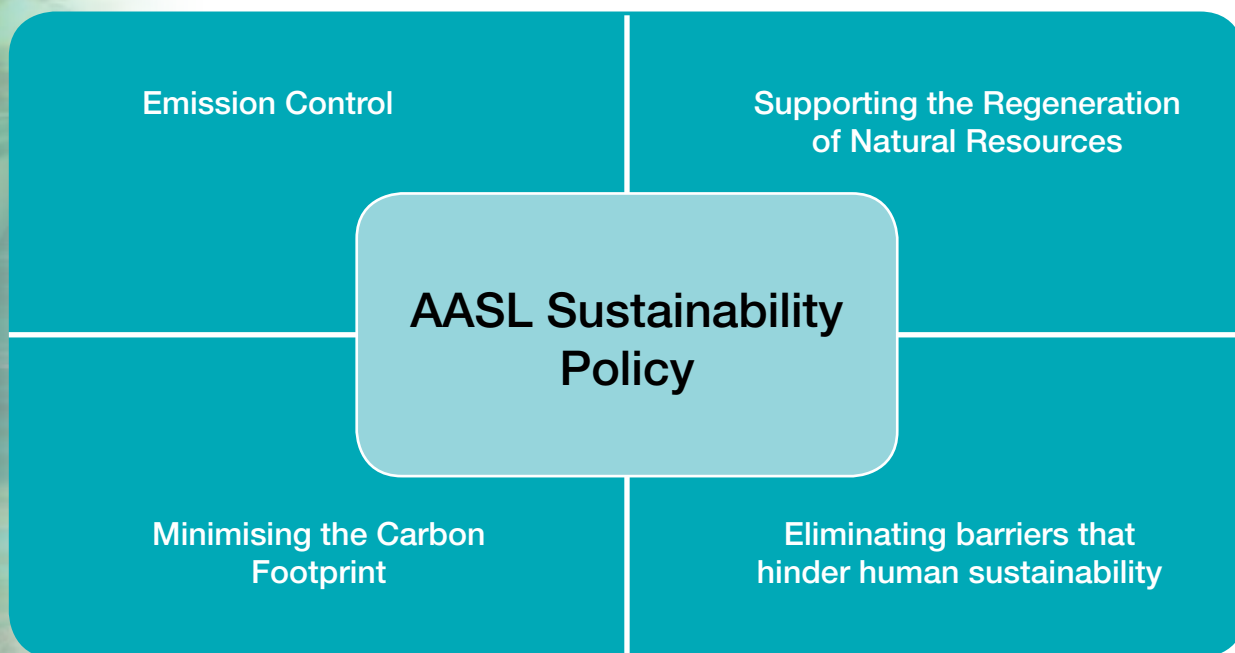
Sustainability Management

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

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.

AASL Sustainability Policy



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.

Emission Control

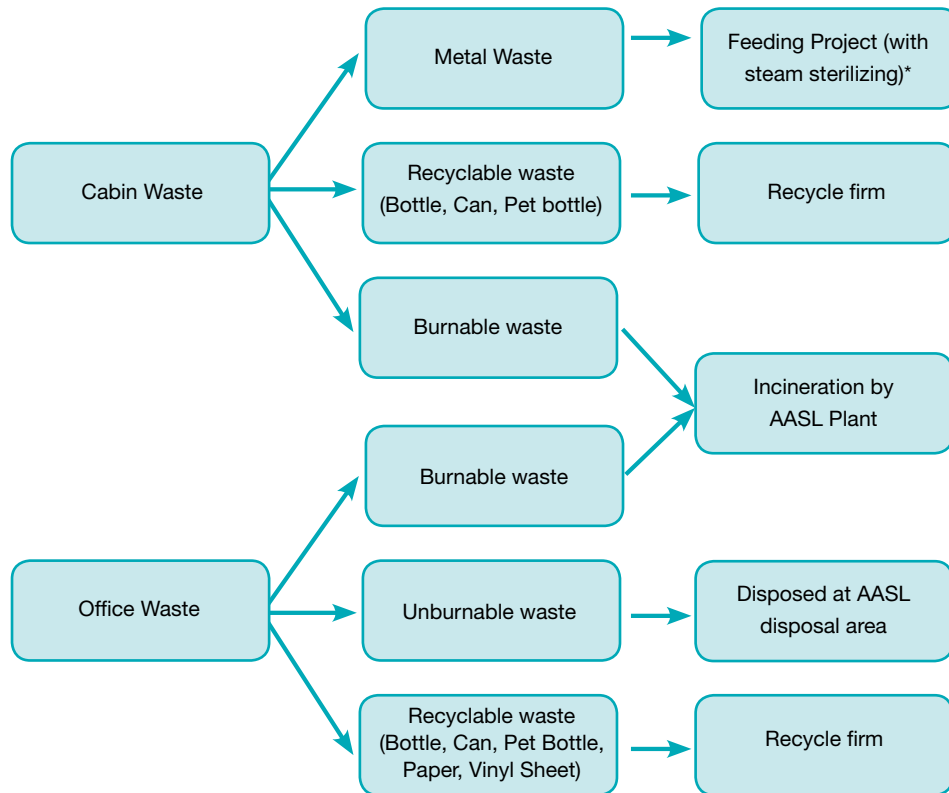
AASL reiterates its commitment to environmental conservation by going the extra step. The company continuously evaluates all materials discharged or released to the natural surroundings. Thereby minimizing emissions and controlling the green house effect. All our environmental activities have been sanctioned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

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 collection and disposal flow of waste being taken currently at BIA is shown below:

Disposal of waste of Sri Lankan Airlines and food cooking waste at Sri Lankan Catering is not included here.



The cabin food waste is collected by Sri Lankan Catering (Ltd) located at BIA premises and turns into animal feed.

Eco-Airport Management Plan (EMP) at BIA

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

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

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

Minimizing the Carbon Footprint

Energy conservation

A mammoth 74% of AASL's energy consumption is taken up by the Passenger Terminal Building at 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 through a range of smart, sustainable solutions.

- Existing buildings were refitted with energy efficient lighting, lighting control and motor control systems (eg: T5 fluorescent fittings, C-Bus Control system, drives for AHUs', PAUs'.
- Integration of the new chiller systems with the existing Building Management System for chillers
- Use of ballasts and bulbs during remodelling projects
- Upgrading building air-handling units with variable speed drives and soft start controls
- Introduction of solar heaters for hot water systems
- Optimizing the use of natural lighting with skylights and the dimming regulators
- Usage of motion sensors, occupancy sensors in the passenger Terminal Building
- Power factor corrections, key tag activated master switches at the Transit hotel
- Change over from hot cupboards to microwave ovens for warming of food resulting in an energy saving of 4kwh from a single charge per day

- Use of pedestal fans after office hours and during weekends in the office area without the use of air conditioners

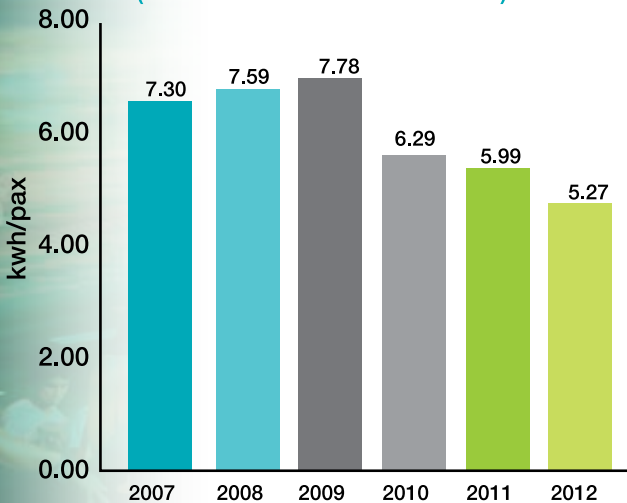
These initiatives were a tremendous success as evidenced by the negligible increase in electricity consumption units (kwh) as compared to 2010 despite the highest ever passenger and flight movements recorded during the year.

**Electrical Energy Consumption per passenger
(from Year 2007 to Year 2012)**

Year	kwh/pax
2007	7.30
2008	7.59
2009	7.78
2010	6.29
2011	5.99
2012	5.27

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.

**Electrical Energy Consumption per passenger
(from Year 2007 to Year 2012)**



Our approach recognizes the importance of social and cultural elements that impact on organization

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 whether the water control mechanisms are maintained at optimum functionality levels and to highlight any areas of concern. Repair and maintenance requirements are attended to as a matter of priority.

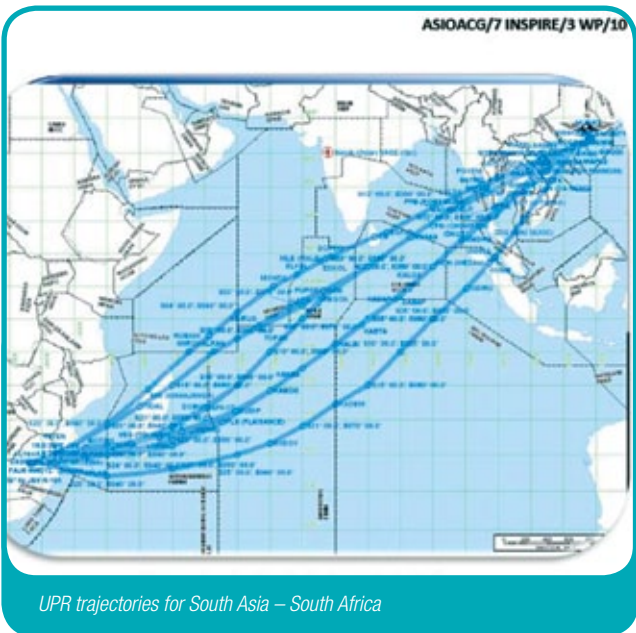
Fuel savings

Through ICAO Working Group INSPIRE- work on UPR (User Preferred routes) for Reduction of Emission of Co₂ by Aircraft

The professional Working Group comprising ANS (Air navigational Services) Professionals from Asia-Pacific and African Regions of ICAO known as INSPIRE (Indian Ocean Strategic Partnership to Reduce Emissions) is engaged in the noble task of developing exceptional means to achieve reduction in the Emission of Co₂ by aircraft in-flight under the green-planet concept, in which the ANS Division of AASL has been playing a vital proactive role since the inception of this working group.

The concept provides an array of 'out-of-the-box' solutions to aircraft in-flight in terms of approving flight-paths and airspaces that assure continuous climb/descent profiles, flexible tracks preferred by the users (known as User Preferred Routes-UPRs) depending on the weather prevalent at any given time on a real-time basis, which collectively result-in more environment-friendly flight atmosphere with less pollution of air. It also reduces the total flying time of aircraft, thus enhancing the revenue of airlines as well.

The above two pictures clearly show Sri Lanka's involvement in this effort being located right in the middle of the International UPR Airspace.



Due to the most significant contribution made by the ANS division during the year 2012 being a active partner of the above INSPIRE working group for reduction of emission of Co₂ by aircraft, they collectively earned global ATC Excellence Award in early 2013.

**Eliminating Barriers that hinder human sustainability
Dayata Kirula 2012 development exhibition
Anuradhapura-Oyamaduwa**

AASL maintained an exhibition stall at the Dayata Kirula Exhibition in Oyamaduwa Anuradhapura to coincide with the 64th Independence Celebrations in February 2012. The exhibition comprised the Socio-Economical drive in the country and a large number of people participated. The stall of AASL depicted the operations of BIA and the emerging 2nd International Airport at Mattala, Hambantota

Among the participants there were a large number of school children who inspected the AASL stall and they were educated with the Air transportation activities of Sri Lanka and its economical benefits. The participants who raised questions enthusiastically were given gifts (souvenirs) arranged by us (AASL).

A school at a threat of closure saw a turnaround

In parallel to the Dayata Kirula exhibition, a school namely Adhiranigama Vidyalaya, in Anuradhapura was renovated at a total cost of Rs. 1.5 Mn. The School had a student population of around 80 students and had a threat of closure at that time mainly due to not having clean, comfortable, healthy surroundings for the students. The School was completely renovated by repairing / refurbishing a roof of an abandoned building, a staff quarters (which was used as a fertilizer store by villagers). Further, refurbishing of

The company continuously evaluates all materials discharged or released to the natural surroundings. Thereby minimizing emissions and controlling the green house effect

water supply system, cultivation well and drinking water well, toilets, school fencing were carried out. All the lapses existed in the public address system was also fulfilled. Staff members of AASL CSR team tirelessly worked during this period to provide a better environment for students and teachers in this school.

The absentism rate of the school children which was quite high as 56% at the time when the project was commenced has reduced drastically to 25% after the completion of renovation work.

Further assistance to the schools developed under Dayata Kirula

Furniture was donated to Nachchaduwa, Aluthwewa Kumara Vidyalaya which was developed under Dayata Kirula 2012. The furniture donated include 03 Library cupboards, 03 library tables and 06 chairs at a total cost of Rs 120,000/-.

Siththara Art Competition among 32 schools in Hambantota District

Marketing Division of AASL organized an Art Competition called "Siththara" among 32 selected schools in Hambantota, Sooriyawewa, Lunugamvehera and Tissamahara Divisional Secretariats on 3rd August 2012. This was held in Lunugamwehera Maha Vidyalaya and expected to raise widespread awareness among school children about direct and indirect benefits of the aviation and economic upsurge in the country through art.



Schools developed under Dayata Kirula 2012

80 students participated in the competition in two categories "Senior" and "Junior". 6 winners were selected from both categories for 1st, 2nd and 3rd places. This competition was sponsored by Bank of Ceylon and Ran Kekulu Children's Savings accounts pass books with an initial deposit of Rs. 50,000/-, Rs.35,000/- and Rs. 25,000/- were awarded to 1st, 2nd and 3rd winners respectively while all the participants were given valuable gifts.

Religious concern

As a measure towards protecting the Buddha Sasana which laid the foundation in establishing Buddhism; a religion followed by the majority of Sri Lankans, a monetary donation of Rs. 500,000/- was made for the 68th Upasampada Ceremony of the Ramangna Maha Nikaya. This is traditionally held once in two years and



AASL Chairman Addressing the Audience



Siththara Art Competition Winners with AASL Chairman

the donation was made by us for the third consecutive year. 400 Buddhist monks were made ordinate during this ceremony held in June, 2012.

The Sacred Relics of Lord Buddha were flown to India on 12th September 2012 on a special Sri Lankan airlines aircraft. AASL organized a Dhana for more than 500 Monks and 50 Mehenin Vahansa who visited and chanted Pirith throughout the period the Relics were worshiped by the people.

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 island wide from nearly half a decade. The company made contributions to the Esala Perahera of Sri Dalada Maligaya, Annual Dalada Perahera at the Rajamaha Viharaya in Kotte, "Esala Perahara 2012"- Lankathilaka Sri vishnu Dewalaya in Handessa, Kelaniya Duruthu festival, Esala festival "Suriduni Katharagama-2012", Buddha Rushmi National Vesak Festival 2012", Tissamaharama "Ruhunu Poson Maha Pehara-2012", Esala Maha Poojothsawaya" – Siththamgallena Rajamaha Viharaya – Walasmulla, Hambantota . A total sum of Rs 3,970,000/- was spent on these cultural festivals.

AASL recognises the servicemen who fought to safeguard our motherland

We continuously adopted the practice of sponsoring the programs carried out to honour the heroes who brought peace to the island after three decades of war. AASL from the last few years have chosen few bodies by analyzing the purpose of their existence and their key deliverables to their members.

Ex-servicemen Association of Gajaba Regiment and Seva Vanitha Unit of Ministry of Defense are such two bodies. AASL sponsored the 11th AGM organized by Ex-servicemen's Association of the Gajaba Regiment by donating Rs 250,000/-. The purpose of the association mainly revolves around the development of mental wellbeing of retired and disabled Gajaba veterans of which, over 50% of members have been retired prematurely or have been resigned due to medical illnesses, hence they are not eligible for a pension. Hence this association has taken number of initiatives to assist disabled and affected soldiers including granting more than 30 scholarships to members' children and donating Rs 1.18 Mn worth of artificial limbs to Gajaba veterans.

We also sponsored the "Viru Dana Gee Sara", in aid of the Ranaviru Welfare Project conducted by the Seva Vanitha Unit of the Ministry of Defense by being a silver sponsor and contributing Rs 500,000/-. This was continuously sponsored since 2009. This show is aimed at raising funds for the welfare projects of the war heroes for their housing, medical aids, scholarships etc.

We also donated Rs 50,000/- for the Ranaviru Apparels which is a rehabilitation Project of Sri Lanka Army which formed as a Vocational Training Institute encouraging self employment of soldiers after retirement and to produce quality uniforms for the Sri Lanka Army.



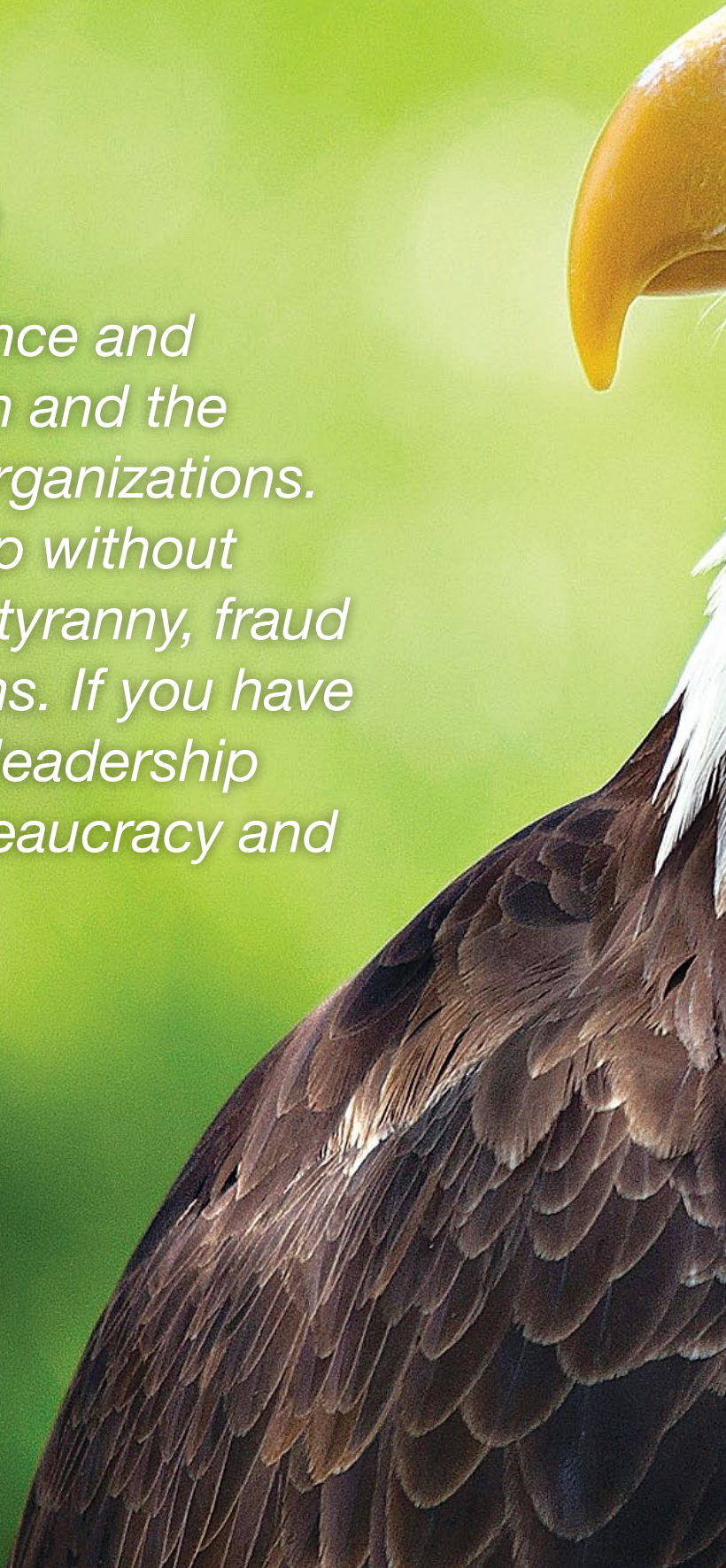
Welcome arrangements - Sacred relics of Lord Buddha



Alms giving for 500 Monks

Corporate Governance

“Corporate Governance and leadership are the yin and the yang of successful organizations. If you have leadership without governance you risk tyranny, fraud and personal fiefdoms. If you have governance without leadership you risk atrophy, bureaucracy and indifference.”





Corporate Governance

Good corporate governance is viewed as fundamental to the organization's competitiveness, growth and sustainability. The Corporate Governance is defined as "the system by which companies are directed and controlled" which includes mitigation of the conflicts of interests between

stakeholders, accountability and economic efficiency. The Company follows 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>Board of Directors are appointed by the Minister of Civil Aviation as mentioned in Clause 71 of the Articles of Association.</p> <p>The Board is comprised of 9 Directors including the Chairman and of which 3 is Executive Directors work full time in office. One non-Executive Director is appointed from the General Treasury.</p> <p>None of the directors has 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	Responsibilities of the Board	<p>(Expressed under 2 capacities)</p> <p>In a Leadership Role</p> <ul style="list-style-type: none"> • Determine the mission of the company and how best it could serve the interests of its shareholders and other stakeholders. • Ensure that legal requirements are fulfilled and the enterprise operates in accordance with the provisions of the Incorporation Act/Memorandum and Articles of Association. • Formulate policies for implementation by Management • Review public policy objectives periodically and provide strategic direction to formulate long-term goals and objectives for future growth. (Directors of AASL involve in its strategic planning process from its brain storming sessions organized to analyze the external environment and to identify external synergies (Please refer MDA on pg 34) • Ascertain and sourcing of financial requirements needed to meet goals and objectives to ensure uninterrupted flow of operations. • Ensure proper accountability by maintaining adequate records and books of Accounts. <p>In a Supervisory Role</p> <ul style="list-style-type: none"> • Ensure that Board policies are executed in the same spirit as it was framed and in the best interest of the institution and the public at large. • Monitor the activities of Management by means of Management Information reports and performance evaluation. • Take remedial actions without delay to ensure that goals are achieved; in case of deviation from desired expectations. • Appoint competent personnel as Managers and ensure that there is proper delegation and team spirit amongst the Senior Management by providing a conducive environment to carry out their respective functions independently and in a responsible manner. • Report to shareholders at Annual General Meetings and attend Committee on Public Enterprises (COPE) meetings.

Section	Applicable rule	Compliance
4.1 and 4.2	Directors' decision making	The Board meetings as the highest decision making mechanism serve as the most important forum for taking strategic decisions. The Board regularly discusses and makes decisions collectively. The attendance at Board meetings are shown in the table on page 68.
3.7.1	Chairman / CEO	Is appointed by the Minister of Civil Aviation. The present Chairman who continuously serves in the Board for nearly 5 years from his appointment as the Vice Chairman plays an executive role by providing leadership and strategic direction to the Board in a dynamic and professional manner.
3.8	Company Secretary	All directors have independent and joint access in respect of both internal and external information to the Company Secretary. The Company Secretary ensures that Board procedures are followed and provide guidance on legal requirements regarding Board proceedings. In addition, the Secretary circulates the notice of Board Meetings, Minutes of meetings and Board Papers together with other relevant documents with adequate information to enable the board to make accurate decisions in time. Follow up on actions on Board decisions is also executed by the Secretary.
Accountability		
2.2	Accountability to the Government	The Board's direct accountability to the Government as the key shareholder is executed by adopting relevant mechanisms pertaining to each of the following bodies and the details are shown on page 69 under the "Accountability to the Government as the Key Stakeholder". <ul style="list-style-type: none"> ● To the Parliament ● To the Cabinet of Ministers ● To the relevant Minister / Ministry ● To the Auditor General
6.3	Board's responsibility for the Financial Statements	The directors confirm that the amalgamated accounts maintained by the Company in respect of the Company, Retained Revenue Fund and Voted Fund accounts have been prepared in accordance with the Sri Lanka Accounting standards and the requirements of the Companies Act No 7 of 2007. The related declaration is shown under the Report of the Directors on page 18.
Systems Control and Committees		
7.1	Control Mechanisms	The Audit and Management Committee (AMC) assists the Board in implementing a sound system of Internal Control and Risk Management which are in accordance with the best practices appropriate to the company and to periodically review the adequacy and effectiveness of the internal controls by the board.
7.4.1	Audit Committee	Please refer the details of Audit and Management Committee (AMC) underneath.
7.4.3	Tender Board	Adherence to the guidelines on Government Tender Procedures when dealing with procurement of goods and services. This provides best practices of procurements whilst maintaining the transparency of the transaction. The authority limits of different types of procurement committees are as follows. Rs 1 Mn - Rs 5 Mn - TB 2 Rs 5 Mn - Rs 50 Mn - TB1 Rs 50 Mn - Rs 100 Mn - MPC Above Rs100 Mn CAPC (<Rs 100,000 is approved by Head of the Division and Rs 100,000 to 1 Mn is approved by the Chairman).
7.4.4	Training Committee	AASL's training committee headed by Chairman consists of Head of Human Resources, Head of Finance and Executive Director. This four member committee evaluates the training needs of the company and formulates procedures relating to selection of individuals for local/foreign training to enable the human resources to keep abreast of changes both locally and abroad. The committee obtains views, recommendations of the Heads of the division in executing its role and also improves the knowledge dissemination mechanisms related rules and procedures.

Section	Applicable rule	Compliance
Relationship with Stakeholders		
	Institutions and Regulatory Bodies	Company recognizes the legal and other obligations to all legitimate stakeholders including the Government as the key stakeholder and other stakeholders as constituencies including users of the Airport (airlines, passengers and the business community who run their businesses inside the Airport) suppliers and other service providers and the community as a whole.
	Employees	Organization's Vision, Values, Corporate Objectives are communicated to all employees. Divisional Objectives and cascaded down individual objectives are also communicated to appropriate levels in order to ensure goal congruence of the company. The employees are updated with true position of corporate operations and financial performance. A competitive remuneration package with welfare measures along with a safe work environment are offered to all employees. The code of ethics is communicated to all employees and there is an internal circular describing penalties and punishments effect for acts of misconduct.
	Environment	The Board is highly committed to the sustainability of the environment and therefore ensures that the company pursues and adheres to the recommended standards so as to protect and promote the eco system. The practices adopted by the company are explained under Sustainability Management. With the "Sustainability Policy" approved by the board, our business plans are directed towards the elements identified in the policy for value enhancement of stakeholders.

Attendance at Board Meetings

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

Audit and Management Committee (AMC)

The Board is assisted by the Audit and Management Committee (AMC) which has been set up according to the Treasury Circular No PF/PE 3 of 19/11/1999. The Audit and Management Committee (AMC) comprises of three Non-Executive Directors, Chief Accountant of Ministry of Civil Aviation, Head of Internal Audit and Quality Assurance (H/IA & QA). All the members remained unchanged from the last year. The three Non-Executive Directors are Dr. D S Jayaweera (Chairman) and Mr. J R U de Silva and Mr. Yoga Perera who have been appointed by the Board, served in this committee during the year under review.

This committee delegated with specific responsibilities cited in the Terms of Reference (TOR) which defines its scope of authority. This includes determination of the responsibilities of the Internal Audit Unit and reviewing of the annual audit

plans, monitoring and evaluating internal control systems for all activities of the entity and assessing performance at regular intervals for cost effectiveness and to eliminate wasteful expenditure. Others include liaising with external auditors and reporting on Management Letters issued by the Auditor General and external auditors, asserting compliance with statutes, regulations, rules and circulars, reviewing financial statements to ensure conformity with Accounting Standards and assessing implementation of recommendations and directives of the Committee On Public Enterprises.

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

The Board receives a report of the Committee's proceedings and deliberations, in which it has no authority to make decisions on matters reserved specifically for the Board and recommendations are highlighted for approval

by the Board of Directors. The Chairman of this committee, reports the outcome of the committee meetings to the Board and the relevant decisions are incorporated into the minutes of the Board of Directors' meetings.

Name of the Member of AMC	Position held in		Attendance
	AASL	AMC	
Dr D S Jayaweera	Director/Treasury Rep (Ministry of Finance)	Chairman	3/3
Mr J R U de Silva	Director	Member	2/3
Mr Yoga Perera	Director	Member	1/3
Mr S M Chandrapala	Chief Accountant- (Ministry of Civil Aviation)	Member	3/3
Mr C Wannigama	Head of Internal Audit and Quality Assurance	Member / Convener	3/3

Accountability to the Government as the Key Stakeholder

As a fully owned Government Company, accountability to the Government is exercised by the following mechanism:

Parliament

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

COPE

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

PCC

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

Minister of Finance / General Treasury

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

Dr D S Jayaweera the Treasury representative performed this function during the year under review.

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

Ministry of Civil Aviation

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

1. Corporate Plan and Annual Budgets
2. Physical and Financial Performance of the current year
3. Auditor General's Report (on Voted Fund Accounts) and Management Letter (on Company and Retained Revenue Accounts).
4. Development activities undertaken during the year
5. Matters arising from meetings of the COPE





Risk Management Review

“All courses of action are risky, so prudence is not in avoiding danger (it’s impossible), but calculating risk and acting decisively. Make mistakes of ambition and not mistakes of sloth. Develop the strength to do bold things, not the strength to suffer.”

Risk Management

As the Fully Government Owned Company assigned to manage all the civil airports and air space 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 Flight Information Region (FIR). Within this context, a number of key operational areas and a wide spectrum of aviation assets can be identified as vulnerable to threats as listed below.

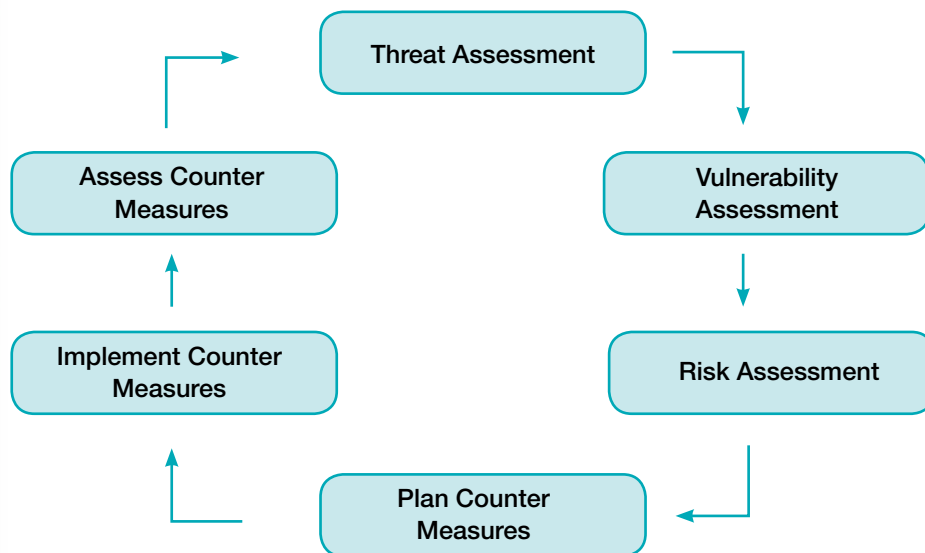
- Airport/Airline/Freight customers
- Airport/Airline/Industry employees
- Stakeholders of the Airport and Airlines

- Property owned by the company (e.g. Airline Offices)
- Intellectual property
- Airport and Airline Contractors (eg: Ground handling agencies)
- Tangible (eg: airport facilities) and Intangible Assets (Organisational 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 and tabulated below

Industry/Country Risks
<p>Description/Nature of Risks <i>High dependency on National Carriers.</i> Sri Lankan Airlines is the largest customer of AASL with a 55% share of passenger volume of the BIA. This, along with the national low cost carrier Mihin Lanka accounts for 60% 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.</p> <p>Counter Measure/(s) 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 along with a trade-off in the open-sky policy. However, the FY 2012 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 under Stakeholder Engagement under Management Discussion and Analysis.</p>

Industry/Country Risks - Contd.

Description/Nature of Risks

Loss or damages to aviation assets

Counter Measure/(s)

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.

Description/Nature of Risks

Demand forecast risks

Since, BIA is the only international airport in the country demand forecasting, is risky the in-house forecasts are risky to use for planning purposes and decision making.

Counter Measure/(s)

We employed a consultancy firm called Japan Airport Consultants (JAC) to do a demand forecast and they did the study in 2009 for the post war period covering a period of 2010- 2025. They used time trends, econometric models, scenarios, market surveys, ratios, judgement, terminal area forecast, changes in the airline industry composition, changes in the route networks etc. When doing the demand forecast, optimistic, moderate and pessimistic scenarios were provided. Currently, AASL's strategic plans are based on moderate forecast for passenger movements and modified moderate forecast for aircraft movements as the relationship between aircraft movements and passengers.

Description/Nature of Risks

Market development risk for the second international airport

Brand new airports often carries the risk of client-base. The MRIA is not an exception of that common formula.

Counter Measure/(s)

The newly formed marketing division of AASL from its inception entirely focused on identifying and expanding the market potential for MRIA. It was required to alignment of interests of different stakeholder parties and therefore many site tours and discussions were held during the year. Scenario analysis and forecasts, traffic forecasts, route forecasts, catchment area analysis were all vital steps carried out by the marketing team through out the year in addition to the promotion activities undertaken with the bodies collectively in the tourism and aviation cluster.

Legal Risks

Description/Nature of Risks

Risks associated with deaths/damages to passengers and public using the Bandaranaike International Airport and the Ratmalana Airport.

Counter Measure/(s)

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.

Description/Nature of Risks

Non- compliance to environmental standards

Counter Measure/(s)

The required environmental protection laws applicable to the area may also cause certain legal risks. AASL works to counter these risks in all applicable areas as explained under Sustainability Management, by adhering to the environmental standards required by the Central environmental authority. The exchange of information is done with the involvement of local citizens in the mediation process (Eg: Second runway, second international airport- MRIA) or through neighbourhood advisory boards.

Operational Risks

Description/Nature of Risks

Wilful damages to computer systems and risks

Counter Measure/(s)

To combat the risks of hackers and viruses to our confidential, sensitive and safety related information, an effective firewall mechanism is in place. Also in operation are the advanced system authentication controls with special focus on network access control and intrusion, detection, in addition to safeguards introduced for the prevention of hackers and unlawful interferences, to the system.

Description/Nature of Risks

Exposure to high level of operational gearing due to large capital investments

Counter Measure/(s)

All major investment decisions are made following a project feasibility evaluation. The most widely used techniques include CFROI, Payback period, NPV, EVA and IRR.

Capital rationing or in other words limiting the investments in capital assets and projects is adopted through the annual budgeting process in order to maintain a healthy liquidity and adequate financial leverage to plan out long term projects. The prioritization in the capital rationing process is done based on the critical nature and business importance of the proposed capital asset or project. AASL's expenditure commitment is determined by the ceiling dictated by liquidity and gearing ratios, while the funds for other projects over and above this upper limit are sought through external sources.

Description/Nature of Risks

Frauds, Breakdown of internal controls, processes and procedures

Counter Measure/(s)

Currently in operation is a stringent system of internal controls, standardized financial procedures and ISO certified Quality Management System audits (compliance audits). Periodic reviews and implementation of effective internal controls by the internal audit department are supplemented by regular management audits carried out by internal teams within the Organization.

Description/Nature of Risks

Failure of Systems

Counter Measure/(s)

Pre monitoring mechanisms as well as post monitoring and detection systems are in place to prevent and minimize the system failures. The Central Fault monitoring system is such a pre monitoring system which displays the current status and faults graphically and warns on future collapses. Fire detection systems and contingency plans are in place to ensure the prompt detection of faults while minimizing the loss or damage.

Data Centre at airport support the advance technologies like Network virtualization, Server virtualization & Consolidation and Storage virtualization

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

Description/Nature of Risks

Interruption in utility services at BIA

Counter Measure/(s)

Improvement of the ground water harvesting system through additional bore wells in order to reduce the overdependence on the main water supply system to ensure an uninterrupted supply of water to the BIA

A Sufficient number of Generators with the required capacity have been deployed as the back-up plan in case of electricity failure.

Security Risks

Description/Nature of Risks

Risks associated with aviation security namely global terrorism, drug trafficking, dangerous liquids and solids, un-quarantined animals and plants, unruly passengers, contrabands and touting for customers etc.

Counter Measure/(s)

The airport security personnel of AASL work collaboratively with the BIA's in-house supervisory resources namely; Customs, Immigration, Air Force and Police help in keeping the above occurrences to a minimum.

Description/Nature of Risks

Risks associated with sourcing

Counter Measure/(s)

The strict adherence to tender guidelines, prevent us from exposure to most of the frequently found risks.

The suppliers' capacity to do business with us is evaluated through vigilant checks carried out by the appointed Technical Evaluation Committees (TEC) 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 blacklists defaulters based on their negative performance.

Safety Risks

Description/Nature of Risks

Aircraft incidents/accidents in the Colombo Flight Information Region

Counter Measure/(s)

Utmost care is taken by our controllers, in executing the air traffic control function to continuously reduce possible accidents with the ultimate goal of achieving a zero accidents record. The adherence to universally accepted Standards And Recommended Practices (SARPs) related to safety, personnel licensing, operation of aircraft, aerodromes, air traffic services, accident investigation and the environment are maintained with periodic surveillance audits carried out by the regulatory authorities. The bird hazard control unit carries out the recommendations set out by the Field Ornithology Group of Sri Lanka attached to Department of Zoology of University of Colombo as per the study done in 2009 is carried out to minimize the risk of bird hazard risk and possible airside incidents/accidents. The in-house "Safety Management System" described under MDA further enhances the effectiveness in our approach in minimizing the safety risks.

Financial Risks
<p>Description/Nature of Risks Adverse exchange rate fluctuations and liquidity risks</p> <p>Counter Measure/(s) Internal hedging through matching technique (Equating assets and liabilities in foreign currencies wherever possible)</p> <p>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.</p>
<p>Description/Nature of Risks Adverse interest rate fluctuations</p> <p>Counter Measure/(s) We aim to mitigate interest rate risk and improve yields by purchasing a number of bonds along the short to long term maturity spectrum. All our overnight balances are automatically transferred to an interest earning call deposit account</p>
<p>Description/Nature of Risks Risk of default by the debtors</p> <p>Counter Measure/(s) Prior to permitting or extending a credit line, AASL obtains bank guarantees from all their debtors, based on predetermined limits of credit which adequately cover the risk of default. AASL has further legal provisions in place to terminate the contract for the provision of services or commercial space at the airport if there is a risk of the debtor moving beyond the stage of recovery</p> <p>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.</p>
Human Resources Risk
<p>Description/Nature of Risks Loss of trained and skilled employees and brain drain</p> <p>Counter Measure/(s) The fair and equitable remuneration structure provides special allowances for professional, academic and technical qualifications, in order to retain the portion of professional cadre.</p> <p>Foreign employment and exposure opportunities are granted on no-pay terms and combined with bonded contracts.</p>
<p>Description/Nature of Risks Risk of Inability to attract skilled staff with required competencies to fill the carder vacancies at second international airport MRIA. And the Risk of running shortage of essential staff at BIA due to staff transfers to MRIA from its commencement of commercial operations in 2013 and for its preparedness activities in the year under review.</p> <p>Counter Measure/(s) As same international standards have to be maintained, the experienced staff currently employed at BIA, Katunayake will be initially employed in the first few years at MRIA, while the newly recruited staff for MRIA will be based at BIA to give them on the job training in operational areas. Our training wing CATC, commenced training for newly recruited operational staff in a phased out manner from 2011 onwards. Therefore, there will be a blend of new recruits and experienced staff at MRIA from the first year of operations and gradually this mix will be changed.</p>

Human Resources Risk- Contd.

Description/Nature of Risks

Inappropriate labour union actions

Counter Measure/(s)

Maintaining cordial relationships with the labour unions through effective dialogue and negotiations for mutually beneficial solutions.

Transparent awareness campaigns in case of changes that take place within the Organization that affect the people aspect.

Talent engagement and development initiatives explained under HRM enables to effectively counter the adverse labour union actions within AASL.





IIFRS

Audited Accounts

“Finally... As per the Global Benchmark...”

Auditors' Report



Independent Auditors' Report To the shareholders of Airport and Aviation Services (Sri Lanka) (Private) Limited

Report on the Financial Statements

1 We have audited the accompanying financial statements of Airport and Aviation Services (Sri Lanka) (Private) Limited which comprise the balance sheet as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages .. to ...

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

4 In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2012 and the amalgamated financial statements give a true and fair view of the Company's state of affairs as at 31 December 2012 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS).

Emphasis of matter

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

Note 2.1.1 to the financial statements which explains the basis for amalgamating the financial statements of the Company with that of the Airport and Aviation Services (Sri Lanka) Limited in respect of the Government Grant for Capital Expenditure (Voted Fund) and the Retained Revenue Fund.

The financial statements of the Company and the Retained Revenue Fund for the year ended 31 December 2011 have been audited by another firm of auditors whose reports, dated 12 June 2012 expressed an opinion on those statements with an emphasis on the Company initiating the process to implement the Cabinet approval granted in 2005 to amalgamate the assets and the liabilities of the Company as disclosed in note 2.1.1 to those financial statements.

Report on Other Legal and Regulatory Requirements

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

CHARTERED ACCOUNTANTS

19th June 2013
COLOMBO

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

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

Statement of Comprehensive Income

Year ended 31 December 2012			
	Note	2012 Rs.	2011 Rs.
Revenue	14	10,687,381,356	8,959,271,572
Other Income	15	426,332,095	331,037,860
		11,113,713,451	9,290,309,432
Administration and establishment and marketing expenses	16	(6,224,903,211)	(5,733,112,956)
Finance income	17	704,524,415	516,415,647
Finance cost	17	(1,734,681,104)	(1,933,883,522)
Net finance cost		(1,030,156,689)	(1,417,467,875)
Profit before tax		3,858,653,552	2,139,728,601
Income tax expenses	18	(1,121,112,099)	(751,113,467)
Profit for the year		2,737,541,453	1,388,615,134
Other comprehensive income			
Gain/ (loss) arising from changes in assumptions on computing retirement benefit obligation	11	205,037,774	115,632,060
Total other comprehensive income		205,037,774	115,632,060
Total comprehensive income		2,942,579,227	1,504,247,194
Basic Earnings Per Share	19	13,687.57	6,943.01

The accounting policies and notes on pages 86 to 117 form an integral part of these financial statements.

Report of the independent Auditors on page 81.

Balance Sheet

As at 31st December 2012		31 December		1 January
	Note	2012	2011	2011
		Rs.	Rs.	Rs.
ASSETS				
Non-Current Assets				
Property, Plant and Equipment	5	39,237,879,476	22,799,663,530	14,769,417,308
Deferred Tax Asset	18.2	505,784,614	547,035,271	537,309,175
		39,743,664,090	23,346,698,801	15,306,726,483
Long Term Investments				
Investments in Debentures	6	2,300,000,000	2,300,000,000	300,000,000
		2,300,000,000	2,300,000,000	300,000,000
Current Assets				
Inventories	7	274,910,750	295,251,328	242,014,764
Trade and Other Receivables	8	2,787,562,137	6,115,098,314	7,074,820,194
Investments in Treasury Bills /Bonds Repurchase				
Agreements and Fixed Deposits	20	4,009,746,027	3,943,331,461	6,756,450,615
Cash and Bank Balances	20	415,329,515	271,415,893	271,349,932
		7,487,548,429	10,625,096,996	14,344,635,505
Total Assets		49,531,212,519	36,271,795,797	29,951,361,988
EQUITY AND LIABILITIES				
Equity Attributable to Equity Holders				
Stated Capital	9	20,000,200	20,000,200	20,000,200
Reserves	10	892,726,769	892,726,769	892,726,769
Retained Earnings		3,304,317,084	361,737,857	963,906,263
		4,217,044,053	1,274,464,826	1,876,633,232
Non-Current Liabilities and Deferred Income				
Borrowings	21	37,574,198,744	27,235,423,554	21,511,150,323
Retirement Benefit Obligation	11	2,160,743,758	2,160,443,789	2,019,270,343
Deferred Government Grants	12	1,398,500,574	1,590,602,425	1,850,921,782
		41,133,443,076	30,986,469,768	25,381,342,448
Current Liabilities				
Trade and Other Payables	13	2,281,092,148	1,808,366,723	894,488,536
Borrowings	21	1,265,000,000	1,780,281,966	1,517,381,400
Income Tax Liabilities		634,633,242	422,212,514	281,516,373
		4,180,725,390	4,010,861,203	2,693,386,309
Total Liabilities		45,314,168,466	34,997,330,971	28,074,728,756
Total Equity and Liabilities		49,531,212,519	36,271,795,797	29,951,361,988

I Certify that 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. These financial statements were approved for issue by the board of directors on 17th June 2013



Director

Signed on behalf of the board on 17th June 2013



Director

The accounting policies and notes on pages 86 through 117 form an integral part of the financial statements.

Report of the independent Auditors on page 81.

Colombo

17th June 2013

Statement of Changes in Equity

	Note	Stated Capital Rs.	Other Reserves Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 1st January 2011		20,000,200	892,726,769	963,906,263	1,876,633,232
Dividend Paid	23	-	-	(2,106,415,600)	(2,106,415,600)
Profit for the year		-	-	1,388,615,134	1,388,615,134
Other comprehensive income		-	-	115,632,060	115,632,060
Balance as at 31 December 2011		20,000,200	892,726,769	361,737,857	1,274,464,826
Balance as at 1st January 2012		20,000,200	892,726,769	361,737,857	1,274,464,826
Profit for the year		-	-	2,737,541,453	2,737,541,453
Other comprehensive income		-	-	205,037,774	205,037,774
Balance as at 31 December 2012		20,000,200	892,726,769	3,304,317,084	4,217,044,053

The accounting policies and notes on pages 86 through 117 form an integral part of these financial statements.

Report of the independent Auditors on page 81.

Cash Flow Statement

Year ended 31 December 2012			
	Note	2012 Rs.	2011 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		3,858,653,552	2,139,728,601
Adjustments for			
Depreciation	5	1,010,594,589	1,134,589,318
Exchange (Gain) / Loss		1,439,583,076	1,652,276,673
Income from Investments		(693,098,267)	(505,156,796)
(Profit)/Loss on sales of Property, Plant and Equipment		(40,050,005)	(7,555,160)
Amortization of deferred government grants	12	(159,553,262)	(276,841,358)
Finance cost		295,098,028	281,606,849
Provision for Retirement Benefit Plan	11	340,486,491	351,641,091
Operating Profit before Working Capital Changes		6,051,714,201	4,770,289,218
(Increase)/ Decrease in Inventories		20,340,578	(53,236,564)
(Increase)/ Decrease in Trade and Other Receivables		3,326,331,346	959,721,880
Increase / (Decrease) in Trade and Other Payables		472,725,424	913,878,188
Cash Generated from Operations		9,871,111,550	6,590,652,721
Defined Benefit Plan Costs paid	11	(135,148,748)	(94,835,585)
Interest paid		(295,098,028)	(281,606,849)
Income Tax Paid		(867,440,719)	(620,143,420)
Net cash generated from operating activities		8,573,424,055	5,594,066,867
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property, Plant and Equipment		(17,448,810,535)	(9,165,393,123)
Investment in Debentures	6	-	(2,000,000,000)
Proceeds from Sale of Property, Plant and Equipment		41,254,841	8,112,741
Interest Received		693,098,267	505,156,796
Net cash (used in) / from investing activities		(16,714,457,427)	(10,652,123,586)
Cash Flows from / (Used in) Financing Activities			
Dividend Paid		-	(2,106,415,600)
Loan Receipt	21	10,164,192,115	5,840,884,562
Loan Repayment	21	(1,768,888,004)	(1,509,648,260)
Grant Received during the year		-	16,522,000
Repayment to the Treasury during the year		(32,548,588)	-
Net cash generated from/ (used in) financing activities		8,362,755,523	2,241,342,702
Net Increase/ (Decrease) in Cash and Cash Equivalents		221,722,151	(2,816,714,017)
Cash and Cash Equivalents at the beginning of the year	20	4,203,353,392	7,020,067,408
Cash and Cash Equivalents at the end of the year	20	4,425,075,543	4,203,353,392

The accounting policies and notes on pages 86 through 117 form an integral part of these financial statements.

Notes to the Financial Statements

Year ended 31st December 2012

1. CORPORATE INFORMATION

1.1 General

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

1.2 Principal activities and nature of operations

During the year, the principal activities of the Company were Management of Airports at internationally accepted standards, provision of Air Navigational Services for inbound Aircraft and Aircraft flying through the Sri Lanka Flight Information Region (FIR) and providing other necessary facilities to the users of the Airports.

1.3 Date of authorization for issue

The Financial Statements of Airport and Aviation Services (Sri Lanka) (Private) Limited for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Board of Directors on 17th June 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements have been prepared in accordance with and comply with Sri Lanka Accounting Standards (SLFRSs/LKAS). The financial statements are prepared under the historical cost basis, as modified by fair valuation of certain financial assets and liabilities and present value of defined benefit obligations. These are the company's first financial statements prepared in accordance with SLFRSs and SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standards has been applied.

An explanation of how the transition to SLFRSs/LKASs has affected the reported financial position, financial performance and cash flows of the company is provided in Appendix I, to these financial statements.

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

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

2.1.1 Amalgamation

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

- a) The Voted Fund representing the Government grants for capital expenditure audited by the Auditor General in term of section 14 (2)(c) of the Finance Act no 38 of 1971; and
- b) The Retained Revenue Fund,

which were prepared and presented separately up to the previous year end pending an opinion from the Attorney General.

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

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

The Chairman of the Company on 04 June 2013 approved the amalgamation on the basis that the Company in engaging in its principal activities

deriving economic benefits from the use of the assets recorded in the Company as well as those recorded in the two funds and also accounting for obligations on loan agreements entered into without recording the related liability, thus deviating from fundamental accounting concepts.

2.1.2 Statement of Compliance

The balance sheet, statements of comprehensive income, changes in equity and cash flows, together with accounting policies and notes, ("Financial Statements") of the Company as at 31 December 2012 and for the year then ended together with the comparative information are comply with the Sri Lanka Accounting Standards (SLFRS/LKAS).

2.1.3 Comparative Information

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

2.1.4 Changes in accounting policy and disclosures

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2012 and not early adopted.

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

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

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

2.2 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

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

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

2.3 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities

and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority.

2.4 Inventories

Inventories are stated at the lower of the cost or net realisable value 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 First-in, First-out (FIFO) basis.

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

2.5 Trade and Other Receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

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

2.6 Cash and Cash Equivalents

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

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

2.7 Property, Plant and Equipment

All property, plant and equipment is initially recorded at cost and stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items and also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation

for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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

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

Cost of long term capital projects are carried forward in capital projects work in progress until the projects are completed and the related assets are available for use.

Depreciation begins when an item of property, plant and equipment is available for use and will continue until it is derecognized, even if during that period the item is idle.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their costs to their residual values over their estimated useful lives is disclosed in Note 5.2:

An asset's carrying amount is written down immediately to its recoverable amount if the asset carrying amount is greater than its estimated recoverable amount.

When each major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is de-recognized.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other income/ (losses) net, in the statement of comprehensive income.

Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount the assets are written down to their recoverable amount. Impairment losses are recognized in the income statement unless it reverses a previous revaluation surplus for the same asset.

2.8 Stated capital

Ordinary shares are classified as equity.

2.9 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Liabilities classified as trade and other payables in the balance sheet are those which fall due for payment on demand or within one year from the balance sheet date. Items classified as non-current liabilities are those which fall due for payment beyond a period of one year from the balance sheet date.

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

2.10 Borrowings

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

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

2.11 Borrowing Costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.12 Provisions

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

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

2.13 Retirement Benefit Obligations

Defined Benefit Plan – Gratuity

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

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

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

Gains and losses arising from changes in assumptions used are recognized immediately in the statement of comprehensive income.

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

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

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

2.14 Grants and Subsidies

The monetary grants related to assets are recognized as cost and deferred in the balance sheet

and credited to the income statement over the useful life of the asset.

2.15 Impairment of Non Financial Assets

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

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

2.16 Financial assets

2.16.1 Classification

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

(a) Financial assets at fair value through profit or loss

A financial asset is classified into this category if acquired principally for the purpose of selling in the short term designated by management. Assets in this category are classified as current assets if expected to settle within 12 months; otherwise, they are classified as non-current assets. Derivatives are also categorise as financial assets at fair value thru profit or loss unless they are designated as hedges.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12

months after the end of the reporting period. Loans and receivables of which maturity greater than 12 months classified as non-current asset. The company's loans and receivables comprise "Trade & other receivable and Cash & Cash equivalent" in the balance sheet.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of them within 12 months of the balance sheet date.

(d) Held to maturity investments

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

2.16.2 Recognition and measurement of financial asset

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other gains/(losses) – net, in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of other income when the company's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognized in the income statement as part of other income when the company's right to receive payments is established.

2.17 Impairment of financial assets

(a) Assets carried at amortized cost

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

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

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

in the income statement. If a loan or held – to – maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

(b) Assets classified as available for sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the company uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

2.18 Financial liabilities

The Company's financial liabilities include trade and other payables, bank loans and other borrowings and unfavorable currency forward contract. All other financial liabilities except for financial liabilities at fair value through profit or loss are recognized initially at their fair values and subsequently measured at amortized cost, using the effective interest

method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

2.19 Revenue Recognition

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

- a) **Rendering of Services**
Revenue from rendering of services is recognized in the accounting period in which the services are rendered or performed.
- b) **Interest**
Interest Income is recognized as the interest accrues unless collectability is in doubt.
- c) **Rental income**
Rental income is recognized on an accrual basis.
- d) **Franchise Fee and Concessions**
Franchise fees and concessions are recognized on an accrual basis in accordance with the substance of the relevant agreement.
- e) **Others**
Other income is recognized on an accrual basis.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The company is sensitive to the fluctuations in exchange rates and is principally exposed to fluctuations in the value of the Sri Lanka Rupee

(LKR) against the United States Dollar (USD), Euro, Canadian Dollar and Japanese Yen. The company's functional currency is LKR in which most of the transactions are denominated, and most of other currencies are considered foreign currencies for loan repayment purposes. Certain trade and other receivables and trade and other payables are denominated in foreign currencies.

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

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

Sensitivity of the exchange rate of USD against LKR

	2012		2011	
	Increase in profit (LKR)	Decrease in profit (LKR)	Increase in profit (LKR)	Decrease in profit (LKR)
10% increase		110,022,263		282,104,878
10% decrease	110,022,263		282,104,878	
15% increase		165,033,394		423,157,317
15% decrease	165,033,394		423,157,317	
20% increase		220,044,525		564,209,756
20% decrease	220,044,525		564,209,756	

Sensitivity of the exchange rate of Euro against LKR

	Increase in profit (LKR)	Decrease in profit (LKR)	Increase in profit (LKR)	Decrease in profit (LKR)
10% increase		410,640		1,384,415
10% decrease	410,640		1,384,415	
15% increase		615,960		2,076,623
15% decrease	615,960		2,076,623	
20% increase		821,281		2,768,830
20% decrease	821,281		2,768,830	

Sensitivity of the exchange rate of Japanese Yen against LKR

	Increase in profit (LKR)	Decrease in profit (LKR)	Increase in profit (LKR)	Decrease in profit (LKR)
10% increase		31,514,270		118,080,446
10% decrease	31,514,270		118,080,446	
15% increase		47,271,405		177,120,670
15% decrease	47,271,405		177,120,670	
20% increase		63,028,539		236,160,893
20% decrease	63,028,539		236,160,893	

(ii) Cash flow and fair value interest rate risk

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

(b) Credit risk

The credit risk arises from trade and other receivables from outside parties.

(c) Liquidity risk

Cash flow forecasting is performed by the Finance Division. The Finance Division monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

Surplus cash held by the company over and above balance required for working capital management are invested in short term government securities to mitigate the liquidity risk.

The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

3.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The company assesses solvency prior to declaration of dividend to maintain the dividend ratio. Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Debt is calculated as total borrowings including 'current and non-current borrowings' less cash and cash equivalents as shown in the balance sheet. Total capital is calculated as 'equity' as shown in the balance sheet.

The gearing ratio as at 31 December 2012 was as follows:

	2012	2011
Total net borrowings	34,414,123,204	24,800,958,166
Total equity	4,217,044,053	1,274,464,826
Total capital	38,631,167,257	26,075,422,992
Gearing ratio	89%	95%

3.3 Fair value estimation

The Company had no financial instruments measured at fair value.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical accounting estimates and assumptions

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

(a) Defined benefit plan – Gratuity

The present value of the defined benefit plan depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for defined benefit plan include the discount rate. Any changes in these assumptions will impact the carrying amount of defined benefit plan. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligations. Other key assumptions for defined benefit plan are based in part on current market conditions. Additional information is disclosed in Note 11.

(b) Provisions

The Company recognizes provisions when it has a present legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. The recording of provisions requires the application of judgments about the ultimate resolution of these obligations. As a result, provisions are reviewed at each balance sheet date and adjusted to reflect the company's current best estimate.

5. PROPERTY, PLANT & EQUIPMENT

	Land and building	Plant and machinery	Motor vehicles
At 1 January 2011			
Cost or revalued amount	9,196,097,965	3,619,138,535	646,536,620
Accumulated depreciation	(2,101,934,902)	(3,197,188,364)	(493,339,926)
Net book amount	7,094,163,063	421,950,171	153,196,694
Year ended 31 December 2011			
Opening net book amount	7,094,163,063	421,950,171	153,196,694
Additions	-	15,928,941	74,022,780
Transfer from WIP	10,521,093	3,850,631	-
Transfers - Cost	(13,227,281)	(1,534,376)	(2,095,250)
- Accumulated depreciation	-	830,139	939,890
Disposals -Cost	-	(329,647)	(7,035,629)
- Accumulated depreciation	-	329,638	7,035,618
Depreciation charge (Note 8)	(168,129,039)	(151,864,178)	(49,572,310)
Closing net book amount	6,923,327,836	289,161,319	176,491,793
At 31 December 2011			
Cost or revalued amount	9,193,391,777	3,637,054,084	711,428,521
Accumulated depreciation	(2,270,063,941)	(3,347,892,765)	(534,936,728)
Net book amount	6,923,327,836	289,161,319	176,491,793
Year ended 31 December 2012			
Opening net book amount	6,923,327,836	289,161,319	176,491,793
Additions	-	61,188,472	16,573,845
Transfer from WIP	152,576,164	54,938,196	255,000
Transfers - Cost	(9,928,012)	(703,848)	(39,337)
- Accumulated depreciation	147,027	703,656	39,329
Disposals -Cost	(3,178,014)	(2,368,931)	(3,458,063)
- Accumulated depreciation	2,388,050	2,368,922	3,458,057
Depreciation charge (Note 8)	(169,368,486)	(49,379,830)	(56,863,193)
Closing net book amount	6,895,964,565	355,907,956	136,457,433
At 31 December 2012			
Cost or revalued amount	9,332,861,915	3,750,107,973	724,759,966
Accumulated depreciation	(2,436,897,350)	(3,394,200,017)	(588,302,535)
Net book amount	6,895,964,565	355,907,956	136,457,431

Furniture, fittings and office equipments	Communication and navigation equipments	Other equipments	Airport infrastructure	Capital work in progress	Total
888,783,185 (686,301,974)	4,930,863,891 (3,070,769,848)	868,049,682 (725,769,944)	7,388,248,875 (3,244,607,636)	751,611,149 -	28,289,329,902 (13,519,912,594)
202,481,211	1,860,094,043	142,279,738	4,143,641,239	751,611,149	14,769,417,308
202,481,211	1,860,094,043	142,279,738	4,143,641,239	751,611,149	14,769,417,308
26,944,727	153,727,850	-	-	8,995,813,857	9,266,438,155
1,079,301	166,388,680	115,144,658	9,534,167	(306,518,530)	-
(11,706,011)	(2,134,433)	(94,250,296)	8,430,861	-	(116,516,786)
10,376,089	1,780,100	4,419,983	7,500	-	18,353,701
(4,092,103)	(113,514)	(1,686,100)	-	-	(13,256,993)
4,091,910	113,510	1,479,186	-	-	13,049,862
(55,881,688)	(366,510,788)	(41,120,552)	(304,743,162)	-	(1,137,821,717)
173,293,436	1,813,345,448	126,266,617	3,856,870,605	9,440,906,476	22,799,663,530
901,009,099 (727,715,663)	5,248,732,474 (3,435,387,026)	887,257,944 (760,991,327)	7,406,213,903 (3,549,343,298)	9,440,906,476 -	37,425,994,278 (14,626,330,748)
173,293,436	1,813,345,448	126,266,617	3,856,870,605	9,440,906,476	22,799,663,530
173,293,436	1,813,345,448	126,266,617	3,856,870,605	9,440,906,476	22,799,663,530
17,817,977	-	133,216,058	22,581,401	17,218,076,334	17,469,454,087
9,732,019	17,710,405	1,908,524	4,616,569	(241,736,877)	-
(28,969,572)	(5,985,751)	24,822,981	-	(414,223)	(21,217,762)
28,948,827	(2,910,542)	(24,245,900)	-	-	2,682,397
(6,920,288)	(286,001)	(5,071,198)	(179,477)	-	(21,461,972)
7,083,738	569,286	4,389,064	-	-	20,257,117
(54,941,277)	(381,487,362)	(33,788,373)	(265,669,400)	-	(1,011,497,921)
146,044,860	1,440,955,483	227,497,773	3,618,219,698	26,416,831,710	39,237,879,476
892,669,235 (746,624,375)	5,260,171,127 (3,819,215,644)	993,065,428 (765,567,655)	7,433,232,396 (3,815,012,698)	26,416,831,710 -	54,803,699,750 (15,638,789,314)
146,044,860	1,440,955,483	227,497,773	3,618,219,698	26,416,831,710	39,237,879,476

5. PROPERTY, PLANT & EQUIPMENT (Contd...)

- 5.1 Land and building includes a land amounting to Rs. 795,033,468 as at 31 December 2012 (2011-Rs. 796,405,688) which is located at Katunayake.

The construction of second airport at Mattala is carried out on a land to be leased out to the company in the future from the government of Sri Lanka.

Part of the buildings of the airport are constructed on government land.

Property, Plant and Equipments includes fully depreciated assets amounting to Rs.8,310,214,213. (2011-Rs.8,070,590,660)

- 5.2 The useful lives of the assets is estimated as follows

Buildings	Over 50 Years
Plant and Machinery	Between 04 to 20 Years
Motor Vehicles	Between 04 to 15 Years
Furniture, Fittings and Office Equipment	Over 08 Years
Communication and Navigation Equipment	Over 10 Years
Other Equipment	Over 08 Years
Airport Infrastructure	Between 08 to 50 Years

6. INVESTMENT IN DEBENTURES

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

	31 December		1 January
	2012	2011	2011
Debentures at Weighted Average rates of interest 6 month TB Rate + 0.75%	800,000,000	800,000,000	300,000,000
Debentures at fixed rate 11%	1,500,000,000	1,500,000,000	-
	<u>2,300,000,000</u>	<u>2,300,000,000</u>	<u>300,000,000</u>

7. INVENTORIES

	31 December		1 January
	2012	2011	2011
	Rs.	Rs.	Rs.
General	40,456,599	38,963,363	34,588,846
Electronics	107,287,156	103,910,462	100,063,319
Engineering	126,146,707	110,593,411	106,943,212
Fuel	10,621,955	8,541,481	7,784,423
Fire	19,420,228	22,084,517	20,108,425
Goods in Transit	27,432,290	63,995,242	23,693,830
Stock - Lounge	465,291	348,188	-
	<u>331,830,226</u>	<u>348,436,664</u>	<u>293,182,055</u>
Less : Allowance for Slow moving Stock	(56,919,476)	(53,185,336)	(51,167,291)
	<u>274,910,750</u>	<u>295,251,328</u>	<u>242,014,764</u>

8. TRADE AND OTHER RECEIVABLES

	31 December		1 January
	2012	2011	2011
	Rs.	Rs.	Rs.
Trade Debtors	2,513,292,359	1,770,573,292	1,263,809,042
Less: Provision for Doubtful Debts	(505,429,809)	(395,611,227)	(334,745,389)
	2,007,862,550	1,374,962,065	929,063,653
Debtors	568,616,220	365,231,160	453,478,457
Advances and Prepayments	135,524,732	4,309,658,750	5,622,900,554
Less: Provision for Doubtful Debts	(9,045,507)	(9,045,507)	(9,045,507)
	2,702,957,995	6,040,806,468	6,996,397,157
Loans to Company Officers (a)	84,604,142	74,291,846	78,423,037
	2,787,562,137	6,115,098,314	7,074,820,194

Loans to company officers are receivable from employees in equal monthly installments over the loan period not exceeding 4 years. Interest is charged on employee loans at a rate of 4.2% per annum. As per accounting policy the employee loans are measured at amortized cost using the effective interest method of each reporting date. The effective interest on employee loans were 4.2% in 2012 (2011: 4.2 %)

Loans to company officer (a)	31 December		1 January
	2012	2011	2011
Less than 1 year	47,281,352	43,336,112	44,913,754
More than 1 year	37,322,790	30,955,734	33,509,283
	84,604,142	74,291,846	78,423,037

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

	31 December		1 January
	2012	2011	2011
Trade receivables	2,007,862,550	1,374,962,065	929,063,653
Loans to company officers	84,604,142	74,291,846	78,423,037
	2,092,466,692	1,449,253,911	1,007,486,690

As of 31 December 2012, trade receivables of Rs. 594,238,945 (2011: Rs. 500,145,236) were fully performing.

As of 31 December 2012, trade receivables of Rs.1,318,226,371 (2011: Rs.4,958,690,186) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2012	2011
	Up to 3 months	604,909,424
3 to 4 months	455,441,438	307,662,220
4 to 5 months	257,875,509	439,488,734
	1,318,226,371	1,003,291,586

8. TRADE AND OTHER RECEIVABLES (Contd...)

As of 31 December 2012, trade receivables of Rs.1,304,805,525 (2011: Rs. 986,627,759) were impaired. The amount of provision was Rs. 514,475,316 as of 31 December 2012 (2011: Rs. 404,656,734). The individual impaired receivables mainly relate to Aeronautical and Non - Aeronautical activities. It was assessed that a portion of the receivables is expected to be recovered. The aging of these receivables is as follows:

	2012 Rs.	2011 Rs.
5 to 14 months	853,176,128	345,515,225
Over 14 months	451,629,496	641,112,534
	1,304,805,624	986,627,759

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

	2012	2011
US Dollars	1,031,777	513,186
	1,031,777	513,186

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

	2012	2011
At 1 January	404,656,734	343,790,896
Provision made during the year	115,556,068	63,362,901
Reversals made during the year	(5,737,486)	(2,497,063)
At 31 December	514,475,316	404,656,734

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

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

9. STATED CAPITAL

		31 December		1 January
		2012	2011	2011
Fully Paid Ordinary Shares	Number	200,002	200,002	200,002
		200,002	200,002	200,002
	Rs.	20,000,200	20,000,200	20,000,200
		20,000,200	20,000,200	20,000,200

10. RESERVES

		31 December		1 January
		2012	2011	2011
		Rs.	Rs.	Rs.
Net Assets taken over from Airports Authority		892,726,769	892,726,769	892,726,769
		892,726,769	892,726,769	892,726,769

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

11. RETIREMENT BENEFIT OBLIGATION

Movement in the liability recognised in the balance sheet is as follows

		31 December		1 January
		2012	2011	2011
		Rs.	Rs.	Rs.
As at beginning of the year		2,160,443,789	2,019,270,343	1,947,374,895
Current Service cost		146,046,550	154,762,233	142,903,738
Interest Cost		194,439,941	196,878,858	189,869,053
Payments made during the year		(135,148,748)	(94,835,585)	(98,196,440)
(Gain)/ Loss arising from changes in the Assumptions used		(205,037,774)	(115,632,060)	(162,680,903)
As at end of the year		2,160,743,758	2,160,443,789	2,019,270,343

The principle assumptions used in determining the cost of employee benefits were:

		31 December		1 January
		2012	2011	2011
Discount Rate		11.00%	9.75%	9.75%
Future Salary Increases		9.00%	10.00%	10.00%
Staff Turnover		3.00%	3.00%	3.00%
Retirement Age		57 years	57 years	57 years

12. DEFERRED GOVERNMENT GRANTS

	31 December		1 January
	2012	2011	2011
	Rs.	Rs.	Rs.
Treasury Grant			
At the beginning of the year	1,590,602,426	1,850,921,782	1,827,964,859
Received during the year	-	-	36,913,538
Treasury Receipts	-	16,522,002	-
Amortized during the year	(159,553,262)	(276,841,358)	(13,956,615)
Refund to the Treasury	(32,548,590)	-	-
At the end of the year	1,398,500,574	1,590,602,426	1,850,921,782

12.1 The above grants include

- a) A sum of Rs 34,265,267 received in 2010 from the Telecommunication Regulatory Commission as a grant received for the Microwave link established between Piduruthalagala and Rathmalana during 2008, which had been amortised effective from 2008 over the useful life of the communication equipment estimated as 8 years.
- b) An amount of Rs 8,565,499,362 received from the Department of Treasury, accounted as Treasury contributions in the Voted Fund in previous years prior to the amalgamation and now accounted as a grant representing amounts received for BIA development projects since incorporation of the Company. On amalgamation the amounts received prior to 2001 utilised for assets purchased prior to that year had been adjusted to opening equity balance. The balance Rs 1,383,609,967 represents the grants received for assets acquired subsequent to 2001 and is being amortised over the useful life periods of those assets.

13. TRADE AND OTHER PAYABLES

	31 December		1 January
	2012	2011	2011
	Rs.	Rs.	Rs.
Trade Payable	2,095,406,074	1,609,473,723	700,922,701
Refundable Deposits	172,672,247	184,791,610	179,464,445
Other Payables	13,013,826	14,101,390	14,101,390
	2,281,092,148	1,808,366,723	894,488,536

14. REVENUE

	2012 Rs.	2011 Rs.
Aeronautical	2,707,752,347	2,142,091,945
Non-Aeronautical	7,973,706,758	6,811,527,696
	10,681,459,105	8,953,619,641
Miscellaneous Revenue	5,922,251	5,651,931
	10,687,381,356	8,959,271,572

14.1 Aeronautical & Non-Aeronautical Revenue

	2012 Rs.	2011 Rs.
Aeronautical Revenue		
Landing Charges	1,816,131,089	1,405,166,783
Landing Charges - Domestic	5,725,853	7,886,138
Over Flying Charges	606,929,808	499,563,462
Aerobridge Charges	278,965,597	229,475,562
Total	2,707,752,347	2,142,091,945
Non-Aeronautical Revenue		
Embarkation Levy	2,327,804,050	2,130,669,400
Entry Permits	130,449,914	107,045,361
Entry Permits - PVG	11,581,224	11,119,539
Parking Fees - Vehicles	49,774,311	54,792,706
Rental	1,911,484,153	1,664,220,651
Concession	2,550,985,530	2,052,249,438
Turnover Payment - SLCS 10%	52,388,824	28,468,683
Franchise Fee on Ground Handling - SLA	195,431,021	177,641,771
Ground Handling - Domestic - RMA/BIA	17,673,752	14,346,935
Franchise Fee - SLCS 4%	175,105,063	148,956,310
Training Centre Income	1,879,948	6,936,521
Other Non-Aeronautical Income	549,148,968	415,080,381
Total	7,973,706,758	6,811,527,696
Total Aeronautical and Non-Aeronautical Revenue	10,681,459,105	8,953,619,641

15. OTHER INCOME

	2012 Rs.	2011 Rs.
Amortisation of Government Grant	159,553,262	276,841,358
Operating Profit from Fuel Filling Station (Note 15.1)	12,086,403	7,959,021
Net Foreign Exchange gained on Transactions / Translations	254,692,430	46,237,481
	426,332,095	331,037,860

15.1 Operating Profit from Fuel Filling Station

	2012 Rs.	2011 Rs.
Sales	903,189,801	789,726,508
Less: Cost of Sales	(876,361,453)	(769,793,070)
Gross Profit	26,828,348	19,933,438
Less : Personnel & Administration Expenses	(14,784,993)	(12,026,505)
Sundry Income	43,048	52,088
Operating Profit	12,086,403	7,959,021

16 EXPENSES BY NATURE

	2012 Rs.	2011 Rs.
Directors' Emoluments	12,204,711	12,357,649
Staff cost	3,053,394,324	2,491,084,059
Defined Contribution Plan Costs - EPF & ETF	313,861,210	259,308,795
Defined Benefit Plan Costs - Gratuity	135,194,340	351,641,091
Auditor's remuneration- Audit	670,728	1,102,857
- Non audit	552,450	384,500
Depreciation	1,010,594,589	1,134,589,318
Allowance for Doubtful Debts	109,818,553	60,865,868
Repair and maintenance	209,649,355	242,362,996
Electricity expenses	721,470,739	612,855,395
Legal Fees	553,855	801,447
Donations	519,012	726,400
Other expenses	656,419,345	565,032,581
	6,224,903,211	5,733,112,956

17 NET FINANCE COST

	2012 Rs.	2011 Rs.
Finance cost		
Loan Interest	(295,098,028)	(281,606,849)
Exchange Loss on Loan Conversion	(1,439,583,076)	(1,652,276,673)
	(1,734,681,104)	(1,933,883,522)
Finance income		
Interest on Treasury Bills/Bonds Under Repurchase Agreements	312,190,572	342,716,113
Interest on USD Fixed Deposits	16,433,730	47,835,427
Interest on Rupee Fixed Deposits	98,521,945	74,484,747
Interest on Debenture	265,952,021	40,120,509
Interest on Staff Loans	11,426,147	11,258,851
	704,524,415	516,415,647
	(1,030,156,689)	(1,417,467,875)

18. INCOME TAX EXPENSE

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

Income Statement	2012 Rs.	2011 Rs.
Current Income Tax		
Current Tax Charge	1,079,034,528	775,463,082
Under/(Over) Provision of taxes in respect of prior years	826,918	(9,343,079)
	1,079,861,446	766,120,003
Deferred Income Tax		
Change / (Reversal) in respect of Deferred Taxation (18.2)	41,250,653	(15,006,536)
	1,121,112,099	751,113,467

18.1 Reconciliation between Current Tax Expense and tax on company's profit before tax;

	2012 Rs.	2011 Rs.
Profit Before Tax	3,858,653,552	2,139,728,601
Expenses not deductible for tax	656,116,524	976,211,345
Income not subject to Tax	(510,798,290)	(433,391,850)
Taxable Profit	4,003,971,786	2,682,548,096
Statutory Tax Rate %	28%	28%
Current Income Tax Expense	1,121,112,099	751,113,467
	1,121,112,099	751,113,467

18.2 Deferred Income Tax related to the following

	Balance Sheet		Income Statement	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Deferred Tax Liability				
Capital allowance for the tax purpose	127,436,683	86,527,034	40,909,645	23,747,800
	127,436,683	86,527,034		
Deferred Tax Assets				
Defined Benefit Plan	605,008,252	604,924,263	(83,989)	(39,528,567)
Provision for Doubtful Stocks and Debtors	24,043,675	22,998,116	(1,045,559)	(565,053)
Deffered Government Grants	4,169,370	5,639,926	1,470,556	1,339,284
	633,221,297	633,562,305	341,008	(38,754,336)
Deferred Income Tax charge/(reversal)	-	-	41,250,653	(15,006,536)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows;

Deferred Tax Assets	633,221,297	633,562,305
Deferred Tax Liability	(127,436,683)	(86,527,034)
Deferred Tax Assets (Net)	505,784,614	547,035,271

19. BASIC EARNINGS PER SHARE

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

19.2 The following reflects the income and share data used in the basic Earnings Per Share computation.

Amount Used as the Numerator	2012 Rs.	2011 Rs.
Profit Attributable to equity holders of the company	2,737,541,453	1,388,615,134

Number of Ordinary Shares Used as the Denominator	2012 Number	2011 Number
Weighted Average number of Ordinary Shares in issue (Note 9)	200,002	200,002
Basic Earnings per share	13,687.57	6,943.01

20. INVESTMENTS/CASH AND BANK BALANCES

Components of Investment/Cash and Bank Balances

	31 December		1 January
	2012 Rs.	2011 Rs.	2011 Rs.
Fixed Deposits	1,425,093,142	1,387,035,030	2,219,792,933
Investments in Treasury Bills /Bonds Under Repurchase Agreements	2,584,652,885	2,556,296,431	4,536,657,682
Cash and Bank Balances	4,009,746,027 415,329,515	3,943,331,461 271,415,893	6,756,450,615 271,349,932
	4,425,075,542	4,214,747,354	7,027,800,547
Unfavourable Cash & Cash Equivalents balance			
Bank Overdraft (Note 21)	-	11,393,962	7,733,139
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement	4,425,075,542	4,203,353,392	7,020,067,408

21 BORROWINGS

Loans	31 December		1 January
	2012	2011	2011
	Rs.	Rs.	Rs.
Balance at the beginning of the Year	29,004,311,558	23,020,798,584	17,282,179,227
Receipts during the Year	10,164,192,114	5,840,884,562	5,472,660,000
	39,168,503,672	28,861,683,146	22,754,839,227
Less : Payments during the Year	(1,768,888,004)	(1,509,648,261)	(1,444,343,044)
Exchange loss	1,439,583,076	1,652,276,673	1,710,302,401
Balance at the end of the Year	38,839,198,744	29,004,311,558	23,020,798,584
Bank overdraft (Note 20)	-	11,393,962	7,733,139
Current portion of borrowings	1,265,000,000	1,780,281,966	1,517,381,400
Non-Current portion of borrowings	37,574,198,744	27,235,423,554	21,511,150,323
	38,839,198,744	29,015,705,520	23,028,531,723

The loan wholly consists of loans obtained through General Treasury. The fair value of borrowings equals their carrying amount as the impact of discounting is not significant.

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

	2012	2011
	%	%
United States Dollar (USD)	2.00	2
Japanese Yen		
- Colombo International Airport Development Project	2.75	2.75
- Bandaranayake International Airport Development Project	1.8	1.8
- Bandaranayake International Airport Development Project	0.75	0.75
Euro		
- Modern RMA Air Traffic Control System - Tranche-2	4.9	4.9
- Modern RMA Air Traffic Control System - Tranche-3	2.1	2.1
Canadian Dollar	0.75	0.75

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

	2012	2011
Canadian Dollar	112,500	150,000
Japanese Yen	10,318,977,000	11,386,609,000
Euro	1,237,500	1,342,942
United States Dollar (USD)	178,963,172	102,625,532

22 FINANCIAL INSTRUMENTS - BY CATEGORY

	31 December		1 January
	2012	2011	2011
	Rs.	Rs.	Rs.
Financial assets			
Loans and receivables			
Trade and Other Receivables (Note 8)	2,652,037,405	1,805,439,564	1,451,919,640
Cash and Bank Balances (Note 20)	415,329,515	271,349,932	405,540,116
	<u>3,067,366,920</u>	<u>2,076,789,496</u>	<u>1,857,459,756</u>
Held to maturity financial assets			
Investment in debentures (Note 6)	2,300,000,000	2,300,000,000	300,000,000
Investments in Treasury Bills /Bonds Repurchase Agreements and Fixed Deposits (Note 20)	4,009,746,027	3,943,331,461	6,756,450,615
	<u>6,309,746,027</u>	<u>6,243,331,461</u>	<u>7,056,450,615</u>
Financial liabilities			
Other financial liabilities			
Borrowings (Note 21)	38,839,198,744	29,015,705,520	23,028,531,723
Trade and other payables (including statutory liabilities) (Note 13)	2,281,092,148	1,808,366,723	894,488,536
	<u>41,120,290,891</u>	<u>30,824,072,244</u>	<u>23,923,020,258</u>

23 DIVIDEND PER SHARE

The dividends paid in 2011 amounting to Rs.2,106,415,600, as shown in the statement of changes in equity, includes dividends paid in advance in respect of the year ended 31 December 2012 of Rs. 544,770,000. The balance dividend in respect of the year ended 31 December 2012 is to be proposed at the Annual General Meeting on 28 June 2013. These financial statements do not reflect this dividend payable. Accordingly, the Company has not considered a deemed dividend tax in respect of the year ended 31 December 2012.

24 CONTINGENCIES

The Company is the defendant in the following lawsuits filed against the company. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss. Accordingly, no provision is made in the financial statements, in respect of these lawsuits.

- (a) Members of two Taxi Associations have filed 133 cases against the Company demanding approximately Rs. 62 Mn for breach of contract. Court order directed AASL to pay Rs.40,000 each to the Plaintiffs of two cases in the District Court. However, as a result of an appeal these cases are to be re - tried at the District Court of Negombo.
- (b) Arbitration proceedings referred by late A.S.K Fernando of Floorshine Service against the Company demanding Rs.80 Mn for termination of contract is laid by until his testamentary proceedings are concluded.

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

25 COMMITMENTS

25.1 Capital Expenditure commitments

	2012 Rs.Mn	2011 Rs.Mn
Contracted but not Provided for	211.7	214.1
Authorized by the Board, but not Contracted for	3,808.2	3,017.4
	4,019.9	3,231.5

25.2 Financial Commitments

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

26. RELATED PARTY TRANSACTIONS

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.

	Entities either controlled or in which significant influence is held by the State**	
	2012 Rs.	2011 Rs.
Balance Sheet		
Assets		
Investments	6,309,746,026	6,243,331,461
Trade & Other Receivables -		
Deposits & Advance	51,533,294	42,243,704
Interest Receivable	102,274,061	87,529,235
Liabilities		
Trade & Other Payables -		
Advances Received	57,243,840	86,941,051
Dividend	-	2,106,415,600
Income Statement		
Revenue		
Aeronautical	1,089,993,864	726,837,581
Non-Aeronautical Revenue	1,576,251,502	1,514,414,965
Embarkation Levy	2,327,804,050	2,130,669,400
Payments made to the Treasury	2,063,986,032	1,791,255,109
Interest Income	693,098,268	505,156,796
Expenditure		
Supply of Goods & Services	2,504,346,837	2,294,800,684
Taxes	1,293,080,869	1,076,246,689

26. RELATED PARTY TRANSACTIONS (Contd...)

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

26.1 Transactions with Key Management Personnel*

	2012 Rs.	2011 Rs.
Short-term employee benefits	12,204,711	12,357,649
	12,204,711	12,357,649

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

27 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

Explanations of transition to SLFRSs

As stated in Note 2.1 these are the first financial statements prepared in accordance with SLFRSs.

The accounting policies set out in note 4 have been applied in preparing the Financial statements for the year ended 31 December 2012

The comprehensive information presented in these financial statements in the 31st December 2011 and in the preparation of opening SLFRSs statement of Financial Position in 1 January 2011. (The Company first date of transition.)

Preparing its opening SLFRS statements of Financial Position the company has adjusted, amount reported previously in the financial statement prepared in accordance with GAAP. An explanation of how the transition from previous GAAP to SLFRS has effected the company's Financial Position.

Reconciliation of shareholders equity due to Amalgamation and due to adoption of SLFRS

	Note	31-Dec 2011 Previous GAAP (Company Accounts)	31.12.2011 Effect of Amalgamation	Effect of SLFRS
ASSETS				
<i>Non-Current Assets</i>				
Property, Plant and Equipment	A	1,806,557,314	15,982,971,269	5,010,134,947
Deferred Tax Asset		567,067,330	-	(20,032,059)
<i>Long Term Investments</i>				
Investment in debentures		2,300,000,000	-	-
Total Non Current Assets		4,673,624,644	15,982,971,269	4,990,102,888
<i>Current Assets</i>				
Inventories		295,251,328	-	-
Trade and Other Receivables	B	2,391,668,742	3,749,981,398	(26,551,826)
Investments in Treasury Bills /Bonds/ Repurchase Agreements and Fixed Deposits		3,883,172,125	60,159,336	
Cash and Bank Balances		269,178,629	2,237,264	
Total Current Assets		6,839,270,824	3,812,377,998	(26,551,826)
Total Assets		11,512,895,468	19,795,349,267	4,963,551,062
EQUITY AND LIABILITIES				
<i>Equity Attributable to Equity Holders</i>				
Stated Capital		20,000,200	-	-
Reserves		91,624,459	801,102,310	-
Retained Earnings	C	6,617,484,119	(11,219,297,324)	4,963,551,062
Total Equity		6,729,108,778	(10,418,195,014)	4,963,551,062
<i>Non-Current Liabilities and Deferred Income</i>				
Long Term Loans		-	27,235,423,555	-
Retirement Benefit Liability		2,160,443,789	-	-
Deferred Government Grants		20,142,593	1,570,459,832	
Total Liabilities and Deferred Income		2,180,586,382	28,805,883,387	-
<i>Current Liabilities</i>				
Trade and Other Payables		2,169,593,835	(361,227,111)	-
Borrowings		11,393,962	1,768,888,004	-
Income Tax Liabilities		422,212,511	-	-
Total Current Liabilities		2,603,200,308	1,407,660,893	-
Total Equity and Liabilities		11,512,895,468	19,795,349,266	4,963,551,062

31-Dec 2011 Amalgamated	01-Jan 2011 Previous GAAP (Company Accounts)	01.01.2011		31-Dec 2011 Amalgamated
		Effect of Amalgamation	Effect of SLFRS	
22,799,663,530	1,215,698,548	8,933,351,318	4,620,367,442	14,769,417,308
547,035,271	554,701,014	-	(17,391,841)	537,309,175
2,300,000,000	300,000,000	-	-	300,000,000
25,646,698,801	2,070,399,562	8,933,351,318	4,602,975,601	15,606,726,483
295,251,328	242,014,763	-	-	242,014,763
6,115,098,314	1,539,682,107	5,545,156,937	(10,018,850)	7,074,820,194
3,943,331,461	5,543,049,308	1,213,401,307	-	6,756,450,615
271,415,893	259,874,934	11,474,998	-	271,349,932
10,625,096,996	7,584,621,112	6,770,033,242	(10,018,850)	14,344,635,504
36,271,795,797	9,655,020,674	15,703,384,560	4,592,956,751	29,951,361,987
20,000,200	20,000,200	-	-	20,000,200
892,726,769	91,624,459	801,102,310	-	892,726,769
361,737,857	6,351,619,780	(9,980,670,270)	4,592,956,753	963,906,263
1,274,464,826	6,463,244,439	(9,179,567,960)	4,592,956,753	1,876,633,232
27,235,423,555	-	21,511,150,323	-	21,511,150,323
2,160,443,789	2,019,270,343	-	-	2,019,270,343
1,590,602,425	24,925,751	1,825,996,032	-	1,850,921,782
30,986,469,769	2,044,196,094	23,337,146,355	-	25,381,342,448
1,808,366,724	858,330,631	36,157,905	-	894,488,536
1,780,281,966	7,733,139	1,509,648,260	-	1,517,381,399
422,212,512	281,516,371	-	-	281,516,371
4,010,861,202	1,147,580,141	1,545,806,165	-	2,693,386,307
36,271,795,797	9,655,020,674	15,703,384,560	4,592,956,753	29,951,361,987

Explanations of transition to SLFRSs

ANNEX - 1

Reconciliation of Comprehensive Income Statement due to Amalgamation and due to adoption of SLFRS

	Previous GAAP Company 31.Dec 2011	Effect of Amalgamation	Effect of SLFRS	Amalgamated under SLFRS31.12.2011
Revenue	7,168,016,440	1,791,255,109	-	8,959,271,573
Other Income	58,979,660	272,058,200	-	331,037,860
	7,226,996,100	2,063,313,309	-	9,290,309,433
Administration and establishment and marketing	(4,592,224,174)	(726,581,437)	(414,307,345)	(5,733,112,956)
Finance income	485,981,260	22,636,118	7,798,605	516,415,647
Finance cost	-	(1,933,883,522)	-	(1,933,883,522)
Net finance cost	485,981,260	(1,911,247,404)	7,798,605	(1,417,467,875)
Profit before tax	3,120,753,186	(574,515,532)	(406,508,740)	2,139,728,601
Income Tax expenses	(748,473,247)	-	(2,640,220)	(751,113,467)
Profit for the year	2,372,279,939	(574,515,532)	(409,148,960)	1,388,615,134
Other comprehensive income				
Gain/ (loss) arising from changes in Actuarial assumptions	-	115,632,060	-	115,632,060
Total other comprehensive income	-	115,632,060	-	115,632,060
Total comprehensive income	2,372,279,939	(458,883,472)	(409,148,960)	1,504,247,194

Notes to the Reconciliation

NOTE-A

Property, Plant and Equipment

SLFRS requires to identify components of property, plant and equipment and assess useful lives of property, plant and equipment at each reporting date.

The company has reassessed the useful lives of Building, Road and Roadways and Transformers as follows;

Type of Asset	Rate Used	Revised Rate
Plant & Machinery		
- Generators	25%	5%
- Transformers	25%	5%
-Baggage Belt	25%	6.67%
- Chiler/Cooling Towers	25%	10%
- Water Supply and Sewage Treatment	25%	12.50%
- Others	25%	25.00%
Equipment Communication		
- System-Multiflexer & Radio Comm	12.5%	10%
- System-Network Implementation	12.5%	20%
- Communication Equipment Others	12.5%	10%
Equipment Navigational	12.5%	10%
Building	5%	2%
Road & Roadways	5%	2%
Taxiways	5%	2%
Apron Expansion	5%	2%
Fire Vehicles	25%	6.67%
Aero Bridges	12.50%	6.67%
Sewage Disposal System	25%	10%
Water supply and Drainage system	12.50%	10%
Runway	5%	2%

Statement of Financial Position

	31-12- 2011	01-01- 2011
As reported under Previous GAAP	17,789,528,586	10,149,049,866
(Increase)/Decrease Accumulated Depreciation	5,010,134,947	4,620,367,444
As reported under SLFRSs	22,799,663,533	14,769,417,310

Statement of Comprehensive income

	31.12.2011	01.01.2011
Depreciation	5,010,134,947	4,620,367,444

NOTE- B**Trade Debtors & Receivables****(i) Staff Loan**

The company provides loans to employees at concessionary rate. In accordance with SLFRS, these employee loans are to be fair valued. The fair value of the employee loans are determined by discounting expected future cash flows using market related rates for the similar loans. The difference between the cost and fair value of employees loans are recognised as pre paid staff cost.

Statement of Financial Position

	31-12-2011	01-01-2011
As reported under previous GAAP	83,006,075	87,882,560
	<u>83,006,075</u>	<u>87,882,560</u>
Employee loans initially recognized at fair value	74,291,846	78,423,037
Prepaid staff cost	15,202,556	16,156,111
	<u>89,494,402</u>	<u>94,579,148</u>

Statement of comprehensive income

	31-12-2011	01-01-2011
Staff Benefit Cost	(22,384,737)	(14,377,871)
Interest Income	28,873,064	21,074,459
Adjustment before Income Tax	<u>6,488,327</u>	<u>6,696,588</u>

(ii) Trade & Other Receivable (With out staff loan)

The current practice of bad and doubtful debt provisioning which is based on aging was replaced with impairment to comply with the requirement of SLFRS.

Statement of Financial Position

	31-12-2011	01-01-2011
As reported under Previous GAAP - Trade Debtors & Receivable (Without staff loan)	6,058,644,065	6,996,956,484
(Increase)/Decrease Accumulated Bad debt provision	(33,040,153)	(16,715,438)
As reported under SLFRSs	<u>6,025,603,912</u>	<u>6,980,241,046</u>

NOTE- B Trade Debtors & Receivables (Contd...)

Statement of Comprehensive Income

	31.12.2011	01.01.2011
Bad Debt provision	(33,040,153)	(16,715,438)

(iii) Summery - Trade & Other receivable (including staff Loan)

	31-12-2011	01-01-2011
As reported under Previous GAAP - Trade Debtors & Receivable	6,141,650,140	7,084,839,044
(Increase)/Decrease Accumulated Bad debtprovision	(26,551,826)	(10,018,850)
As reported under SLFRSs	6,115,098,314	7,074,820,194

Statement of Comprehensive Income

	31.12.2011	01.01.2011
Bad Debt provision	(26,551,826)	(10,018,850)

NOTE - C

Increase/(Decrease) in Retained Earnings due to above changes.

	31- 12- 2011	01-01-2011
As reported under GAAP	6,617,484,119	6,351,619,780
Cummulative effect of adjustments		
Impact due to the adoption of SLFRS		
Property Plant & Equipment	Note A	
	5,010,134,947	4,620,367,444
Staff Loan	Note B	
	6,488,327	6,696,588
Bad Debtors Provision	Note B	
	(33,040,153)	(16,715,438)
Deferred Tax		
	(20,032,059)	(17,391,840)
	4,963,551,062	4,592,956,754
Cummulative Impact due to process of amalgamation	(11,219,297,324)	(9,980,670,270)
	361,737,857	963,906,264

Voted Fund Accounts (Development Projects)

Auditor General's Report



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அறிப்பதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No } TC/B/AASL/2012/FA

ඔබේ අංකය
உமது இல
Your No. }

දිනය
திகதி
Date } 05 June 2013

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 2012 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 2012 comprising the balance sheet as at 31 December 2012 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 read in conjunction with 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 Company in terms of Section 14(2)(c) of the Finance Act appear in this report. This report is also my detailed report in terms of Section 13(7)(a) of the Finance Act 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 will be 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 Generally Accepted Accounting Principles 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.

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.

අංක 306/72 පොල්දූව පාර,
වත්තරමුල්ල, ශ්‍රී ලංකාව

இல. 306/72, பொல்துவ வீதி,
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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 Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 described 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 2012 and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

2.2 Comments on Financial Statements

2.2.1 Unexplained Differences

According to the financial statements of the Company, the money deposited with a Divisional Secretariat for the acquisition of lands amounted to Rs.8,801,648 whereas according to the letter of confirmation of the Divisional Secretariat, that amounted to Rs.8,028,052. Thus an unexplained difference of Rs.773,596 was observed.

2.2.2 Lack of Evidence for Audit

The evidence indicated against the following items of account had not been furnished to audit.

Item	Value Rs.	Evidence not made available
(a) Trade and Other Receivables	45,895,528	Letter of confirmation of balances
(b) Trade and Other Payables	50,463,740	Letter of confirmation of balances
(c) Reimbursement of Customs Charges	41,833,127	Originals of the documents relating to the payment of Customs charges reimbursed and the documents to establish that the equipment had been taken over by the Bandaranaike International Airport Stages II Step I Development Project

3. FINANCIAL REVIEW

3.1 Financial Results

According to the financial statements presented the operations of Company relating to the Government Grants for Capital Expenditure for the year under review had resulted in a net surplus of Rs.782,480 as compared with the corresponding surplus of Rs.5,772,870 for the preceding year, thus indicating a deterioration of Rs. 4,990,390 in the financial results. The decrease of Rs.5,075,507 in the income from interest had been the main reason for the deterioration.

4. OPERATING REVIEW

4.1 Transactions of Contentious Nature

Even though the construction works and installations of the Bandaranaike International Airport Development Programme Stages II Step I had been completed by the end of the year 2007 and the final payments including the retention money had been fully paid to the relevant Contractor and the Engineer's Project Completion Report had been issued in July 2007, a sum of Rs.192,000,000 had been obtained by the Company from the Treasury in the year 2010 by making representations regarding the reimbursement of Customs charges related to those construction contracts. Out of that money, a sum of Rs.139,833,127 comprising a sum of Rs.98,000,000 in the year 2010 and Rs.41,833,127 in the year 2012 had been paid to the contractor.

It is not possible to concur in audit with regard to the payment of a sum of Rs.139,833,127 without adequately ensuring the going concern of the foreign construction company established solely for this construction work and establishing the accuracy of the Customs transactions five years after the completion of the Project.

4.2 Resources of the Company given to other State Institutions

Contrary to the provisions in Section 8.3.9 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the following resources of the Company had been made available to various Government Ministries and other Institutions.

Item	Observation
Human Resources	Twenty five persons from the staff of the Company had been released in the year under review to various Government Ministries. The salaries and allowances of 24 out of those amounting to Rs. 13,360,008 had been paid by the Company.
Motor Vehicles	Six motor vehicles and another motor vehicles of the Company had been made available to the Line Ministry and to another Ministry respectively and the Company had spent a sum of Rs.2,515,252 as the expenditure on maintenance and fuel, for six motor vehicles out of them during the year under review.

5. SYSTEMS AND CONTROLS

The 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 and divesting of lands
- (b) Contract Administration.
- (c) Reimbursement of Customs Duties and Taxes.



H.A.S Samaraweera
Auditor General

Income Statement

Year ended 31st December 2012

	2012 Rs.	2011 Rs.
Interest Income	742,311	5,817,818
Profit / (Loss) on Disposal of Fixed Assets	591,059	-
	1,333,371	5,817,818
Administrative Expenses	550,891	44,949
Surplus / (deficit) for the year	782,480	5,772,870

The accounting policies and notes on pages 125 through 134 form an integral part of the financial statements.

Balance Sheet

As at 31st December 2012

	Note	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
ASSETS				
Non-Current Assets				
Property Plant & Equipments	2	23,280,847,430	23,274,287,411	23,268,943,135
Projects in Progress	2	24,945,123,846	8,601,857,844	166,848,605
		48,225,971,276	31,876,145,255	23,435,791,740
Current Assets				
Trade & Other Receivables	3	56,146,408	4,219,212,849	5,544,487,373
Cash and Cash Equivalents	4	9,670,166	62,269,490	116,455,469
		65,816,575	4,281,482,339	5,660,942,842
Total Assets		48,291,787,851	36,157,627,593	29,096,734,582
ACCUMULATED FUND AND LIABILITIES				
Treasury & other Contributions	5	44,314,096,376	34,182,452,849	28,325,046,285
Net Assets Taken Over From Airport Authority		801,102,309	801,102,309	801,102,309
Accumulated Fund	6	(120,157,640)	(120,940,120)	(126,712,988)
Total Fund		44,995,041,045	34,862,615,038	28,999,435,606
Current Liabilities				
Trade and Other Payables	7	3,296,746,806	1,295,012,555	97,298,976
		3,296,746,806	1,295,012,555	97,298,976
Total Fund and Liabilities		48,291,787,851	36,157,627,593	29,096,734,582

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



Chairman



Director

The accounting policies and notes on pages 125 through 134 form an integral part of the financial Statements

Cash Flow Statement

Year Ended 31st December

	Note	2012 Rs.	2011 Rs.
Cash Flows From / (Used in) Operating Activities			
Surplus/(deficit) for the year		782,480	5,772,869
Adjustments for			
Capital Expenditure Written off		524,991	-
(Profit) / Loss on disposal of Property, Plant and Equipment		(591,059)	-
Operating Profit / (Loss) before Working Capital Changes		716,411	5,772,869
(Increase) / Decrease in Receivables		4,163,066,440	1,325,274,524
Increase / (Decrease) in Trade and Other Payables		2,001,734,251	1,197,713,579
Net Cash From / (Used in) Operating Activities		6,165,517,103	2,528,760,972
Cash Flows from / (Used in) Investing Activities			
Proceeds from sale of fixed Assets		4,969,821	-
Incurred on Projects	2	(16,343,266,002)	(8,435,009,239)
Purchase of fixed assets		(11,463,773)	(5,344,276)
Net Cash Flows from / (Used in) Investing Activities		(16,349,759,954)	(8,440,353,515)
Cash Flow From Financing Activities			
Treasury & other Contributions (Local)		(32,548,588)	16,522,001
Treasury & other Contributions (Foreign)		10,164,192,116	5,840,884,562
Net Cash flow from/(used in) Financing Activities		10,131,643,528	5,857,406,563
Net Increase / (Decrease) in Cash and Cash Equivalents			
		(52,599,322)	(54,185,979)
Cash and Cash Equivalents at the beginning of the year			
	4	62,269,490	116,455,469
Cash and Cash Equivalents at the end of the year			
	4	9,670,166	62,269,490

The accounting policies and notes on pages 125 through 134 form an integral part of the financial statements.

Notes to the Financial Statements

Year Ended 31st December 2012

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 2012 and for the year then ended have been prepared on the historical cost basis with generally accepted accounting principles 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 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 31/12/2012 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.902,850,587/-

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.

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 & Disposal Profit. This results in a profit of Rs.782,480/- for the year and Accumulative loss of Rs. 120,157,640/- up to year as at 31/12/2012.

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 31.12.2012.

2. PROPERTY, PLANT AND EQUIPMENT

2.1 Gross Carrying Amounts

	Balance As at 01.01.2012 Rs.	Additions Rs.	Transfers Rs.	Disposals Rs.	Balance As at 31.12.2012 Rs.
Land	750,865,689	-	(1,372,221)	-	749,493,468
Road & Roadways	192,220,184	-	-	-	192,220,184
Buildings	4,619,863,074	-	738,076	-	4,620,601,150
Communication Equipment	995,210,000	990,061	-	-	996,200,061
Plant & Machinery	3,213,466,181	1,014,914	(3,621)	-	3,214,477,474
Motor Vehicles	86,546,027	255,000	-	(2,446,023)	84,355,004
Fire Rescue Vehicles	167,477,115	-	-	-	167,477,115
Structures	56,340,251	884,114	-	-	57,224,365
Navigational Equipment	3,176,570,829	-	199,654	-	3,176,770,484
Equipment	113,519,658	-	(86,880)	(1,636,254)	111,796,524
Furniture	405,686,383	4,317,210	-	(296,485)	409,707,108
Hangars	7,188,779	-	-	-	7,188,779
Fixture & Fittings	158,337,209	86,963	-	-	158,424,172
Fencing & Gate	42,488,994	-	-	-	42,488,994
Apron	1,318,475,929	-	-	-	1,318,475,929
Taxiways	411,311,373	-	-	-	411,311,373
Electrical Installation	472,393,007	-	-	-	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	257,364,012	-	-	-	257,364,012
Equipment - Office	51,076,855	2,487,186	-	-	53,564,041
Equipment - Other	325,108,368	1,428,325	-	-	326,536,693
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	23,274,287,411	11,463,772	(524,991)	(4,378,762)	23,280,847,430

2.2 In the Course of Construction

	Balance As at 01.01.2012 Rs.	Incurred during the Year Rs.	Transfers Rs.	Disposals Rs.	Balance As at 31.12.2012 Rs.
Projects in Progress	8,601,857,844	16,354,729,774	(11,463,772)	-	24,945,123,846
	8,601,857,844	16,354,729,774	(11,463,772)	-	24,945,123,846
Total Gross Carrying Amount	31,876,145,255	16,354,729,774	(11,988,763)	(4,378,762)	48,225,971,275

2.3 Depreciation (Memorandum only)

	Balance as at 01.01.2012 Rs.	Charge for the year Rs.	Disposals Rs.	Balance As at 31.12.2012 Rs.
At Cost				
Road & Roadways	67,262,544	8,773,394	-	76,035,938
Buildings	1,384,551,876	220,076,460	-	1,604,628,336
Communication Equipment	699,369,536	106,466,017	-	805,835,553
Plant & Machinery	3,212,462,317	316,573	(3,621)	3,212,775,269
Motor Vehicles	85,434,318	535,483	(2,446,023)	83,523,778
Fire Rescue Vehicles	167,477,114	-	-	167,477,114
Structures	56,340,251	16,003	-	56,356,254
Navigational Equipment	2,670,366,624	221,474,327	-	2,891,840,952
Equipment	113,375,278	7,188	(1,636,254)	111,746,211
Furniture	342,504,801	13,422,175	(296,485)	355,630,490
Hangars	7,188,779	-	-	7,188,779
Fixture & Fittings	124,089,331	17,234,645	-	141,323,976
Fencing & Gate	34,407,129	3,612,521	-	38,019,650
Apron	621,446,510	51,310,022	-	672,756,532
Taxiways	170,645,168	20,565,569	-	191,210,736
Electrical Installation	352,656,575	39,985,739	-	392,642,314
Aero Bridges	711,095,830	126,656,051	-	837,751,881
Sewage Disposal System	280,690,397	-	-	280,690,397
Water Supply & Drainage System	183,301,836	31,140,887	-	214,442,723
Equipment - Office	47,640,463	432,872	(83,913)	47,989,423
Equipment - Other	313,862,557	97,838	-	313,960,395
Equipment - Fire & Safety	65,904,116	11,241,676	-	77,145,792
Runway	1,717,253,841	29,485,148	-	1,746,738,989
Terminal Building	2,449,441,310	-	-	2,449,441,310
Ancillary Buildings	835,309,214	-	-	835,309,214
	16,714,077,713	902,850,587	(4,466,295)	17,612,462,005

2.4 Net Book Values (Memorandum only)

	2012 Rs.	2011 Rs.
At Cost	30,613,509,271	15,163,442,705
Total Carrying Amount of Property, Plant and Equipment	30,613,509,271	15,163,442,705

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:

	2012	2011
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%	25.0%
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

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Deposits & Advance (3.1)	51,806,995	4,214,850,628	5,506,433,795
Amount Due From Related Parties (3.2)	1,839,413	1,839,413	35,533,402
Other Receivables (3.3)	2,500,000	2,522,808	2,520,176
	56,146,408	4,219,212,849	5,544,487,373
3.1 Deposits & Advances			
Deposits			
Div.secretary - Katana	4,083,648	4,083,648	4,083,648
Div.secretary - Gampaha	4,718,000	4,718,000	4,718,000
Div.secretary - Mt.Lavinia	34,263,647	24,976,147	24,972,147
Advance on Project	1,268,015	298,250	-
Advance to Suppliers	181,217	1,028,411	-
<u>Mobilization Advance</u>			
China Harbour Engineering Co.Ltd	7,292,468	4,179,746,172	5,472,660,000
	51,806,995	4,214,850,628	5,506,433,795

3.2 Amounts Due From Related Parties

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Current Account With Company	-	-	26,993,989
Current Account With Retained Revenue	1,839,413	1,839,413	3,539,413
	1,839,413	1,839,413	30,533,402
3.3 Other Receivables			
Debtors (Sri Lankan Airline)	2,500,000	2,500,000	2,500,000
Interest Income Receivable	-	22,808	20,176
	2,500,000	2,522,808	2,520,176

**4. CASH AND CASH EQUIVALENTS
IN THE CASH FLOW STATEMENT**

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Bank Balances			
Bank Of Ceylon Corporate Branch C/A 0000000451	8,625,879	983,122	5,418,150
Bank Of Ceylon Corporate Branch C/A 0000001600	1,044,287	1,127,032	3,037,319
Investment in Treasury Bills	-	60,159,336	108,000,000
Total Cash and Cash Equivalents	9,670,166	62,269,490	116,455,469

5. TREASURY & OTHER CONTRIBUTIONS

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Treasury Contribution - (Local)	8,564,950,774	8,597,499,362	8,580,977,361
Treasury Contribution - (Foreign)	35,553,382,798	25,389,190,683	19,548,306,120
Defence Ministry Contribution	109,661,415	109,661,415	109,661,415
Ministry of Tourism & Civil Aviation Contribution	40,000,000	40,000,000	40,000,000
Retained Revenue Contribution	32,000,000	32,000,000	32,000,000
AASL Contribution	14,101,390	14,101,390	14,101,390
	44,314,096,376	34,182,452,849	28,325,046,285

6. ACCUMULATED FUND

As at beginning of the year	(120,940,120)	(126,712,989)	(125,675,246)
Surplus / (Deficit) for the year	782,480	5,772,869	(1,037,743)
As at end of the year	(120,157,640)	(120,940,120)	(126,712,989)

7. TRADE AND OTHER PAYABLES

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Amounts Due to Related Parties (7.1)	1,944,777,088	475,775,413	
Creditors (7.2)	50,463,740	92,298,976	92,298,976
Retention	1,301,505,979	726,938,166	-
	3,296,746,806	1,295,012,555	92,298,976
7.1. Amounts Due To Related Parties			
Current Account With Company	1,944,777,088	475,775,413	
	1,944,777,088	475,775,413	-
7.2 Trade Creditors			
Taisei Mitsubishi Joint Venture	50,465,849	92,298,976	92,298,976
VAT Control A/C	(2,110)	-	
	50,463,740	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

Report of the Auditor General on the accounts relating to the Government Grants of the Airport and Aviation Services (Sri Lanka) Limited for capital expenditure for the year ended 31st December 2012 in terms of Section 14 (2) (c) of the Finance Act No.38 of 1971

Reference is made to the above report under reference SC/A/AASL/FA/11 dated May 09, 2013 and we wish to submit our comments as follows;

2.2. Comments on Financial Statements

2.2.1 Unexplained differences

- a. Money Deposited with Divisional Secretariat, Katana - Land Acquisitions Rs. 8,801,648/=

As per the confirmation received by us from the Divisional Secretary- Katana dated 12.10.2011 had confirmed the first and second deposits (shown below) amounting to Rs.6, 801,648.24 as received. (A copy of confirmation is attached).

(1) 31.12.1997 Divisional Secretary – Katana	Rs.2,083,648.24	Confirmation Available
(2) 16.12.1998 Divisional Secretary – Katana	Rs.4,718,000.00	Confirmation Available
(3) 22.02.2008 Divisional Secretary – Katana	Rs.2,000,000.00	Confirmation to be received
	<u>Rs.8,801,648.24</u>	

2.2.2 Lack of Evidence for Audit

a. Trade & Other Receivables - Rs. 45,895,528/-.

Divisional Secretary Dehiwala / Mt. Lavinia	- Rs. 27,222,147
Ceylon Electricity Board	- Rs. 7,037,500
Mobitel Ltd	- Rs. 4,000
Sri Lankan Air Lines	- Rs. 2,500,000
Dharmadasa Constructions	- Rs. 7,292,468

Relevant letters were sent to the above parties on 30th January 2013 requesting them to confirm their balances directly to the Auditor General's Department with a copy to us. Confirmations are yet to be received.

Current Account with Retained Revenue Fund - Rs. 1,839,413

A Confirmation for the above balance is received and a copy of which is attached.

b. Trade & Other Payables

Taisei Mitsubishi Joint Venture – Rs.50, 465,849

A letter dated 22nd March 2013 was sent requesting to confirm above balance directly to the Auditor General's Department with a copy to us. Confirmation is yet to be received.

c. Reimbursement of Custom Duties & Taxes – Rs.41,833,127/-

All the correspondence which is related to the above payments are available for inspection including the followings.

- a. Original / Certified CUSDEC Forms
- b. Original / Certified Invoices
- c. Project Director's / Engineer's Certification
- d. Bill of Ladings / Airway Bills & other related information (where necessary)

3. Financial Review

3.1 Financial Results

Reduction in net profit (Interest Income) for the year to Rs.782,480/- compared to the net profit (Interest Income) of Rs. 5,722,869/- for the previous year mainly due to the reduction in value of deposits of voted funds in the bank. During the year due payments were made by utilizing voted funds.

4. Operating Review

4.1 Transactions of contentious nature

As per the Clause 73.3 of the Conditions of Contract, it was agreed to reimburse custom duties paid on project related items imported.

This delay of payment to the contractor was mainly due to two main reasons;

- 1) AASL received the funds for this purpose from the Treasury on 12th December 2010.
- 2) When AASL was scrutinizing relevant original documents, there were issues and hence payment process got further delayed.

Finally, after scrutinizing the all supporting correspondence, Rs.41,833,127 was paid to the contractor during 2012 and the excess funds of Rs. 32,548,588 was refunded to the Treasury on 3rd October 2012.

4.2 Resources given to other Public Institutions

Human Resources

Since the AASL comes under the purview of Civil Aviation Ministry, on their request few personnel was released to the Ministry to attend AASL related works with the prior approval of the AASL Management.

Motor Vehicle

In 2011, the Ministry Civil Aviation was formed via separation of the Ministry of Ports & Civil Aviation. Thus, soon after Ministry of Civil Aviation was formed the Ministry did not have either Resources or approved budget to acquire vehicles. Therefore, only 8 (Eight) vehicles have been loaned to the Aviation Ministry on temporarily basis on request.

Since the vehicles are released to the Ministry on temporarily basis, AASL is undertaking the repair costs to maintain the vehicle in good condition.

5. Systems and Controls

a. Acquisitions & Transfer of Lands

Acquisitions of lands, Transfer of lands and compensation to land owners are done under the provisions of Land Acquisition Act.

Regarding the payment of compensation to the land owners, a report on compensation for land owners is obtained from the respective Acquisition Officer, who decides the amount of payment based on procedures as per the Land Acquisition Act.

b. Contract Administration

Contract Administration is 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 Customs Duties & Taxes

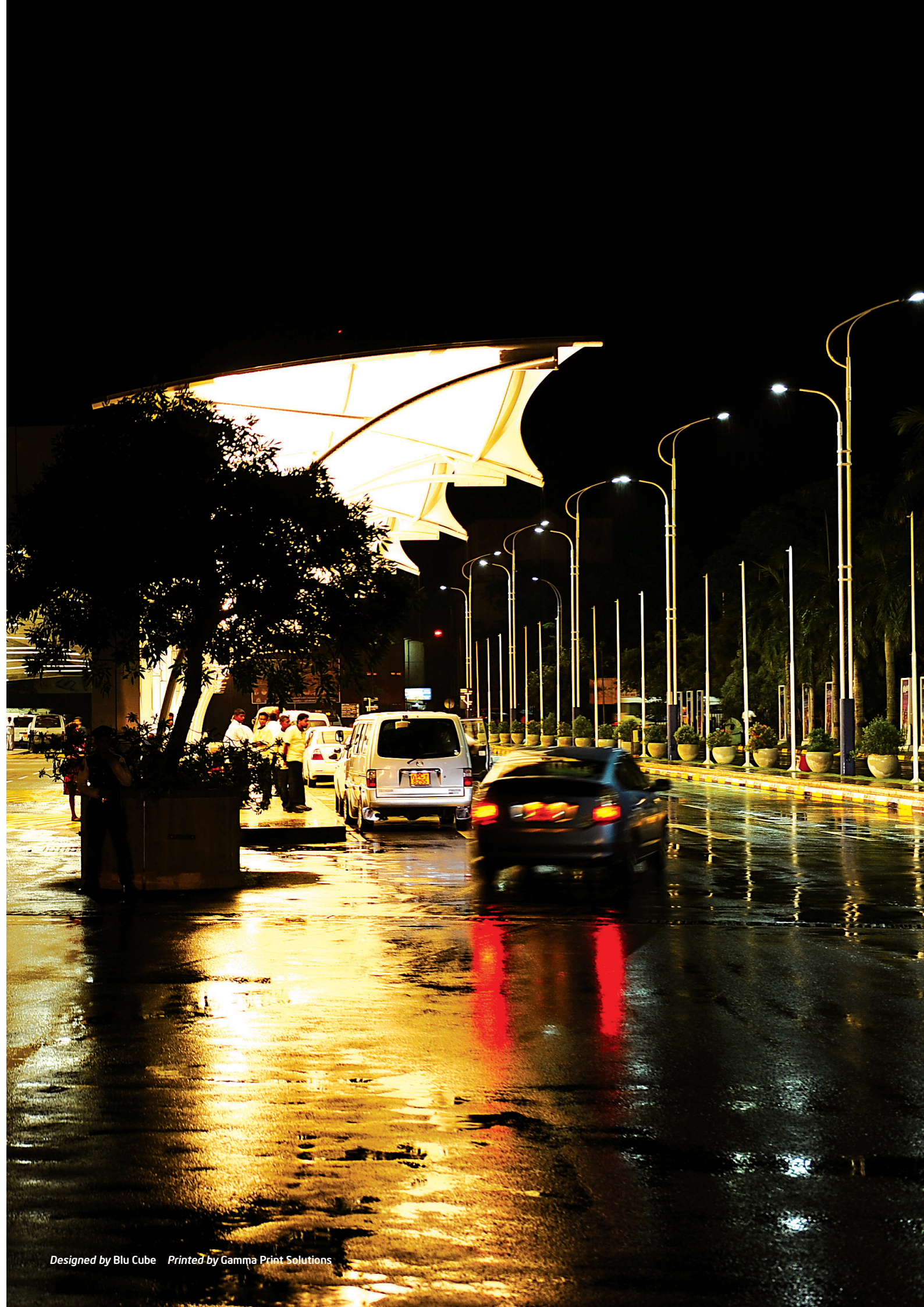
Reimbursements are done as per the Contract Agreement, on the production of all related correspondence including cusdecs and other relevant documents which are certified by the Engineer as well as the Project Director.

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

Corporate Information

Company Registration Number	: PV 7931 (Companies Act, No.7 of 2007)
Date of Incorporation	: 23 rd February 1982
Legal Form	: Limited Liability Company
Chairman	: Mr. Prasanna J Wickramasuriya <i>WWW RWP RSP</i>
Vice Chairman	: Mr. Kamal S Ratwatte
Executive Director	: Mr. Yohan Jayaratne
Other Non Executive Directors	: Mr.Yoga Perera Mr. Kosala Wickramanayake Dr. D S Jayaweera Mr. Ananda Goonatilleke Ms. Shanika Gopallawa Mr. J R U De Silva
Company Secretary	: Mrs. M C G Mahipala
Registered Office	: Bandaranaike International Airport, Katunayake,
Other Locations of Operations	: Ratmalana & Mattala
VAT Registration Number	: 1040827697000
Auditors	: PricewaterhouseCoopers
Bankers	: Bank of Ceylon





Airport & Aviation Services (Sri Lanka) Ltd.
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