



Airport and Aviation Services  
(Sri Lanka) Ltd.

**Connect  
in Colombo**



The Bandaranaike International Airport (BIA) is a hub airport in the South Asian region, recognised for its modern facilities and standards. We connect people from across the world who travel through Sri Lanka for work or pleasure and we make the experience, not just convenient, but enjoyable.

**Connect  
in Colombo**

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## Vision

To be the friendliest and best airport service provider in the Asia region.

## Mission

To create competitively advantageous airport & aviation facilities and services to all users, and ensure stakeholder satisfaction.

# Financial Highlights

Year Ended 31 December In Rs. Mn.	AASL			AMALGAMATED **		
	2009	2008	+/- % *	2009	2008	+/- % *
Turnover	5,491	5,961	-8%	6,924	6,989	-1%
Operating expenses before depreciation & Interest	3,980	4,163	4%	3,980	4,176	5%
EBITDA	1,511	1,798	-16%	2,944	2,813	5%
Dividends	200	200	-	200	200	-
Depreciation of fixed assets	70	56	-25%	1,943	2,075	6%
Finance costs	-	-	-	320	318	-1%
Profit Before Taxation	1,441	1,742	-17%	681	420	62%
Income Tax	506	573	12%	-	-	-
Profit After Taxation	934	1,169	-20%	681	420	62%
Profit attributable to equity shareholders	934	1,169	-20%	681	420	62%
Cash at the year end	4,962	4,999	-1%	5,601	6,013	-7%
<b>Key Financial Ratios</b>						
Return on equity	15.8%	22.6%		2.1%	1.3%	

\* Subject to rounding differences ("+" Favourable, "-" Adverse)

\*\* AASL results combined with Retained Revenue Fund Accounts (Pages 84-94) & Voted Fund Accounts (Pages 96-109)

# Performance Highlights

	2009 Rs. Mn.	2008 Rs. Mn.	2007 Rs. Mn.	2006 Rs. Mn.
<b>Financial Highlights</b>				
Net Profit Before Tax	1,441	1,742	2,469	2,120
Total AASL Revenue (Before Loan Repayment)	6,796	6,845	6,199	5,006
Shareholders Funds as at December 31st	5,901	5,167	4,190	2,772
Total Fixed Assets (WDV) as at December 31st	939	377	160	109
Total Current Assets as at December 31st	7,187	6,934	5,838	4,282
Total Current Liabilities as at December 31st	949	939	1,041	1,053
Total Capital Expenditure For The Year	631	296	84	22
Cash & Cash Equivalents at the Year End	4,962	4,999	4,617	3,294
<b>Operational Highlights</b>				
International Flight Movements	Nos. 28,624	31,764	33,395	33,189
Passenger Movements *	Nos. 4,242,356	4,642,831	4,898,891	4,798,274
Cargo Movements **	M.T. 138,067	151,952	163,570	170,907
Total No. of Employees as at December 31st	Nos. 3,182	3,132	3,001	3,005
<b>Highlights In Ratios</b>				
Net Profit Before Tax To Shareholders Funds	% 24.4	33.7	58.9	76.5
Net Profit Before Tax To Total Revenue	% 21.2	25.4	39.8	42.3
Total Revenue To Total Assets	Times 0.8	0.9	1.0	1.1
Current Assets To Current Liabilities	Times 7.6	7.4	5.6	4.1
Total Assets Per Employee	Rs'000 2,774	2,551	2,138	1,584
Total Cost of Employment Per Employee	Rs'000 836.8	937.0	661.3	524.5
Aircraft Handled Per Employee	9	10	11	11
No. of Passengers Per Aircraft	148	146	147	145
No. of Passengers Per Employee	1,333	1,482	1,632	1,597
Freight (M. Tonnes) Per Employee	43.4	48.5	54.5	56.9
Total Cost Per Flight Handled	Rs'000 141.49	132.8	86.0	70.3

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

\*\* Cargo movements include export, import and transshipment (counted twice) cargo. Air mail is excluded.

Rs. 1,441 Mn

Net Profit Before Tax

Amount that defined us this year...  
And made our success.



# 28,624

Number of International Flights Handled

# 4,242,356

Total Number of Passengers

# 138,067<sub>MT</sub>

Cargo Handled

Key numbers play an important role in our performance. And it is something we at Airport & Aviation Services (Sri Lanka) Ltd, take this very seriously. Which is why, all year round we work hard to make sure we are always soaring above the rest. In the year ahead, we are determined to climb, even higher.

Every year, around

**5 million**

passengers travel  
through the BIA in  
Colombo, in transit, on  
holiday or work.







# Swap stories in Colombo

# A Heritage of Global Connections



## It began...

In November 1944, when 52 States met in Chicago, U.S., to address matters related to international aviation, flights across borders and other relevant legal, economic and technological issues. The outcome – the signing of the International Civil Aviation Convention. The 96 articles on air travel set out the privileges, restrictions and best practices that were to direct the contracting States. In 1950, Sri Lanka achieved a milestone in its aviation history, when the country became a participant of the Convention.

## The journey continues...

Based on the guidelines drawn up in the Convention, the International Civil Aviation Organisation (ICAO) was established with the aim of carrying out the administrative functions. The objectives of the ICAO are to develop the values and practices of international air navigation and transport. By adopting International Standards and Recommended Practices (SARPs) and sanctioning Procedures for Air Navigation Services (PANS), the ICAO enables and facilitates improved air safety, efficiency and regularity.

## Aviation in Sri Lanka...

As a member of the International Civil Aviation Convention, the role of the Government of Sri Lanka is twofold; operational and regulatory. Ensuring that ICAO guidelines are carried out effectively in the area of air safety is important. This is

because of the need to promote Sri Lanka within the international aviation industry, as a safe destination to travel to.

Initially, the Government of Sri Lanka handled both operational and regulatory tasks. This later changed with the formulation of the Airports Authority and Act No. 46 of 1979. The Airports Authority was entrusted with operations, while the Director General of Civil Aviation retained regulatory functions.

As the fastest mode of travel, the Aviation Industry has a pivotal task in the national economy; through the direct facilitation of transporting passengers, cargo and in the development of tourism. The Government of Sri Lanka oversees the overall legal, economic and technical aspects; in providing and managing aviation services in the country and within the Flight Information Region (FIR).

## AASL's Role...

The management of the Airport has been entrusted to the Airport & Aviation Services (Sri Lanka) Limited (AASL), a limited liability company registered under the Companies Act. AASL sees that the airports are maintained at international standards, provides air navigational services for inbound aircraft and those flying through the Sri Lanka FIR.

To date, all shares of the company are held by the State. Funding

for all large scale infrastructure development is provided by the Government; through domestic funds voted in the Annual Government Budget or long term foreign funding sourced by the Government.

The Ministry of Civil Aviation carries out Government Policies and monitors operational and regulatory functions relating to Civil Aviation services. The Director General of Civil Aviation was initially responsible for carrying out regulatory functions on behalf of the Government. Since December 2002, this has now been transferred to the Civil Aviation Authority.

# 25 Years of Aviation in Sri Lanka

Sri Lanka's civil aviation industry was born in the 1930's with the construction of an aerodrome in Ratmalana which served a largely administrative function.

The slow growth experienced by the industry in the early years is a reflection of the historical and social conditions the country faced at that time. Since then, it has come a long way to be what it is today.

The outbreak of World War 2 in the 1940's, saw the development and expansion of runway facilities as a consequence of Sri Lanka (then Ceylon) being under British rule. Once hostilities ceased and with independence dawning on the horizon, airline operations became a symbol of nationhood and there was the growing realisation that the growth of the aviation industry could be a catalyst for national development. In 1947, the country's first national carrier – Air Ceylon - inaugurated international flights from Colombo to Madras via Jaffna and since then the number of international flights out of Sri Lanka has grown considerably.

During the 1960's and 70's the Royal Air Force and Air Ceylon offered domestic flights from the Ratmalana Airport to destinations such as Jaffna, China Bay in Trincomalee, Batticaloa, Ampara and Weerawila to name a few. These destinations with their fascinating tourist attractions, proved to be popular among government employees. Domestic

air travel was subsequently taken over by the Sri Lanka Air Force and Upali Aviation, while Air Taxis of the Maharajah Organization operated charter flights to most of the local airports in the country. Passengers requesting flights ranged from local and overseas tourists to businessmen. Aviation was not restricted to domestic flights, and international travel on Air Lanka which was inaugurated in 1979, also began to increase in popularity. International flights were eventually shifted to the new airport at Katunayake. With the onset of civil riots in July 1983 however, domestic aviation operations came to a sudden halt and although attempts were made to resume local flights, it did not meet with much success until several years later.

Following the signing of the Ceasefire Agreement with LTTE rebels in 2002, which heralded a period of temporary peace, several local airlines commenced domestic operations to destinations such as Jaffna, Trincomalee and Ampara. Sri Lankan Airlines (former Air Lanka) also began domestic operations using amphibian aircraft to and from the Bandaranaike International Airport in Katunayake, to a number of tourist destinations around the country. Gregory Lake in Nuwara Eliya, Victoria and Randenigala reservoirs, Koggala and Weerawila were among those that became increasingly popular destinations for both local and overseas passengers. These flights were unique, because they were

not restricted to precise straight-line air routes, but were allowed to circle around the areas of interest enabling the passengers to enjoy the landscape and its scenic beauty. This proved to be a success, winning over people who had never previously considered exploring the country beyond the familiar suburbs. However, these operations were suspended once again with the re-commencement of hostilities in the North and East of the country.

A significant event in Sri Lanka's aviation history was the partial privatisation of Sri Lankan Airlines (then Air Lanka) in 1998, under a ten year management contract with the Emirates Group, ending in 2008. This significantly changed the course of the airline's development and fashioned it into what it is today. Sri Lankan Airlines is a highly recognised global carrier, serving 45 destinations in 25 countries across Europe, the Middle East, South Asia, South East Asia and the Far East. It is also one of the chief foreign carriers operating to India, with 90 weekly flights to 11 destinations and is the largest carrier to Maldives with direct flights from Europe.

The advent of peace now prevails since the elimination of terrorism in Sri Lanka. This era now offers numerous development opportunities in the country's domestic and international aviation sectors in the year's ahead.



## Time line of events

<b>1932</b>	Governor of Ceylon negotiates to extend the airmail service between the United Kingdom and India via Ceylon.
<b>1934</b>	State Council of Ceylon makes a decision to construct an aerodrome at Ratmalana.
<b>1936</b>	Aerodrome at Ratmalana is completed and Aero Club of Ceylon provides the public with flight opportunities.
<b>1937</b>	The first Air Navigation regulations are published. The first 3 aircraft bearing the Ceylon registration mark are entered into the aircraft register.
<b>1938</b>	The Ratmalana Airport is inaugurated on the 28th of February. The Director of Public Works is appointed Director of Civil Aviation.
<b>1939</b>	An emergency landing is conducted in Puttalam.
<b>1942</b>	With the outbreak of World War 2, the Royal Air Force takes control of functions at the Ratmalana Airport.
<b>1945</b>	The United Kingdom-Australia - 'LANCASTRIAN' service commences operations via Ceylon.
<b>1946</b>	The Department of Civil Aviation is established under the Ministry of Transport. The Ratmalana aerodrome is taken over from the Royal Air Force for civil flying.
<b>1947</b>	Air Ceylon - the National Carrier is set up under the Ministry of Communication and Works and inaugurates international flights from Colombo to Madras via Jaffna.
<b>1948</b>	Sri Lanka is appointed member of the International Civil Aviation Organisation (ICAO).
<b>1950</b>	The Navigation Act No. 15 of 1950 is promulgated. An Academy to train pilots is established.
<b>1955</b>	Air Ceylon enters into an agreement with KLM Royal Dutch Airlines.
<b>1959</b>	International flights operations are shifted to Katunayake.



<b>1963</b>	Development program of Katunayake Airport commences. The RAF Runway is extended from 1,840 to 3,350 meters with assistance from the Government of Canada. Terminal Building is constructed to hold 150,000 passengers per year.
<b>1968</b>	Construction of a larger terminal building, apron and taxiway takes place.
<b>1979</b>	Inauguration of the National Carrier – Air Lanka. Airport Authority Act of 1979 promulgated and the Airport Authority is established.
<b>1980</b>	The Airport Authority takes over civil airport operations from the Department of Civil Aviation.
<b>1981</b>	The Government decides to establish a government owned company to handle civil aviation in Sri Lanka.
<b>1982</b>	Amendments are made to the Air Navigation Act.
<b>1983</b>	Establishment of the Airport and Aviation Services (Sri Lanka) Ltd. (AASL), to oversee the overall development, maintenance, administration and service delivery of the airports.
<b>1984</b>	Development program launched to construct a new runway, passenger terminal building, cargo complex control tower and navigation services and maintenance complex.
<b>1987</b> <b>1988</b>	Development program is completed and the new runway and passenger terminal building is commissioned with an annual handling capacity of 3.5 Mn. passengers.
<b>1992</b>	The Air Cargo Village inaugurated.
<b>2005</b>	A completely new outlook is commissioned for the Airport in November with the construction of a finger pier with eight Aero Bridges, expanded terminal, lounges and other facilities.
<b>2008</b>	AASL celebrated 25 years service to aviation.
<b>2009</b>	His Excellency the President Mahinda Rajapakse placed the foundation stone for the Hambantota International Airport (HIA).

## Chairman's Message



## A New Culture to Face New Challenges

*Through the endless skies on a journey...  
Friendly faces and friendly smiles.... all the way...*



As I pen this message, a sense of accomplishment flashes through my mind, for we have paddled through another successful year, a year of revolutionary changes in our organisational culture. As a state organisation vested with a public duty and facing global competition, we began to view the industry from a new perspective, a view that enabled us to see ourselves as well. We made changes to our outlook at all levels and our company anthem that you would have probably heard over the telephone is only a minute indicator of this new outlook.

The entire nation breathed a sigh of relief and witnessed the dawn of the long awaited era of peace that would set the stage for the long delayed national development. Amidst this great achievement, we too recorded a successful financial year and delivered value to you while firmly gearing ourselves for rapid development in the coming years.

On a global scale, things were not as rosy as we would have liked them to be and we had our share of challenges. With the global recession having had a devastating effect on the aviation industry and the International Air Transport Association (IATA) having identified 2009 as the worst year in history for the industry, the consequent decline in the passenger and cargo movements did have its toll on our operations. Nevertheless, I am pleased to announce to you that we have successfully recorded a Profit after Tax amounting to Rs. 934 Mn.

### **Our Sources of Revenue**

While consolidating and expanding our avenues of aeronautical revenue, we have focused extensively on creating new avenues of non aeronautical revenue. In keeping with this approach, we have devoted a component of almost all our development projects towards facilitating the generation of this revenue segment.

### **How we fared**

When the overall performance for the year is considered, we witnessed a 9.8% decrease in the air traffic movements at Bandaranaike International Airport (BIA) which was the typical figure recorded in all parts of the world except the Middle East. The consequent dip in passenger volume and cargo tonnage was 8.6 % and 9.0% respectively. The trend reversed during the second part of the year and we witnessed the gradual improvement in both passenger and cargo movements. The passenger movements during the last five months indicate an increase of 8% compared to that of the same period of the previous year. This favourable trend is continuing and the aeronautical revenue during the first quarter of 2010 has increased by 18%. These are clear signs of the industry picking up and are indicative of the overall stability and resurgence the country is experiencing.

The gross turnover for the year exhibited a marginal drop of 1% while the revenue after payments

to the treasury had a drop of 7.9% compared to the respective figures of 2008. The latter was primarily due to a 48% increase in the payments due to the treasury on account of loans obtained by the government for BIA development projects. Prudent management measures applied vigourously enabled us to curtail expenditure by 4% which in turn enabled us to contain the drop in turnover to the modest figure of 1%.

Being the operator of an international airport, our drain of energy from the national energy supply is inevitably heavy. We took positive steps to identify energy wasters and implemented schemes for more economical usage of power and energy. Employees were

*“While consolidating and expanding our avenues of aeronautical revenue, we have focused extensively on creating new avenues of non aeronautical revenue.”*

## Chairman's Message continued.

educated on energy conservation and Senior Officers were deployed to implement action plans for energy saving. We are certain that the results of these measures will manifest in the near future.

We experienced excellent industrial relations during the year under reference. We were also able to witness the positive involvement of various employee organisations towards the achievement of company objectives.

Based on the profits of year 2008, the Board of Directors of our company declared a final dividend of Rs. 200 Mn. on July 31, 2009 and another Rs. 200 Mn. was declared as a final dividend on the profit of year 2009.

### Growth

In keeping with our vision of becoming an aviation hub for the region, we continued to execute our action plans for the development of BIA. Some of the salient projects that were successfully completed are as follows:

- Expansions to the terminal
- Improvements to the internal roadways
- Increase of the cargo handling capacity

The increased cargo handling mentioned above was a result of the long awaited commencement of operations at the new cargo terminal. This would bring in an annual revenue of Rs.120 Mn. as rental. The enhanced cargo handling capacity especially benefited the

exporter community with provision for more convenient hand over and less room for physical damage to export cargo.

In addition, we also opened a transit hotel within the arrival terminal at BIA thereby taking our International Airport one more step further in its journey towards excellence. On the same note, we re-launched our CIP lounge on a new theme, "The Silk Route". This exclusive pathway will enable commercially important passengers who travel through BIA to experience hassle free arrival through prior on-line reservation.

As for the development work to be undertaken in the near future, design consultancy work has been completed for a new split level passenger terminal building with pier planned under Phase 2, Stage II of the BIA development project. This includes the construction of 14 Passenger Boarding Bridges and a remote apron among other things. Construction is expected to commence in 2012 at an estimated cost of Rs. 36 Bn. The completion scheduled for 2016, will witness the handling capacity at BIA surging up to 12 Mn. passengers per annum.

Timely availability of critical decision support information is a key ingredient for organisational success. We initiated action for the implementation of an Enterprise Resource Planning (ERP) System for our company. We also established a dedicated IT section which was a long overdue requirement for our company. This section successfully made our presence felt

on cyberspace by re-launching the company website with a new look. All passenger intensive information are now available on this web site. It is also playing an important role in marketing our airport internationally. We plan to upgrade this section to a fully fledged division of our company during 2010 and are committed to the use of state of the art technology as a key enabler in maintaining our competitive edge.

### Second International Airport

The commencement of the project to construct our second international airport at Hambantota stands out as our most noteworthy achievement during the year. The project was launched with the ceremonial ground breaking by His Excellency the President Mahinda Rajapakse at Mattala, Hambantota on November 27, 2009. This airport is being constructed at a total estimated cost of US \$ 209 Mn. and M/s China Exim Bank will fund a major portion of this amount.

Another noteworthy achievement was our successful acquisition of an image as an aviation training provider for the region with our Civil Aviation Training Centre (CATC) recording a steady increase of overseas participants in its training programmes. We have formally identified our CATC as a strategic business unit and plans are on the cards to invest on its development in 2010.

We also took extensive steps to develop our most vital resource, our human resources. The highly specialised and diverse nature of



our services has resulted in our organisational structure being somewhat compartmentalised with some divisions occasionally being oblivious to the functions of their peers, leading to operational conflicts and wastage of resources. Realising that it was essential to change this culture, we embarked on a cross-functional team building and attitude formation programme for our staff which included both conventional programmes as well as programmes based on modern concepts. In order to maintain the service standards laid down by the regulatory authorities, we invested a sum of Rs.43 Mn. to provide specialised training to our staff both locally and overseas. Starting from a common format for the business cards carried by our managerial staff up to the creation of a company anthem, we initiated a trend that would culminate with the creation of a brand for our company in pursuit of our vision of achieving hub status in the region.

### Plans for the future

Given the changes for the better which we are witnessing both in Sri Lanka and on a global scale, the country is clearly poised for an economic boom with tourism as an important segment. The ensuing year could be optimistically envisaged as a period of renaissance. We are confident that we could play a key role in the national development plans in accordance with the government's vision for the future, "Mahinda Chinthanaya".

Towards this end, major developments in the airport infrastructure of BIA have been planned and Rs. 4 Bn. has been pledged in 2010 towards capital projects such as runway widening and overlay, a domestic terminal, a Multi storied car park and a monorail shuttle. The development of commercially viable domestic airports will also be undertaken in stages.

The commissioning of the second international airport at Hambantota towards which we have contributed Rs. 91.2 Mn. in 2009, will further strengthen our position. A further contribution of Rs. 1.2 Bn. is intended during 2010. This airport will facilitate air-sea transshipment of cargo in conjunction with the new harbour being constructed at Hambantota and will also fulfill the long felt need for an alternative airport for BIA within the geographical extent of the island. In its initial stage, the new airport is expected to facilitate 1 Mn. passenger movements, 45,000 Metric Tons of cargo throughput and 30,000 aircraft movements per annum. The new airport will also have the capacity to accommodate the latest high capacity aircraft. The project will be carried out in phases and with the conclusion of the first phase, we are determined to witness the first landing at the new airport towards the latter part of 2012.

Mid 2010 will also see the launch of the Airport Shuttle, a luxury train service that will operate from the

heart of the capital directly to BIA, targeting tourists and designed to reduce travel time by 50%.

### Appreciations

I wish to express my gratitude to the Honourable Minister of Ports & Aviation and the Secretary to the Ministry for the continued faith placed in us by entrusting the steering of our company on its intended path. My gratitude goes out to all the members of our Board of Directors for their never failing optimism and to the senior management for their able running of their respective divisions. In conclusion, I thank all the members of our staff for their diligence and commitment.

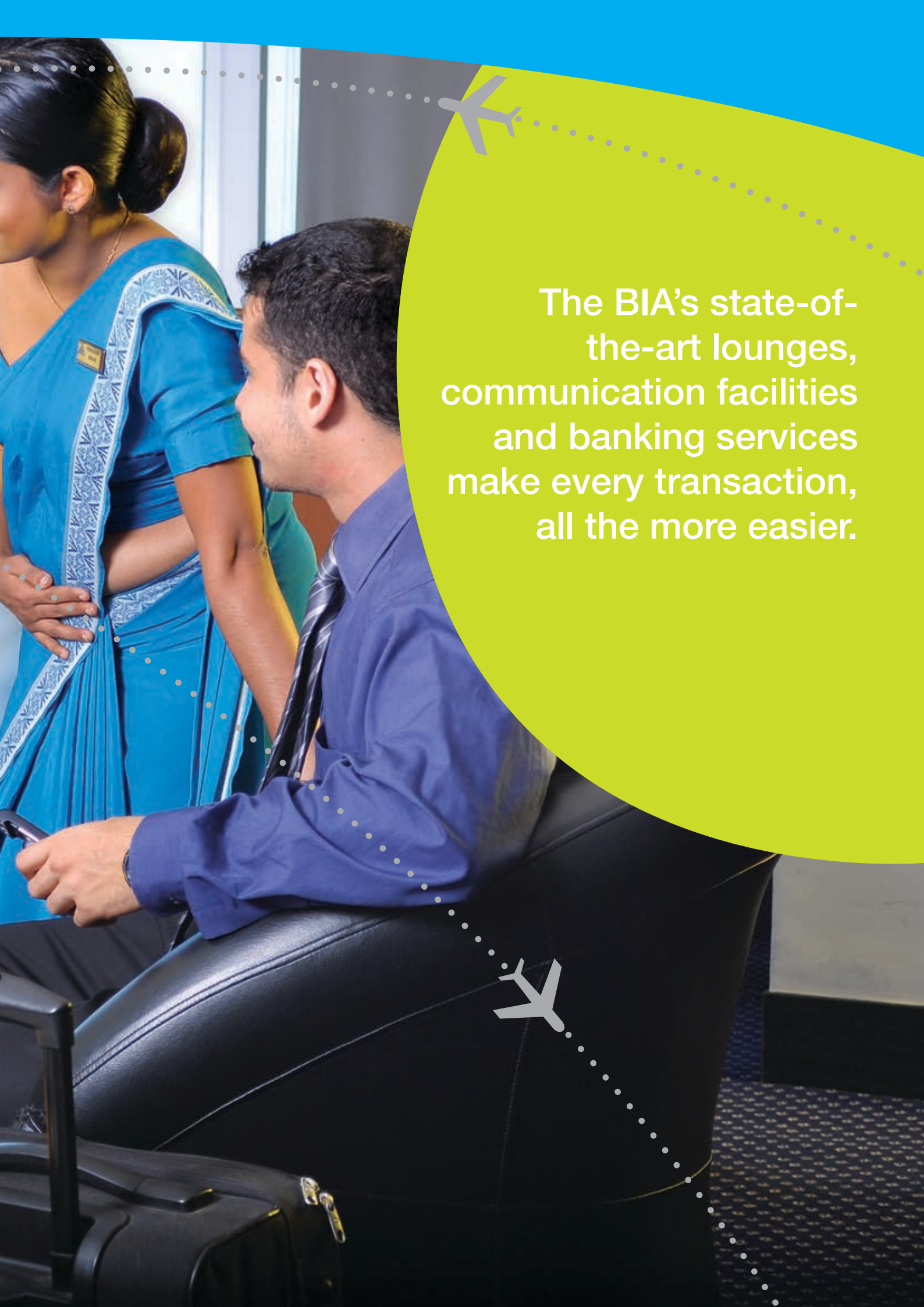


**Prasanna J Wickramasuriya** WWW RWP RSP  
*Chairman*

June 3, 2010



# Close a deal in Colombo



The BIA's state-of-the-art lounges, communication facilities and banking services make every transaction, all the more easier.



# Board of Directors



## *Left to Right*

*Ananda Goonatilleke - Director*

*R. P. L. Weerasinghe - Director*

*Yohan Jayaratne - Executive Director*

*Prasanna J. Wickramasuriya - Chairman*

## *Not in the picture*

*Aelian Nanayakkara - Director*



*Left to Right*

*Kamal Ratwatte - Vice Chairman*

*Sarath Jayasundara - Director*

*Kosala Wickramanayake - Director*

*M. C. G. Mahipala (Mrs.) - Secretary to the Board*



# Report of the Directors

## **Year ended December 31, 2009**

The Board of Directors have pleasure in presenting their report, for the year ended December 31, 2009 together with the audited Financial Statements of the Company, as a fully owned Government Company incorporated on February 23, 1982 under the Companies Act No. 17 of 1982.

## **Activities of the Company**

The main activities of the Company which remains unchanged since the previous year were the provision of Air Navigational Services, including Fire Services and Security which ensure safety of aircraft and passengers in the air within the Sri Lankan FIR (Flight Information Region), as well as on ground and the provision and maintenance of terminal and associated passenger facilities. As in the past, the Company continued the development of airport infrastructure facilities, utilising Company funds, Government backed loans and grants. The Company maintains separate sets of accounts of Government Grants for Airport Development Projects and Retained Revenue Funds.

## **Operating Results**

The Company recorded a pre-tax profit of Rs. 1.4 Bn. after accounting for government debt servicing obtained for airport developments, amounting to Rs. 1.3 Bn. compared

to Rs. 0.9 Bn. paid in 2008. Net Profit after Tax declined by 20% from Rs. 1,169 Mn. to 934 Mn.

A detailed review of the Company's performance during the year, with comments on the financial results and future developments is contained in the Financial Review (Pages 38 to 39) and Business Review (Pages 28 to 36). These reports form an integral part of the Directors' Report.

The Company derived 24% of its revenue from Aeronautical sources, 67% from Non-Aeronautical sources, while the balance 9% was from other sources such as short term investments in government securities, exchange gain etc.

## **Operating Expenditure**

Total Operating Expenditure declined by Rs. 169 Mn. representing a drop of 4% over the previous year's expenditure of Rs 4,220 Mn. This is mainly due to the decrease in personnel expenses by 9% to Rs. 2,663 Mn. from Rs. 2,935 Mn., repair and maintenance expenses by Rs. 2 Mn.

## **Dividends**

Dividends of Rs. 200 Mn. has been paid to the Government Treasury during the year.

## **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 our key stakeholders.

The Corporate Governance framework and its adoption is detailed on Pages 52 to 55 of this report.

## **System of Internal Controls**

The Directors are responsible for the Company's system of internal controls covering financial and risk management activities and reviewing its effectiveness in accordance with the provisions of the Corporate Governance framework. A detailed account of the system of internal controls is set out on pages 52 to 57.

## **Donations**

The total amount of donations made by AASL for various charity activities such as Dayata Kirula National Exhibition, Sri Dalada Maligawa Esala Perehera and for Ruhunu Maha Katharagama Devalaya during the year amounted to Rs. 6 Mn.

## **Property, Plant and Equipment**

The book value of property, plant and equipment of the company as at the Balance Sheet date amounted to Rs 1,655 Mn (2008 – Rs 1,026 Mn.)

Capital Expenditure of the company amounted to Rs. 631 Mn. in the year under review.



The movements in property, plant and equipment during the year are set out in Note 3 of the Financial Statement on pages 71 to 73.

### Market Value of Properties

Revaluation of assets by the Valuation Department is in progress as at the Balance Sheet date. The valuations will be made based on the market value. The book value of the properties will be adjusted to the revalued amount.

### Reserves

The reserves as at December 31, 2009 for the company amounted to Rs 5,881 Mn (2008 – Rs 5,147 Mn).

The movement in Reserves is shown in the Statement of Changes in Equity on page 64.

### Shareholding as at December 31, 2009

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

### Directors

The Board of Directors of the Company are appointed by the Hon. Minister of Ports & Aviation.

#### Mr. Chandima P Rasaputra - Chairman resigned March 29, 2009

Appointed to the Board as Chairman on February 2, 2007 and resigned on March 29, 2009.

#### Mr. Prasanna J Wickramasuriya - Chairman since March 30, 2009

Appointed to the Board as Vice Chairman on April 3, 2008 and was re-appointed as Chairman on March 30, 2009.

#### Mr. Kamal Ratwatte - Vice Chairman

Appointed as Vice Chairman on April 23, 2009.

#### Mr. Yohan Jayaratne - Executive Director

Appointed as a Director on November 1, 2008 and as an Executive Director on November 28, 2008.

#### Mr. Aelian Nanayakkara - Director

Appointed as a Director on August 31, 2004 and resigned from the post on April 18, 2007 and re-appointed as a Director on April 19, 2007.

#### Mr. R. P. L. Weerasinghe - Director

Appointed to the Board as a Director on February 23, 2006 and resigned from the post on February 12, 2007 and re-appointed as a Director on April 27, 2007.

#### Mr. Kosala R. Wickramanayake - Director

Appointed on April 4, 2007.

#### Mr. Palitha Gamage - Director

Appointed as a Director on April 4, 2007 and resigned on March 12, 2009.

#### Mr. Shantha Niriella - Director

Appointed as a Director on December 26, 2007 and resigned on September 30, 2009.

#### Mr. Ananda Goonatilleke - Director

Appointed on October 1, 2008.

#### Mr. Sarath Jayasundara - Director

Appointed on March 13, 2009.

### Directors' Interest in Contracts and Proposed Contracts

During and at the end of the 2009 financial year, none of the Directors were directly or indirectly interested in contracts or proposed contracts connected to the Company's business.

### Directors' Responsibility for the Financial Statements

The responsibility of the Directors as per the provisions of the Company's Act No.07 of 2007, in relation to the Financial Statements, is to prepare such statements for each financial year and to place it before the Annual General Meeting. The responsibility of the Auditors is set out in the Report of the Auditors on page 61 of the Annual Report.

The Directors confirmed their responsibility for maintaining adequate accounting records in

## Report of the Directors continued.

accordance with all applicable Accounting Standards sufficient to prepare the Financial Statements of the Company.

The Board of Directors approved the three sets of Financial Statements on following dates:

- Voted Fund Accounts
  - February 23, 2010
- Company Accounts
  - May 6, 2010
- Retained Revenue Fund Accounts
  - May 6, 2010

The Directors are also responsible for taking reasonable steps to safeguard the Assets of the Company and to give adequate consideration to the establishment of appropriate internal control systems, with a view to preventing and detecting fraud and other irregularities.

### Board Committees

The composition of the Board Audit & Management Committee is as follows:

- Mr. Aelian Nanayakkara
- Mr. R. P. L. Weerasinghe
- Mr. S. M. Chandrapala

### Statutory Payments

Directors, to the best of their knowledge and belief are satisfied 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 adjustments to the Financial Statements have taken place, subsequent to the date of the Balance Sheet other than those disclosed if any, in Note 19 to the Financial Statement on page 80.

### Going Concern

The Board of Directors has reviewed the Company's Business Plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared on this basis.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

### Human Resources

The Company implements appropriate Human Resource Management policies to train, retain employees and optimise their contribution towards the achievement of corporate objectives. At the beginning of the year, 3,132 employees were on the permanent payroll. As at December 31, 2009 the total employee strength increased to 3,182.

### Future Developments

- Construction of the second international airport at Hambantota.
- BIA Development Project Phase 2 Stage II
- "Airport Express" Luxury Train operation between Colombo - Katunayake.
- Further improvement of passenger facilitation at BIA.
- Development of the existing network of 13 domestic airports.
- Construction of Multi Storied Car Park with Monorail.
- Implementation of Enterprises Resources Planning System.
- Development of Colombo Airport-RMA
- Relocation of Fuel Filling Station at 18th Mile Post cum Shopping Arcade.
- Replacement of Air Traffic Control System.
- Construction of New NSC Building.
- Renovation of Radar System.



## Environmental Protection

The Organisation takes initiatives in pursuing sustainable development in all our activities, thereby creating integral balance between the society, economy and environment.

The organisation seizes the opportunity to minimise harmful emissions/effects arising out of the airport services it operates in, as well as when handling air traffic.

## Directors' Disclosure of Interest

The Directors have made a general disclosure to the Board as stated in Section 192(2) of the Companies Act No. 7 of 2007 and no additional interest have been disclosed by any Director.

## Directors' Remuneration and Other Benefits

The three (3) Executive Directors were paid Rs. 8,523,496/- during the year as remuneration. This include all financial benefits namely Salary, EPF, ETF, Reimbursement of Entertainment, Telephone, Leave, other allowances and Bonuses. The other Directors were paid an amount of Rs. 140,500/- being the cost of Travelling and Directors Fees for the Board Meetings.

## Auditors

### For Company and Retained Revenue Fund Accounts

M/s Ernst & Young  
Chartered Accountants  
201, De Saram Place,  
Colombo 10.

M/s Ernst & Young are available for reappointment.

### For Voted Fund Accounts

Auditor General  
Auditor General's Department  
Independence Square  
Colombo 07.

## Annual Report

The appropriate number of copies of this report will be submitted to the Parliament, Ministry, Auditor General, Department of Public Enterprises, Sri Lanka Accounting and Auditing Monitoring Board and other stakeholders.

## Annual General Meeting

The Annual General Meeting is scheduled to be held on June 23, 2010.

## Acknowledgement

The Board wishes to take this opportunity to place on record the valuable contribution and the support extended by the employees at all levels of the Company,

towards achieving its objectives. They also wish to express their gratitude towards the Government of Sri Lanka, Ministry of Ports & Aviation and other institutions that continued to assist the Company in its endeavours.

BY ORDER OF THE BOARD



**Prasanna J Wickramasuriya** WWW.RWP.RSP  
*Chairman*

June 3, 2010



# Senior Management



## *Left to Right*

- W. C. Tissera (Ms.) - Acting Head of Air Navigation Services*
- C. Wannigama - Head of Internal Audit & Quality Assurance*
- D. N. A. Jayamaha - Head of Civil Engineering (Maintenance)*
- Wg. Cdr. D. Wijesooriya - Safety Manager*
- H. S. Hettiarachchi - Head of Airport Management*
- A. K. Yapa - Chief Fire Officer (Oversees duties of Head of Fire & Rescue Services)*
- G. Withanage - Head of Civil Engineering (P & D)*
- Geeth Karunaratne - Head of Commercial & Properties*



*Left to Right*

**U. J. Lokuarachchi** - Head of Information Technology

**Athula Seneviratne** - Head of Civil Aviation Training

**W. A. C. L. Saram** - Head of Electrical & Mechanical Engineering

**Lt. Col. K. H. C. Kumarasinghe** - Deputy Head of Security Services (Oversees duties of Head of Security Services)

**Wipula Wimalshanthi** - Head of Electronics and Air Navigation Engineering

**L. Dahanayake** - Acting Head of Finance

**S. M. R. Rafeek** - Head of Projects

**M. C. G. Mahipala (Ms.)** - Head of Human Resources & Legal / Company Secretary

Sri Lanka is a central location along the trade route of the modern business world, connecting both

# East and West.





# Air Cargo through Colombo

# Business Review



## Industry Performance

With the year continuing to post dismal indicators due to the unabated global crisis taking its toll on the aviation industry, labeling it as the worst year in aviation history, the adverse economic conditions especially in the USA and Europe saw corporate and leisure travel both decline to previously unseen proportions. The decrease in corporate travel was primarily due to international trade remaining flat and leisure due to disposable income being much less than in previous years.

Cargo traffic in Asia Pacific, which accounts for 36% of the total global Freight Tonne Kilometers (FTKs) saw a downward decline to 14%, with European and North American carriers which generally hold 25% global FTKs each, posting a dismal 18% and 17% respectively. (Source: International Air Transport Association – IATA). However, the Asia Pacific region which displayed some positive trends towards the latter part of the year by employing various strategies is expected to see a turnaround in the coming year.

Sri Lanka too, not left untouched by the financial meltdown, had to battle a number of domestic crises as well, including heightened security measures in the first half of the year. AASL however, having envisaged some of the challenges, implemented numerous strategies to strengthen BIA operations which, after the conclusion of the war, began to see fruition and helped AASL post better results than anticipated.

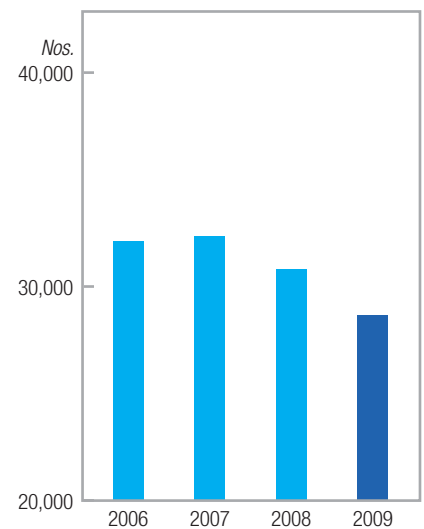
## BIA Current Operations

After 26 years of operation, AASL has now evolved into the position of an emerging airport in this region, handling a volume of 4.9 Mn. passengers annually. The total passenger handling capacity is 6 Mn. adding to 300,000 MT in cargo handling capacity. BIA's aerodrome has an accommodation capacity of 25 aircraft on the apron, complimenting the movement of 25 aircraft per hour on the runway. The length and width of the runway is 3,340 meters and 60 meters respectively, with capacity to upgrade runway shoulders in order accommodate the latest A380 Airbus (Code 4F). While the

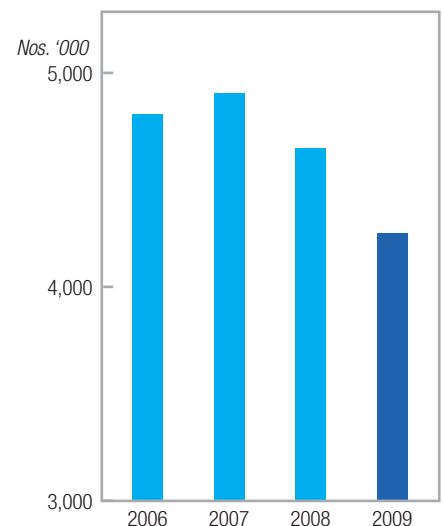
widening is not yet in the offing, the Civil Aviation Authority of Sri Lanka has given provisional approval for emergency landings of any A380 Airbus at the BIA.

BIA's passenger terminal building has a total floor area of 90,000 square meters and includes a state

Commercial Aircraft Movements



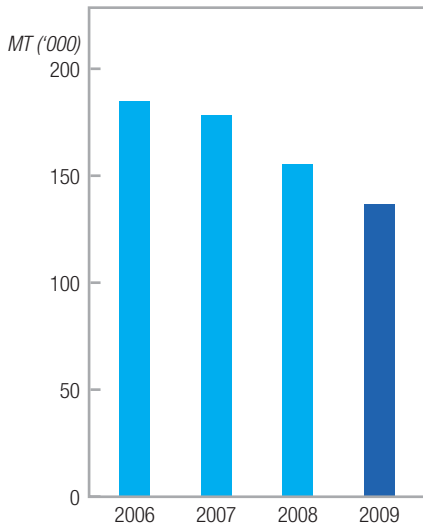
Passenger Movements



**Rs. 1.4 Bn**  
Profit Before Tax



Cargo Movements



Passengers Handled at BIA

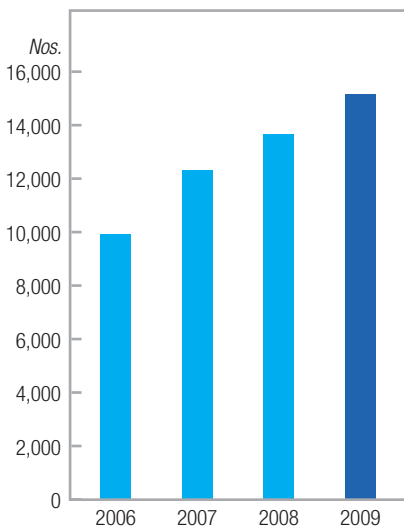


Rs. **1.6** Bn  
Aeronautical Income

Rs. **4.5** Bn  
Non-Aeronautical Income

Rs. **0.6** Bn  
Other Income

Overflights Navigated



of the art pier building comprising 8 boarding gates and 14 passenger boarding bridges. 23 scheduled airlines currently operate through BIA to 21 countries via 46 routes facilitating cargo and passenger movements. This has contributed to the 8% increase in passenger movements observed from August to December 2009 compared to the corresponding period in the previous year.

**Operational Review**

Aircraft movement at BIA decreased by 9.8%, from 31,764 to 28,624 in 2009, following a similar trend to the passenger movement decline of 8.6%. However the second half of 2009 proved to be better, with traffic showing steady growth and passenger movement increasing by 6%, in comparison to the same period in 2008. However, one of the more noteworthy trends seen over the year, despite the adverse traffic movements, was the embarkation revenue of Rs 2.3 Bn. generated by

## Business Review continued.

1,571,409 embarking passengers, an increase of 93,556 Pax. However, cargo operations, which saw a gradual increase in the latter part of the year, on average declined by 9%, with BIA handling 90,181 MT of export cargo and 47,886 MT of import cargo, totaling 138,067 MT for the year.

BIA handled a total of 1,096,004 visitors comprising 445,609 arrivals and 650,395 departures, a significant increase of 17% over the previous year. Additional revenue streams were also seen with the relaxation of security measures and the opening of the Public Viewing Gallery vis a vis and vehicle parking.

### Commencement of Construction of Hambantota International Airport (HIA)

With the end to the war and aligned with the Government's rapid infrastructure expansion plan, AASL accelerated the development plan for the second international airport in Sri Lanka. The Environmental Impact Assessment (EIA) and Archeological Impact Assessment (AIA) were conducted by the Central Environmental Authority (CEA) of Sri Lanka for the Hambantota International Airport. The granting of the EIA approval on May 4, 2009 subsequently saw the signing of the Contract Agreement between AASL and China Harbour Engineering Corporation to design and build HIA. The total cost of the project is estimated at US \$ 209 Mn, including a contingency provision of US \$ 12



*The inaugurational plaque of the H.I.A. was unveiled by HE the President Mahinda Rajapakse.*



*The Chairman of AASL gives a brief overview of the proposed Aripport.*

Mn. Funding of US \$ 190 Mn. is being financed by China Exim Bank with a concessionary loan repayable in twenty years and a grace period of five years, with the balance financed by the Government of Sri Lanka. The project was ceremonially launched on November 27, 2009 by the President of Sri Lanka His Excellency Mahinda Rajapakse. Phase I of the project is expected to be completed in 2012.

### Upgrading of Air Traffic Services (ATS)

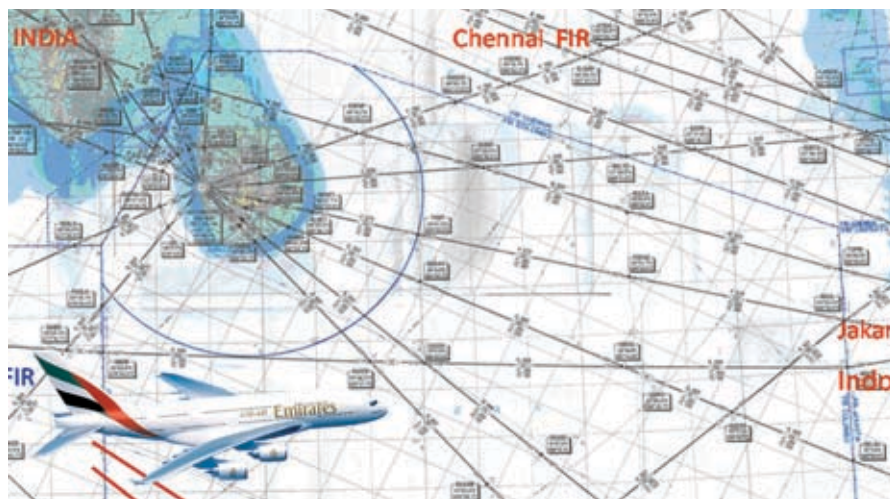
In accordance with ICAO regional agreements, a further eight conventional ATS routes across Sri Lankan air space/Colombo Flight Information Region (FIR) were upgraded to Required Navigational Performance (RNP) standards from November 2009. This upgrading has made air traffic control separation standards and minima for air traffic along these routes homogeneous with those applicable in other countries in the region. Suitably equipped modern



aircraft flying in the Indian Ocean can now fly at the same height/ altitude/ flight level until they are 50 Nautical Miles (NM) close to one another as against the previous lateral limit of 100 NM. More aircraft are permitted now to maintain their most economical preference flight levels for longer period in Colombo FIR. This has proved to be a positive step in exploiting the opportunities arising through many transiting international flights moving over Sri Lankan sky space, which can generate more overflying income and will augur well for potential arrivals at the new HIA.

Sri Lanka agreed on two Connector Air Routes across her air space in addition to the designated standard ATS Routes, in response to requests made by ICAO/IATA which catered to increased flight operations between the Middle East and Australia. Emirates and Qatar, two major airlines operating into Sri Lanka, have already commenced operations using these routes, which has generated revenue through navigational charges levied on over-flights.

There has also been a positive upward trend in en-route air navigational services income since September 2009, which recorded a growth in excess of 25% over the corresponding period last year. This is primarily attributed to increased operations through Sri Lanka's FIR by leading airlines in the region and



*A 380 Airbus into SriLankan Airspace/ BIA Colombo*

the allocation of some additional routes to Sri Lanka.

After successful operations of over-flights along these routes, BIA is designated as a medical/ emergency Alternate Aerodrome, a significant accolade emphasising the capabilities of BIA for this region.

#### **ISO Certification**

AASL successfully completed Phase I Stage I for ISO 9001:2008 certification being implemented through Det Norske Veritas (DNV). An Action Plan has been established to monitor the progress of each Quality Objective, with Key Performance Indicators (KPIs) also developed to monitor the process to ensure stringent monitoring of any deviations and achievement of targets.

#### **Technical Support**

Aeronautical Mobile and Fixed Services continued its services beyond VHF coverage of Colombo FIR making over 37,500 aircraft contacts for the year, with a peak experienced during the Haj Pilgrimage period. It also provided communication backup for data link equipped aircraft across Colombo FIR. Aeronautical Fixed Service implemented its services via Aeronautical Telecommunication Fixed Network (AFTN) via circuits established with Singapore, Mumbai and Male handling approximately 3.8 Mn. messages to and from. Preparation also commenced for transition from the conventional AFTN to the modern Aeronautical Telecommunication Network (ATN) of CNS/ATM concept using the Aeronautical Message Handling System (AMHS).

## Business Review continued.

The ICAO implementation plan for the Asia Pacific Region implemented by Sri Lanka has the relevant aspects of Performance Based Navigational procedure (PBN) embedded in accordance with the plan's road map and timeline. Accordingly, AASL's Air Navigation Service team implemented the relevant initiatives required to achieving the set goals. Standard Arrival Route system (STARs) for BIA, which enables aircraft to use Area Navigation (RNAV/ RNP) capability has already been designed and is now available for trials. Plans are also underway for designing the Global Positioning System (GPS) approaches for the Ratmalana Airport soon. The introduction of ADS – B modernisation, upgrading of ADS -C and ATM systems for the Colombo Area Control Centre are all at various progressive stages, springboards for the transition to PBN.

### Strategic Business Units

#### Civil Aviation Training Centre

The Civil Aviation Training Center (CATC) while continuing its main mission of providing specialised aviation training to company personnel, progressed even further this year by conducting several training programmes for the Maldives Airports Company, generating a gross income of US \$ 11,115. Having seen this success, plans have already been mooted to develop and strengthen CATC into a Strategic Business Unit. In addition, CATC implemented research on

'E-learning share in Civil Aviation Training' at the TRAINAIR Course Development Unit of the CATC, which met with high acclaim at the 11th Global TRAINAIR Symposium and Conference held in December 2009 in the Dominican Republic.

#### Transit Hotel

The Transit Hotel with 24 luxury, super luxury and deluxe rooms, a business center and spa was opened for passengers and crew during the year. The investment into the project was Rs. 120 Mn. with the hotel located at Level III of the arrival terminal.



*Entrance to the Transit Hotel*



*A Super Luxury Room in Transit Hotel*

#### Lounge and Restaurant Facilities

The four lounge levels operated by AASL, namely Lotus, Araliya, Executive and CIP continued to add to the facilities available at BIA. The new CIP Lounge, which accommodates Commercially Important Passengers includes hassle free entrance, quick clearance of baggage, business

and communication facilities and an exclusive pathway, the Silk Route with an online reservation facility for business passengers. With these services functioning as separate business units, the lounges cum restaurants generated a total turnover of Rs. 111 Mn. which is a 66% increase over Rs. 67 Mn. in 2008.



*Silk Route - Lounge*

### **Aerodrome Certification at BIA**

Article 15 of the Convention on International Civil Aviation requires all aerodromes open to the public under the jurisdiction of its Contracting States, to provide uniform conditions for aircraft of all other Contracting States. Article 28 and 37 oblige each State to provide in its territory, airports and other air navigation facilities and services in accordance with Standards and Recommended Practices (SARPs). Responsibility for ensuring safety, regulatory and efficiency of aircraft operations at aerodromes under their respective jurisdiction rests with individual States.

As an effective and transparent means of achieving these objectives, AASL would be able to implement aerodrome certification procedures by submitting the Aerodrome Manual for acceptance. The audit team of Corporate Development of Operational Safety and Continuing Air worthiness

Program (COSCAP) expressed overall satisfaction with the outcome of the audit process implemented by the Civil Aviation Authority of Sri Lanka during 2009. The Certification was presented to AASL by the Civil Aviation Authority on March 1, 2010.

### **Bird Hazard Control Programme**

Bird strikes, a common hindrance in aerodrome space, result in emergency landings and have caused increasing concern among airport operators and significant cost in terms of airplane damages. Realising the dangers of bird strikes and the ensuing costs to both the aerodrome and carriers, AASL has instituted a number of measures to control and mitigate the pursuant hazards, requesting the Department of Zoology of the University of Colombo to carryout a comprehensive study and recommend steps to mitigate future accidents/incidents due to bird strikes at a total project cost of Rs. 2 Mn.

## **Future Outlook**

### **Hambantota International Airport**

Stage I of the second international airport in Sri Lanka is scheduled for completion by mid 2012. Under Stage I, there will be a 3,500 meter long 75 meter wide runway, taxi way and an 85,000 square meter apron to accommodate ten aircraft. The runway is designed to hold Code – 4F A380 Airbuses. An Instrument Landing System (ILS), approach lighting and fire fighting systems will be installed in compliance with ICAO standards. A state-of-the-art modular type terminal building with inline three stage baggage handling and a capability of handling one million passengers per annum, a cargo building to accommodate 45,000 MT of cargo with cool room facilities and a 40 meter tall Air Traffic Control Tower add to the key elements of this airport.

The airport has been designed and developed as an eco-friendly airport and will be the first of its kind in this region. Once functional, HIA will facilitate and develop air and sea cargo from the Free Trade Zone as it is also in close proximity to the Hambantota Port. Given the increased emphasis being given to uplift economic activity in the region, it is envisaged that new commercial ventures will also spur business into HIA. Land space has been reserved for aircraft maintenance workshops, an aviation school, Free Trade Zone with BOI status and hospitality and leisure facilities to accommodate business and leisure tourism.

## Business Review continued.



*Model of proposed Hambantota International Airport*

### **BIA Phase 2 Stage II Development Project**

Having now completed Stage I Phase II of the development of BIA, the airport has the capacity to handle 6 Mn. passengers, 300,000 MT of cargo and 42,000 aircraft movements annually. With both the external and domestic environments now showing more positive trends, it is envisaged that capacity at BIA will surpass forecasted targets by 2012. This therefore spurred further development of the BIA,

which has now seen the obtaining of environmental clearance and the launch of Phase 2 Stage II of the BIA Development Project by the Government of Sri Lanka.

The Consultant, a joint venture of Japan Airport Consultants and Nippon Koei Company Ltd., submitted pre-qualification and bidding documents as well as the final design report in August 2009. Approval of the Civil Aviation Authority was obtained in

accordance with Clause 106 (5) (i) of Ceylon Air Navigation Regulation of 1955. Construction will commence in 2012 and with completion of the project at an estimated cost of US \$ 350 Mn. in 2016, passenger capacity would increase by 6 Mn. numbers. An application for financial assistance for the project has been submitted under the JICA funding programme.

The scope of Stage II comprises a new split level passenger terminal building which separates arrivals and departures vertically, a new pier with 8 boarding gates and 14 passenger boarding bridges with a dedicated gate comprising 2 passenger boarding bridges provided for the operation of the new A380 Airbus. There will also be a remote apron and an additional nine parking stands to ease air traffic movement.

### **'Airport Express' Luxury Train**

It is envisaged by mid 2010, a luxury express train service will be launched between BIA and Colombo carrying a capacity of 120 passengers. This is a project implemented in collaboration with Sri Lanka Railways and will reduce travel time between Colombo and BIA and vice versa by approximately 50%.

### **Re-location of Fuel Filling Station**

With the Colombo – Katunayake expressway development now gaining ground, the fuel filling station located at the 18th mile post on



*Proposed Multi Level Terminal Building with the Elevated Access Roads.*

the Canada Friendship Road will be relocated. This project is expected to be completed by end of 2010.

### Widening and overlay of existing BIA Runway

It is envisaged that the widening and overlay of the BIA runway will be completed by end 2011. The Government has allocated funds of Rs. 200 Mn. for the project, while the total project is estimated at Rs. 500 Mn. The design work of the overlay is expected to be completed by end of 2010. The newly widened runway will accommodate the larger A380 aircraft handling an increase in traffic.

### Service Performance - 2009

#### Departure passenger processing

% of passengers completing security screening, Check-in, Emigration formalities within 38 minutes.



#### Arrival passenger processing

% of passengers cleared by Immigration, claim baggage and cleared by the Customs within 38 minutes from disembarkation.



#### Baggage Delivery (First Bag)

% of the first bag delivered at the baggage reclaim within 20 minutes of chocks on.



#### Baggage Delivery (Last Bag)

% of the last bag delivered at the baggage reclaim within 30 minutes of chocks on.



#### Avoidance of Aircraft incidents in the Colombo FIR

Maintain No. of aircraft incidents in Colombo FIR per 100,000 aircraft movements below 23.

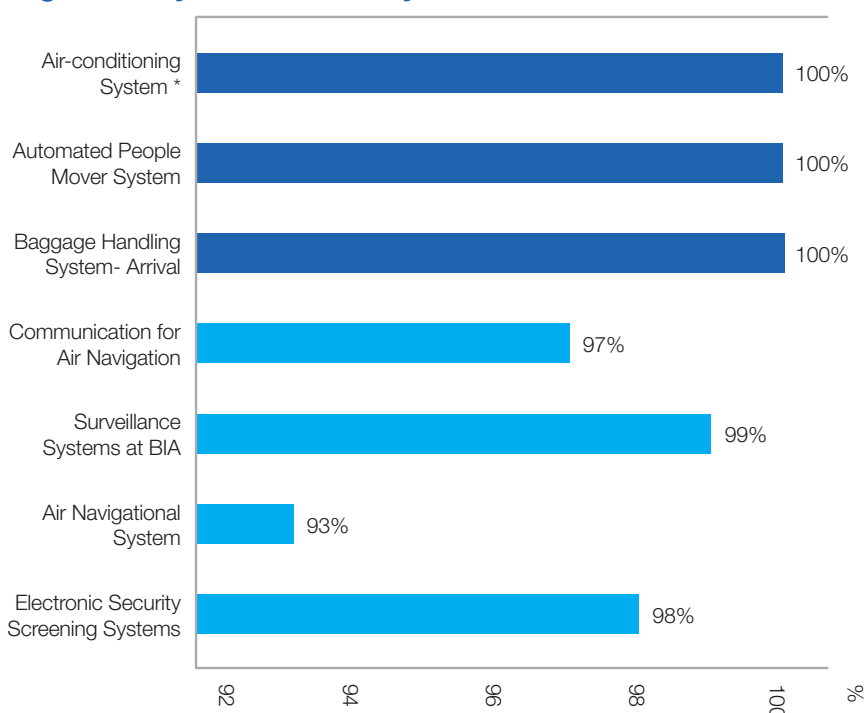


#### Control of delays in Landing or Take off due to congestion

% of aircraft having experienced delays on Ground or in the Air due to congestion less than 5% of the total movements.



### High Tech System Availability - 2009



\* Maintain 95% of the system to provide average temperature not more than 26°C within passenger terminal building

Business Review continued.

**Tourist Arrivals by Country of Residence & Purpose of Visit - 2009 vs 2008**  
As per the Statistics of Sri Lanka Tourist Board

Country of Residence	Total		Pleasure		Private & Official Business		Convention & Meetings		Visiting Friends & Relations		Religious & Cultural		Others	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
North America	25,565	28,050	15,330	18,218	2,536	2,206	247	243	4,895	5,170	641	671	1,916	1,542
Western Europe	170,123	167,187	146,159	143,360	10,007	7,922	770	682	7,526	9,649	1,413	1,498	4,248	4,076
Eastern Europe	26,310	29,443	21,841	27,085	1,370	821	442	94	1,192	376	364	346	1,101	721
Africa	1,549	2,141	1,121	988	201	276	55	49	12	138	116	500	44	190
Middle East	23,741	16,776	21,721	13,368	1,254	1,065	189	66	412	417	21	72	144	1,788
Asia	174,534	173,039	128,047	105,568	22,338	23,927	4,386	4,529	8,108	13,731	6,360	8,241	5,295	17,043
Australasia	26,068	21,839	22,956	12,492	767	1,044	173	204	977	6,823	212	195	983	1,081
<b>Total</b>	<b>447,890</b>	<b>438,475</b>	<b>357,175</b>	<b>321,079</b>	<b>38,473</b>	<b>37,261</b>	<b>6,262</b>	<b>5,867</b>	<b>23,122</b>	<b>36,304</b>	<b>9,127</b>	<b>11,523</b>	<b>13,731</b>	<b>26,441</b>

**Domestic Airports Network**

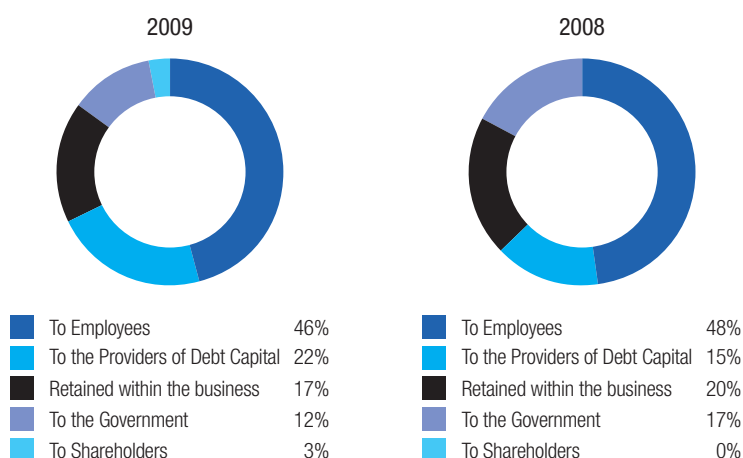




## Statement of Value Addition

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

	2009 Rs.000'	2008 Rs.000'			
Revenue	6,165,975	6,060,710			
Other Income	630,235	784,388			
	6,796,210	6,845,098			
Cost of Repairs and Maintenance	(213,780)	(216,005)			
Cost of External Services	(735,875)	(547,799)			
<b>Value Addition</b>	<b>5,846,555</b>	<b>6,081,294</b>			
<b>Distribution of Value Added</b>			%	%	
To Employees	Remuneration & Benefits	2,662,565	46	2,934,844	48
To the Government	Taxes	674,180	12	1,037,662	17
To Shareholders	Dividends	200,000	3	-	-
To the Providers of Debt Capital	Repayments	1,305,393	22	883,867	15
Retained within the business	Depreciation	70,063	1	56,275	1
Retained within the business	Reserves	934,355	16	1,168,647	19
	<b>5,846,555</b>	<b>100</b>	<b>6,081,294</b>	<b>100</b>	





# Financial Review

As the Agent of the Government under Air Navigation (Special Provisions) Act No. 11 of 1983, Company presently maintains three sets of Accounts.

1. Company Accounts
2. Retained Revenue Fund Accounts on Funds retained for on going Capital Projects
3. Voted Fund Accounts on contributions for Airport Development through the National Budget

The accounts would be amalgamated once the formalities under the Cabinet Decision of August, 2005 are completed.

The following review has been done based on the financial statements of the company.

## Turnover

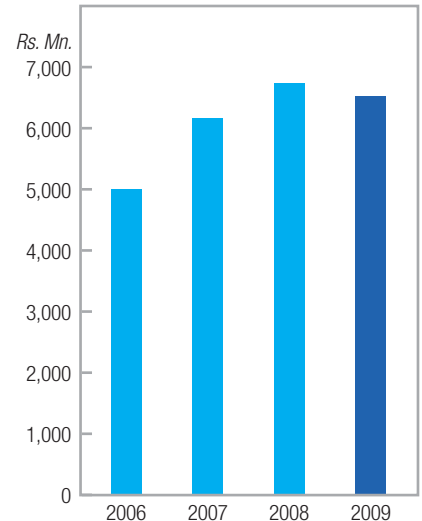
The Total turnover before accounting for payments made to the Treasury on account of BIA development loans have marginally dropped by 1% in the year 2009 to Rs. 6,796 Mn. compared to Rs. 6,845 Mn. recorded in the previous year. Eventhough a decline of Rs. 79 Mn. was recorded in aeronautical revenue, the positive growth of non aeronautical revenue in the 2nd half of 2009 contributed to the total revenue being almost identical as last year.

Revenue from rental and concessions made up 37% of the total turnover, while recording a 13% increase of rental income compared to 2008.

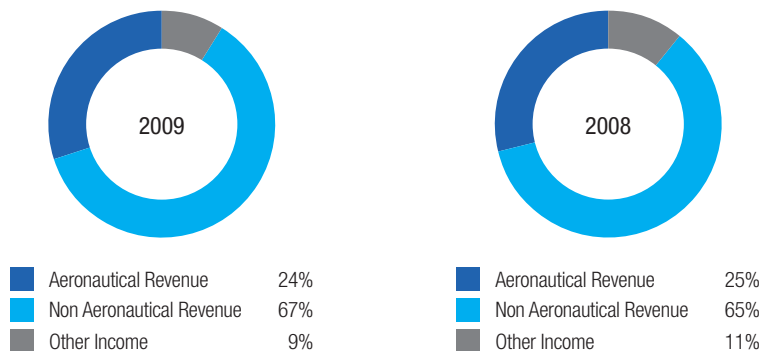
Due to the sharp decrease in market interest rates, interest income which contributed 9.5% to the total turnover last year, decreased to 8.6% in this year.

During the year under review embarkation income increased by 4% while total passenger movements reduced by 8.6% due to the number of transit passengers declining from 862,578 to 575,912.

Total Airport Revenue



Revenue - Category Wise 2009 vs 2008



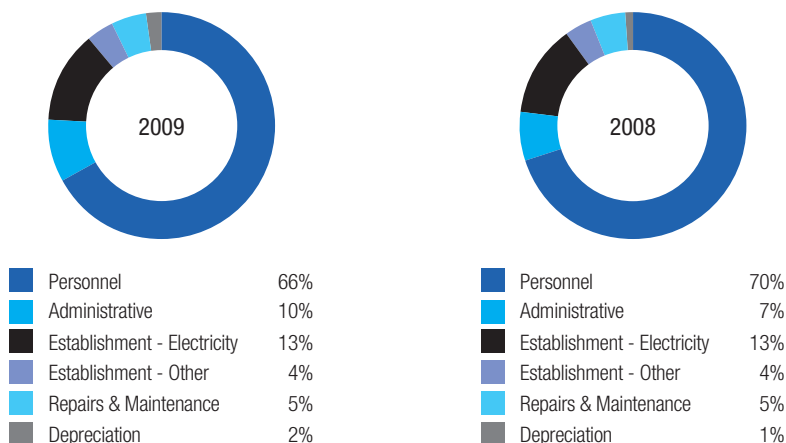
Several strategic measures have been taken to generate additional revenue during the year. The company has made strategic maneuvers to secure new revenue from sources like the renting out of a new cargo building to Sri Lankan Airlines and restructuring the lounge facility and operation of a new transit hotel.

## Operating Expenses

AASL being a service oriented organisation, the personnel expenses have been on an average of 66 % of the total expenditure. Personnel expenditure in 2009 has been Rs.2,663 Mn. as against Rs.2,935 Mn. in 2008, recording a decline of Rs.272 Mn. mainly due



Expenditure Structure  
2009 vs 2008



consultancy services for Phase 2 Stage II BIA Development Project expenditure which amounted to Rs.395 Mn.

- Payment of Rs. 200 Mn. and Rs. 1,305 Mn. to Treasury as dividends and government debt servicing respectively.

to additional gratuity expenditure provided in 2008 after the salary revision.

Furthermore, all the business and service units have been heavily focusing on the cutting down of extra costs in 2009, as a result; the company was able to limit the total operational expenditure to Rs.4,051 Mn. with a marginal decrease of Rs.169 Mn. in comparison to Rs.4,220 Mn. in 2008.

### Profitability

The company recorded a profit before tax of Rs.1,441 Mn. for the year ended December 31, 2009 which is a decrease of 17% compared to the profit before tax of Rs.1,742 Mn. in 2008. This is mainly due to the increase of payments made to the Treasury on account of BIA development loans amounting to Rs.1,305 Mn. in 2009 as against Rs. 884 Mn. in 2008.

### Dividend

Rs.200 Mn. was paid as dividend to the General Treasury during the year under review.

### Changes in Accounting Policy

With effect from January 1, 2009 the company decided to capitalise all items of assets costing more than Rs.10,000/- as Fixed Assets. Lower value assets are treated as inventory items and charged to the Income Statement as expenditure, so that more focus could be given to the monitoring of high value assets.

### Cash Flow Statement

Net cash outflow of Rs. 38 Mn. recorded in the year under review was mainly due to followings:

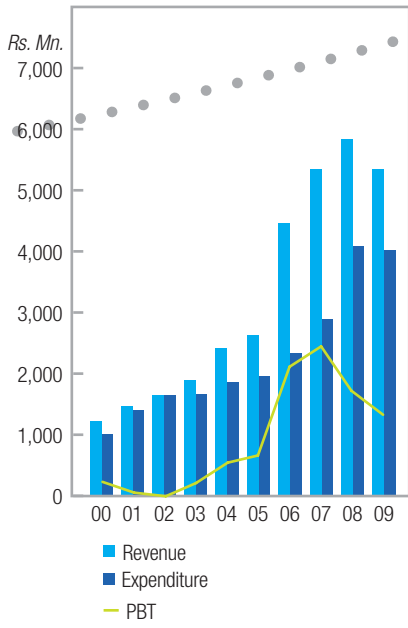
- Payment on account of Property, Plant & Equipment in 2009 has been Rs. 631 Mn. The major component of this has been the payments for post design &

# Ten Year Summary

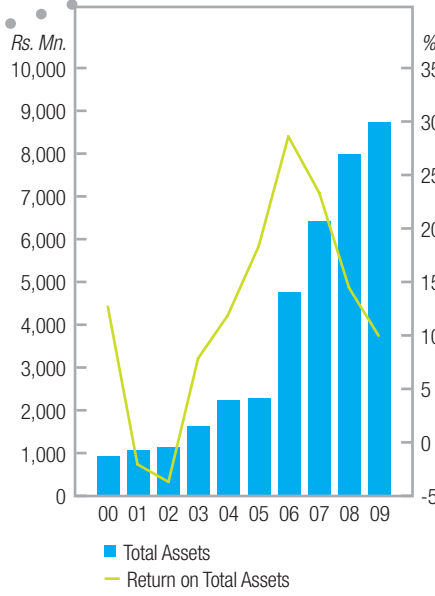


	2009 (Rs. Mn.)	2008 (Rs. Mn.)	2007 (Rs. Mn.)	2006 (Rs. Mn.)	2005 (Rs. Mn.)	2004 (Rs. Mn.)	2003 (Rs. Mn.)	2002 (Rs. Mn.)	2001 (Rs. Mn.)	2000 (Rs. Mn.)
<b>INCOME STATEMENT</b>										
Total Revenue (Net)	5,491	5,961	5,340	4,454	2,619	2,402	1,885	1,633	1,463	1,229
Staff Cost	(2,663)	(2,935)	(1,985)	(1,576)	(1,325)	(1,285)	(1,069)	(980)	(915)	(716)
Other Cost	(1,387)	(1,285)	(886)	(758)	(624)	(561)	(592)	(652)	(485)	(282)
<b>Operating Profit before Tax</b>	<b>1,441</b>	<b>1,742</b>	<b>2,469</b>	<b>2,120</b>	<b>670</b>	<b>555</b>	<b>224</b>	<b>1</b>	<b>63</b>	<b>231</b>
Taxation	(506)	(573)	(961)	(747)	(246)	(290)	(93)	(41)	(84)	(113)
<b>Profit / (Loss) after Tax</b>	<b>934</b>	<b>1,169</b>	<b>1,508</b>	<b>1,373</b>	<b>423</b>	<b>265</b>	<b>131</b>	<b>(40)</b>	<b>(21)</b>	<b>118</b>
Earnings per Share	Rs. 4,672	5,843	7,542	6,865	2,115	1,324	654	(202)	(107)	590
<b>BALANCE SHEET</b>										
<b>Non Current Assets</b>										
Property, Plant & Equipment	939	377	160	109	128	162	160	183	199	186
Diferred Income Tax Assets	701	677	416	368	-	-	-	-	-	-
<b>Total Non Current Assets</b>	<b>1,639</b>	<b>1,054</b>	<b>576</b>	<b>477</b>	<b>128</b>	<b>162</b>	<b>160</b>	<b>183</b>	<b>199</b>	<b>186</b>
<b>Current Assets</b>										
Inventories	233	183	148	148	153	146	122	109	106	108
Trade & Other Receivables	1,942	1,687	1,058	840	576	555	455	272	286	178
Amounts due from Related Parties	48	65	14	-	-	-	-	76	16	12
Short Term Investments	4,564	4,583	4,069	2,764	1,418	1,335	886	481	460	410
Cash & Bank Balances	400	416	548	530	14	9	-	1	-	22
<b>Total Current Assets</b>	<b>7,187</b>	<b>6,934</b>	<b>5,838</b>	<b>4,282</b>	<b>2,160</b>	<b>2,045</b>	<b>1,463</b>	<b>939</b>	<b>868</b>	<b>730</b>
<b>TOTAL ASSETS</b>	<b>8,826</b>	<b>7,989</b>	<b>6,415</b>	<b>4,759</b>	<b>2,289</b>	<b>2,207</b>	<b>1,623</b>	<b>1,122</b>	<b>1,067</b>	<b>916</b>
<b>Liabilities &amp; Share Holders Equity</b>										
Share Capital	20	20	20	20	20	20	20	20	20	20
Reserves	92	92	92	92	92	92	92	92	92	92
Dividend Proposed/Paid	200	200	100	-	160	120	-	-	-	-
Accumulated Profit / (Loss)	5,790	5,055	4,079	2,660	986	723	578	338	378	366
<b>Total Shareholders Equity</b>	<b>5,901</b>	<b>5,167</b>	<b>4,190</b>	<b>2,772</b>	<b>1,098</b>	<b>955</b>	<b>690</b>	<b>450</b>	<b>490</b>	<b>478</b>
<b>Non-Current Liabilities</b>										
Govt. Grants & Deferred Liabilities	1,976	1,883	1,184	933	799	772	530	401	323	219
Interest Bearing Borrowings	-	-	-	-	1	3	-	-	-	-
<b>Total Non Current Liabilities</b>	<b>1,976</b>	<b>1,883</b>	<b>1,184</b>	<b>933</b>	<b>800</b>	<b>775</b>	<b>530</b>	<b>401</b>	<b>323</b>	<b>219</b>
<b>Current Liabilities</b>										
Trade & Other Payables	692	632	536	409	305	301	267	257	211	180
Amounts Due to related Parties	134	43	37	34	15	7	9	-	-	-
Income Tax Liability	120	264	468	609	19	167	124	7	37	38
Interest Bearing Borrowings	-	-	-	1	1	1	-	-	-	-
Bank Overdrafts	3	-	-	-	52	1	3	7	6	1
<b>Total Current Liabilities</b>	<b>949</b>	<b>939</b>	<b>1,041</b>	<b>1,053</b>	<b>391</b>	<b>477</b>	<b>403</b>	<b>271</b>	<b>254</b>	<b>219</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>8,826</b>	<b>7,989</b>	<b>6,415</b>	<b>4,759</b>	<b>2,289</b>	<b>2,207</b>	<b>1,623</b>	<b>1,122</b>	<b>1,067</b>	<b>916</b>
Return on Net Assets	% 16	23	36	50	39	28	19	(9)	(4)	25
Net Profit Ratio	% 17	20	28	31	16	11	7	(2)	(1)	10
Earning Per Share	Rs. 4,672	5,843	7,542	6,865	2,115	1,324	654	(202)	(107)	590
Current Ratio	Times 7.6	7.4	5.6	4.1	5.5	4.3	3.6	3.5	3.4	3.3
Quick Assets Ratio	Times 7.3	7.2	5.5	3.9	5.1	4.0	3.3	3.1	3.0	2.8
Total Income to Total Expenditure	Times 1.4	1.4	1.9	1.9	1.3	1.3	1.1	1.0	1.0	1.2

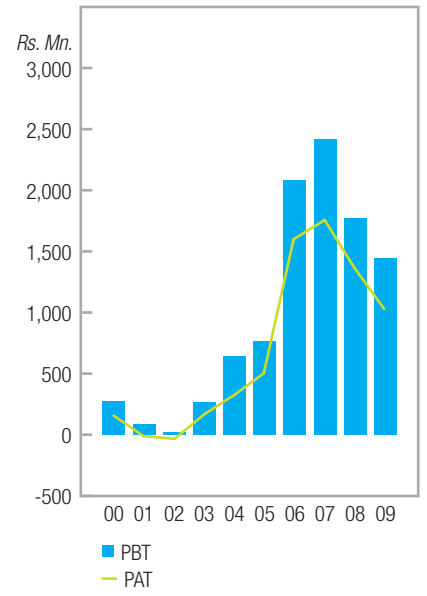
Profitability



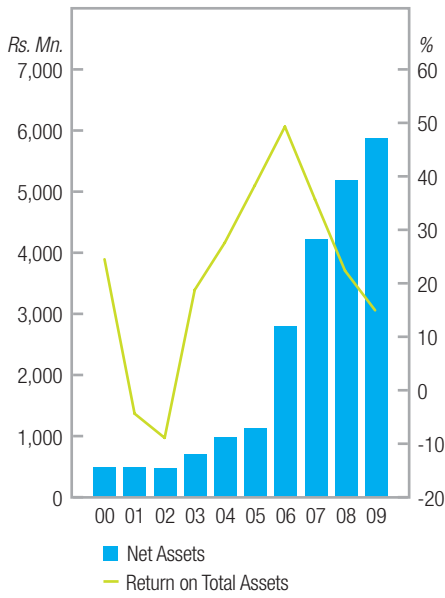
Total Assets & Return on Total Assets



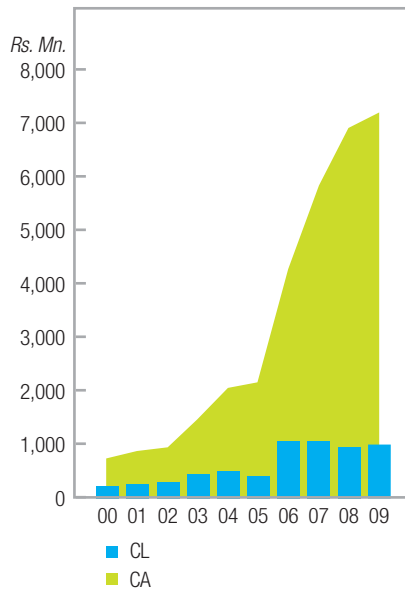
Profit After & Before Tax



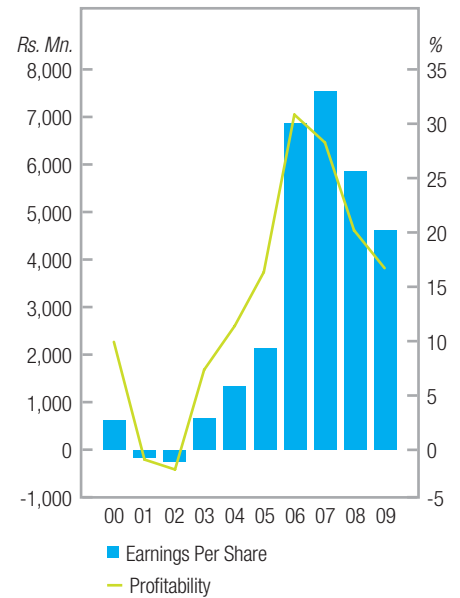
Net Assets & Return on Net Assets



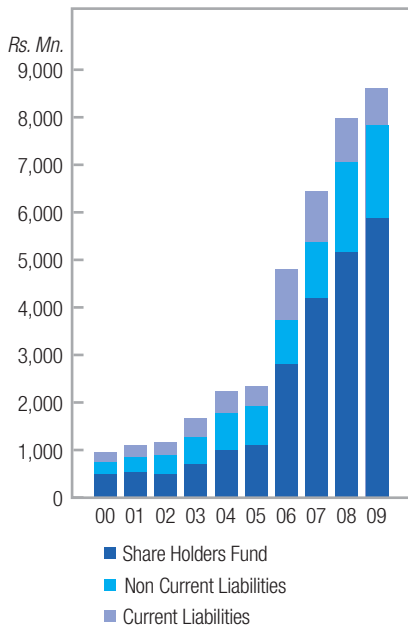
Current Assets vs. Current Liabilities



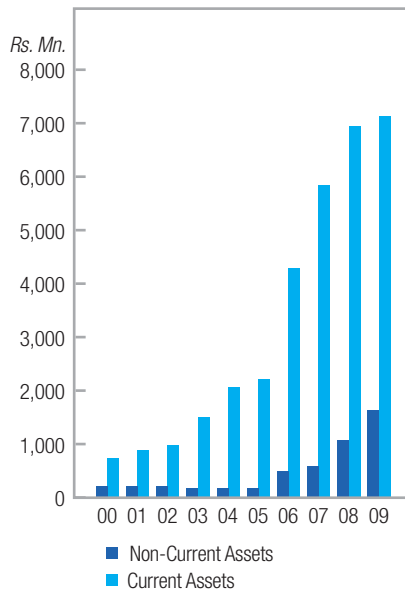
Profitability & Earnings Per Share



Capital Employed



Assets Employed



The BIA handles  
nearly  
**30,000**  
international flights,  
with airlines flying  
through Colombo,  
making Sri Lanka an  
important airport hub  
in the region.





# Connect through Colombo

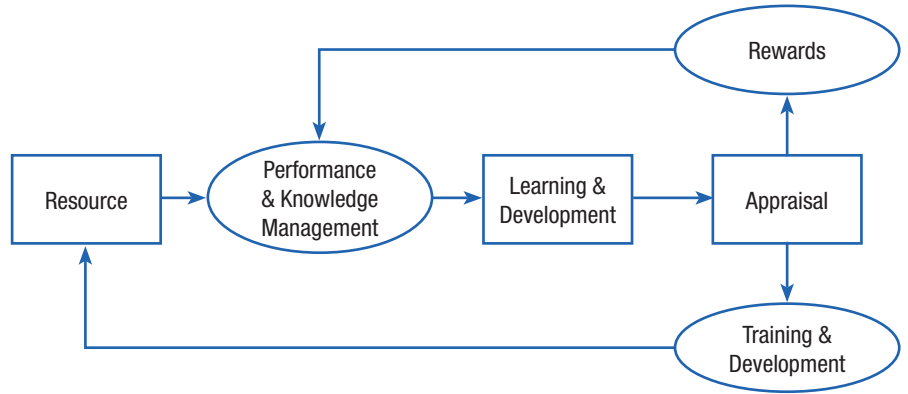
# Human Resources

AASL, operating in the Aviation Services industry, firmly believes that its success primarily depends on its employees. The high level of commitment of the AASL staff enables us to maintain stringent operational and safety standards as required by the International Civil Aviation monitoring bodies such as ICAO. The highly skilled and qualified staff continues to be provided with continuous training facilities in order to enhance their skills and motivational levels.

Being an equal opportunity employer the company strives to acquire the best skilled, most outstanding and talented personnel through a stringent selection process, and various assessment for all positions. Key performance indicators which gear the employees towards high performance goals helps this become a win win situation for both the employer and the employee.

We strive to develop our human assets to meet the current strategic requirements and standards in the aviation industry. We use very specific tactics of resourcing, knowledge management, learning and development, performance and rewards management, engagement and employee relations to achieve these high targets.

Our reputation of meeting our employees' needs has gone a long way and we saw a better



and enthusiastic response for job opening and acceptance of job offers in the year 2009 due to the enhanced remuneration package introduced in mid 2008.

### Training and Development

When the achievement of the organisation's objectives is considered in the context of specific quantitative measures and divisional level objectives, training and development is regarded as the catalyst that bridges the gap between targeted achievement and current performance.

We have therefore taken measures to plan and implement numerous training programmes internally and externally through overseas workshops in order to give the employees the necessary exposure of this global industry. As an organisation, we believe that supporting our staff and giving them the possibility to experience new challenges and environments helps them discover their inner potential and ability to handle very varied situations. The organisation spent over Rs. 18 Mn for local training and over Rs. 33 Mn for overseas training during the year 2009.



*Awarding a Trophy at Aviation Security Passing Out*



*Team building activity at the Outbound Training.*



*Building Self Confidence at Outbound Training.*

Our Outward Bound training programmes coached 300 employees including the Executive staff in the opening programme series conducted in the year 2009. The training was aimed at helping the employees develop their values of compassion, responsibility, integrity, teamwork while increasing

their skills on how to resolve conflicts of values. The training programme which took place outside the office environment used adventure as a means to develop employee skills.

The training records of each employee is maintained, updated regularly and analysed to ensure that the necessary skills and knowledge is monitored at appropriate intervals and action taken to improve skills as required.



*Aeronautical Information Services Training at CATC*

This is implemented by way of planned training schedules that are within Board approved budgetary allocations. The number of training hours completed in 2009 are as follows:

Type of training	2009 (In hours)	2008 (In hours)
Local- External	25,972	10,016
Local- In House	11,000	10,104
Foreign	3,000	3,556
<b>Training hours per employee</b>		
Foreign	24	22
Local	24	13

We believe that providing training to our valued employees is an investment with a productive Return on Investment (ROI) but not a cost.

AASL's employee overall turnover level stood at 3.2% in 2009 (3.6% in 2008) which is considerably a lower rate. Voluntary Employee turnover level was at 0.9% in 2009 (1.5% in 2008) which indicates the

## Human Resources continued.



Practical Training Session at CATC

voluntary cessations of employment due to resignations. This shows that we have achieved our objectives established at the revision of the remuneration structure in the year 2008.

Description	2009	2008
Staff Strength	3,182	3,132
Staff Growth	1.6%	4.37%
Staff Turnover	3.20	3.60
Staff Voluntary Turnover	0.98	1.51

AASL provides counselling services through professional counsellors to its employees in all counselling aspects including career, financial, retirement and stress management. External and Internal counsellors provide services to our valued employees in order to strengthen them to understand and explore their own customised solutions for work related and/or non-work related day to day problems/ difficulties.

### Employee Statistics

#### Age analysis

Age Group	No of Employees	%
Below 20	11	0.35
21 - 30	656	20.61
31 - 40	1,069	33.60
41 - 50	1,015	31.90
51 - 56	422	13.25
57 - 60	5	0.16
Above 60	4	0.13
<b>Total</b>	<b>3,182</b>	<b>100</b>

#### Age Analysis of Employees



56-51	13%
50-41	32%
40-31	34%
30-21	21%

### Staff Strength

Description	No. of Employees	%
Skilled & semi skilled	1,664	52.29
Minor & Unskilled	466	14.64
Executive	191	6.00
Supervisors/ Technical officers	268	8.42
Clerical & Allied	593	18.64
<b>Total</b>	<b>3,182</b>	<b>100</b>

#### Staff Strength



Executives	6%
Supervisors/ Technical Officers	8%
Clerical & Allied	19%
Skilled & Semi Skilled	52%
Minor & Unskilled	15%

### Human Resource Information System

AASL has taken steps to implement a fully integrated Human Resources Information System with the objective of enhancing the quality and the productivity of Human Resources Management process. With this system in place, the management will have easy approach to customised Human Resources information for fast decision making and simultaneously



all other will enjoy with the information exchange facilities through a fully automated system.

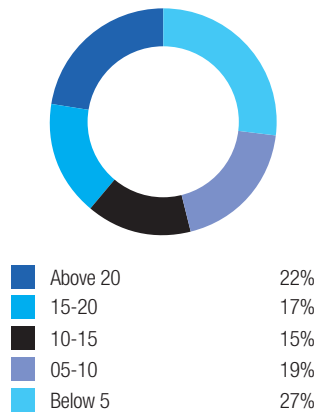
### Employee Relations

We recognise and respect our employees' right to collective bargaining and encourage free and frank dialogue across all grades. The management maintains strong and cordial relations with all Trade Unions and Associations.

### Performance Management

In order to maintain our superior quality services in, it becomes imperative that our valued employees are continuously motivated to increase their standard of performance. AASL has endeavoured in improving the existing performance management system in accordance with the company corporate objectives. The prospective performance management system will effectively benefit in achieving both individual and organisational objectives.

No of Years of Service



No of years of service	No of employees
Below 5	864
05 - 10	607
10 - 15	477
15 - 20	525
Above 20	709
<b>Total</b>	<b>3,182</b>



# Corporate Social Responsibility

## Giving Back to the Community

As an entity owned by the Government of Sri Lanka, AASL takes great pride in engaging in a wide range of activities that give back to the community. We consider this to be an integral part of the Company's business strategy – our corporate goals and performance. Our Corporate Social Responsibility (CSR) initiatives take on a broad approach; sociological, economical, humanitarian and artistic. We believe in investing in CSR projects and areas that will not only provide instant relief to people, but also have a long lasting impact on their lives.

As with every year, AASL allocates a certain percentage the Company's bottom-line to successfully implement its CSR activities.

## Building the Nation's Future

AASL believes in promoting the importance of caring for the nation's natural resources, not only for current but also future generations. In keeping with this, the Company set up a state-of-the-art Sewerage Treatment Plant to; avoid discharge of organic pollutant toxins into streams, and minimise contamination and disruption to ecosystems around the BIA vicinity. Organic water originating from the BIA premises is also directed towards the Plant. The Waste Water Management System includes testing monitoring modifications, upgrading the treatment system



*Construction of Kovinna Bridge*

and maintaining quality standards in accordance with stakeholder requirements. The Environmental Management Plan for the BIA implemented since October 1, 2009, contributes to minimise the adverse effects of global warming and environment pollution. This ultimately creates an eco friendly-airport in every aspect.

With the dawn of peace and prospects of national development, the Company granted Rs. 45 Mn. to

the Road Development Authority to build an alternative road accessing Katunayake via Averiwatta. Connecting the bus terminal and railway station, this initiative enabled smoother commuting for individuals employed in Board of Investment (BOI) Companies and transportation of cargo to the BIA. AASL was also requested to fund the construction of a bridge over the Kovinna Oya, which will facilitate efficient cargo movement of entities located in the Free Trade Zone. Developing



*The house constructed at Galaboda, Matara.*

common infrastructure facilities for commuters in the vicinity also has the added benefit of enhancing the social welfare schemes of the Company.

The Company has always played a key role in the rehabilitation of the armed forces since the end of the war. In recognition of their services to the nation, the Seva Vanitha Unit of the AASL constructed a much needed house in Galaboda, Matara for the family of a deceased soldier. Approximately Rs. 1 Mn was spent on this well-deserved charity project.

### **Educating Young Minds**

The Company has identified the importance of fostering the growth and the educational needs of young people, as they are significant for the future development of the nation. Since the inauguration of the construction of the Hambantota International Airport (HIA) in Mattala in November 2009, the Company became conscious of the poor living standards of the people in the area. Many of the schools lacked basic facilities such as adequate buildings and effective drainage systems. AASL took positive steps in upgrading the Palle Mattala Primary School and created awareness on the importance of education. Many more plans and funds will be channeled towards this worthy cause in the coming year, with the hope of increasing school attendance among the students in the Mattala area.



*Educating Students on Navigation at an Exhibition*

AASL played an important role in a vocational training workshop for school leavers organised by the Divisional Secretariat, Negombo. In commemoration of World Children's Day, AASL also sponsored the 'Daru Dari' publication of the Children's Development Fund in October. This event showcased the exceptional skills of the children and a collection of articles. The Company understands the importance of early childhood development and with this in mind, donated medicine and other necessities to the Haburugala Primary School.

### **Fostering a Rich Heritage**

The Company recognises the value of the rich, cultural heritage that makes Sri Lanka a nation known for its diversity. This legacy also plays a central role in the thriving tourism industry as it is an incentive to increase passenger arrivals to the Island. AASL was yet again the proud sponsor of key cultural events such as the Perehara of

the Temple of the Tooth Relic in Kandy and the Esala Festival of the Surinduni Kataragama – two of the key religious places of worship in the country. The Company was also the main supporter of the drama - "Valapenu Nova Galavenu Pinisa" ("Not to Repent but for Salvation") that was staged in commemoration of Easter at the Kapungoda Church, Negombo.

In an age where many traditional forms of sculpture, theatre and music are no longer prominent, AASL takes pride in playing a significant role in sustaining the country's valuable musical heritage. The Company sponsored a musical event for a leading musician, in recognition of the service rendered in sustaining traditional forms of cultural knowledge, for the future generation.

Indulge in any one of the BIA's many services - shop, have a drink and relax while on transit in Colombo.





# Stopover in Colombo

# Corporate Governance



## Our Approach and Commitment

Airport and Aviation Services (AASL) being a fully owned government company, its Board is responsible to the government for the strategic guidance and oversight of the company. The Board is responsible for taking business decisions within a framework of effective accountability and transparency in the process of meeting our core objective of maximising value for our stakeholders.

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

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

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

## Principle 1: Leadership and Direction

The company's business and operations are managed under the supervision of the Board, which consists of members with experience and knowledge in the areas of business management and finance governance appointed by the Minister of Ports and Aviation in line with the Articles of Association. The Chairman who leads the Corporate Governance policies of the organisation and is responsible for providing leadership to the Board is appointed by the Minister, Vice Chairman and Executive Director(s) are appointed among by the Board.

The Board of Directors executes a statutory responsibility in the stewardship of the company on behalf of the Government and its stakeholders. Its principle functions are:

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

### Independence of the Board:

The Board comprises of 08 Directors, of which 05 are Non-Executive Directors and 03 Executive Directors. The Executive and Non-Executive Directors provide considerable depth of knowledge collectively gained from experience in a variety of public and private companies.

All Non-Executive Directors are independent and they are

independent of management and free from any business or other relationship, which could materially interfere with the exercise of their judgment.

The Board is supplied with complete, adequate information relating to matters to be brought before the Board, copies of disclosure documents, forecasts and financial statements in advance of each meeting to enable them to make informed decisions.

All the Departments of the company were divided among the three Executive Directors to have greater supervision and a proper control over them.

### Matters reserved for the leadership of the Board include:

- a) Providing the vision and the direction for the company based on its specific mission as spelt out in the Air Navigation Special Provisions Act No. 11 of 1983 and how best it could serve the interests of the Government and other stakeholders.
- b) Ensuring that legal requirements are fulfilled and the company operates in accordance with the provisions of the Companies Act No. 7 of 2007/ Memorandum and Articles of Association.
- c) Framing policies for implementation by the management, in order to achieve optimum returns and benefits to the government and other key stakeholders.

- d) Reviewing public policy objectives periodically and providing strategic direction to formulate long-term goals and objectives for future growth.
- e) Ensuring financial discipline and productive use of all resources.
- f) Guaranteeing adequate accountability by maintaining sufficient records and books of accounts.
- g) Asserting that an effective risk management system is in place, to insulate the company against disruptions, setbacks etc.

**The Board is responsible for the overall management of the company through established effective systems of control, the implementation of which is shared amongst Senior Managers.**

**Matters reserved for the Board in this capacity include:**

- a) Ensuring that Board policies are executed in the same spirit as it was framed and in the best interests of the institution and the public at large.
- b) Monitoring the activities of the Management by means of Management Information reports and evaluating performance to ensure that the company is on track in its operations.
- c) Taking remedial action without delays to ensure that goals are

met, if results are not matched with desired expectations.

- d) Appointing competent personnel as Managers and ensuring that there is adequate delegation and team spirit amongst the Senior Management, by providing an environment that is conducive to carry out respective functions independently and responsibly.
- e) Attending Committee on Public Enterprises (COPE) meetings and Parliamentary Consultative Committee (PCC) meetings.

**The Role of the Audit and Management Committee (AMC) as a Board Committee:**

The Board is assisted by the Audit and Management Committee (AMC) which has been set up according to the Treasury Circular No PF/PE 3 of 19/11/1999. This committee is made up of Non-Executive Directors delegated with specific responsibilities cited in the Terms of Reference (TOR) which defines its scope of authority. This includes determination of the responsibilities of the Internal Audit Unit and

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

The Audit and Management Committee (AMC) comprises of two Non-Executive Directors, Chief Accountant of Ministry of Ports and Aviation, Head of Human Recourses and Legal and the Head of Internal Audit and Quality Assurance (H/IA & QA). The two members are, Mr. Aelian Nanayakkara (Chairman) and Mr. R.P.L. Weerasinghe who have been appointed by the Board.

Name of the Member	Position Held	
	AASL	AMC
Mr. Aelian Nanayakkara	Non-Executive Director	Chairman
Mr. R. P. L. Weerasinghe	Non-Executive Director	Member
Mr. S. M. Chandrapala	Chief Accountant (Ministry of Ports & Aviation)	Member
Mrs. M .C. G. Mahipala	H/HR & Legal	Member
Mr. C. Wannigama	H/IA & QA	Member/ Convener

## Corporate Governance continued.

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

The AMC held 04 meetings during the financial year 2009.

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

### **Principle 2: Transparency, Integrity and Risk Management**

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

#### **Internal Audit**

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

The main focus of the IA & QA is to provide independent assurance on the overall system of internal control, risk management and governance

process by evaluating the adequacy, integrity and effectiveness of internal controls, while ensuring that standards of quality for certain areas of the airport services are satisfactorily met. The audit activities include:

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

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

### **Principle 3: Accountability to the Government as the Key Stakeholder**

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

#### **Parliament**

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

#### **COPE**

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

Mr. R P L Weerasinghe, the Treasury representative performed this function during the year under review.

The ultimate 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 Ports & Aviation

The Secretary of the Ministry of Ports and Aviation as the Chief Accounting Officer is accountable to the Government for the financial administration and management of

the company and in this capacity regularly reviews the following matters with the Board.

1. Corporate Plan and Budgets.
2. Physical and financial performance of the current year.
3. 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.

## Principle 4: Recognise the legitimate interests of stakeholders

The company recognises the legal and other obligations to all legitimate stakeholders including the Government as the key shareholder, non-shareholder stakeholders such as employees, users of the airport (including airlines, passengers and the business community who run their businesses inside the airport) suppliers and other service providers and the community as a whole.

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

1. Due diligence by the Board and Management to the regulatory framework.

2. Fulfilling the responsibilities of the Government, acting as the agent of airport operations.
3. Promptly meeting obligations to creditors and financial institutions.
4. Consistently meeting obligations in relation to fair trading and ensuring a level playing field when dealing with suppliers and other service providers.
5. Ensuring ethical business practices affecting the community.
6. Carrying out all operations and activities as stipulated by law and following best practices as appropriate.
7. Non-discriminatory treatment of all airport users.

## Principle 5: Timely and Balanced Disclosure

The company's established policies and procedures ensure compliance with the disclosure requirements of all laws and regulations, including the circulars stipulated in the Department of Public Enterprises of the General Treasury while providing timely information for prudent decision making. The Department of IA & QA monitors and makes recommendations on any deviations.

# Risk Management

AASL, like any other operator of Airports is exposed to a great extent to Business, Technological, Legal and Financial risks. Our organisational risk management is aligned with our business strategy and our risk management culture is embedded into all our operations. The Company has a clear policy for assessing, evaluating and taking appropriate measures to manage risk.



## Technological Risk

AASL, being the only international Airport in Sri Lanka, is enjoying a monopoly market condition with regard to aircraft movement in and out of Sri Lanka. But, we have clearly identified the importance of being on par with the technological advancement of the other leading airports in the region.

Due to the geographical location of our island, the FIR coming under the purview of Sri Lanka is comparatively large and it covers busy and important air navigational routes in the South

East Asian Region. Unless we use modern technology in providing Air Navigational Services to the aircraft operating within our FIR there is a risk of major airlines shifting their operations to other South East Asian FIR.

Unlike in the other industries, the technology used in providing air navigational services improves rapidly and as a result there is always a risk of high value equipment becoming obsolete, even before the completion of its effective life span. Therefore, it is the policy of AASL to consider technological advancement as a matter of utmost importance in evaluating and procuring high valued air navigational equipment and other sophisticated equipments, in order to optimise such investments.

## Legal Risk

Any lapses and omissions in providing airport and air navigational services could lead to substantial legal claims by the users of the airport, specially the airlines. As such the Legal Department of AASL together with Legal Professionals serving in the Board provides guidance, review and direction to safe-guard the organisation against exposure to unexpected material loss; monetary or non-monetary, tangible or intangible arising from the legal consequences of transactions entered into.

## Operational Risk

AASL, as an airport service provider, invariably has to depend on the level of passenger movements and aircraft movements in securing its revenue. In an environment of a global economic recession, the number of leisure travellers and business travellers are bound to drop significantly, thus affecting the business of airport service providers. AASL continues to monitor market conditions and is always on the lookout to attract new sources of revenue e.g. operation of budget carriers to BIA.

In order to minimise any adverse effects on the profitability of the company, measures have been taken to manage the costs of the ever increasing power and energy used by the company. The company carried out an energy saving exercise and was successful in saving 6.5% of energy in the year 2009 compared to 2008. When quantified this saving amounts to 2.25 Gwh and more than Rs. 50 Mn. at the current rates.

Security risk due to terrorist activities are minimised thanks to vigilant security screenings supported by high tech equipments.

## Risk of Capital Projects

The capital intensive airport business demands the sound management of heavy investments required for infrastructure projects.



There are also fixed running costs tied to the operation and maintenance of airport facilities.

The most common risk factors hindering the progress of a project as against the Proposed Project Life Cycle (PPLC) emerge from the external environment: insolvency of the contractor, significant decrease in demand, unforeseen economic and urban conditions, changes in legislative authority, stakeholder objections (environmental, labour etc.) or pressure group reactions to name a few. In order to mitigate the said external risks, AASL takes proactive measures by developing a greater understanding of project challenges, opportunities and structures.

Assessing the project in the context of its strategic plan, developing goals and revising them when needed, designing a feasibility study and along with creating a value and risk management plan, are steps taken to mitigate the internal risks associated with projects.

### **Human Resources Risk**

With the usage of advanced technology and modern equipment in providing services it becomes necessary to attract suitably qualified and experienced personnel and provide them with continuous special equipment related training both locally and abroad hence incurring substantial costs which benefit both the employees and

the employer. There is a tendency from other Airports to offer attractive employment opportunities to such trained staff. The Company attempts to mitigate consequences of such issues by motivating staff with substantial remunerations both financial and non financial.

### **Financial Risk**

In order to manage the exposure to foreign exchange risk mainly on repayment of foreign loans, the company adopts a policy of maintaining substantial investments in foreign currency. Almost all customers of the company are required to furnish Bank Guarantees and Security Deposits to cover their credit. As a measure to discourage debtors from effecting late settlements the Company charges default interest rates at a higher rate than the normal banking lending rates.

Financial risk due to interest rate fluctuation are minimised as the government guaranteed loans are obtained at concessionary rates to finance all major development projects.



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# Company Accounts



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# Auditors' Report



## Chartered Accountants

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GGSM/CDW/DSA/JJ

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AIRPORT AND AVIATION SERVICES (SRI LANKA) LIMITED

### Report on the Financial Statements

We have audited the accompanying financial statements of Airport and Aviation Services (Sri Lanka) Limited which comprise the balance sheet as at 31 December 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

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

### Scope of Audit and Basis of Opinion

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

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

We have obtained all the information and explanations which to the best of our knowledge and belief were

necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2009 and the financial statements give a true and fair view of the Company's state of affairs as at 31 December 2009 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Without qualifying our opinion, we draw attention to,

- (a) Note 2.1.1 to the financial statements, on the Company having initiated the process to implement the cabinet approval granted in 2005 to amalgamate the assets and liabilities of the Airports and the Company and,
- (b) Note 5.2 to the Financial Statements, on the settlement of a loan amounting to Rs. 500 Mn granted by the Company.

### Report on Other Legal and Regulatory Requirements

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

06 May 2010  
Colombo.

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. Y A De Silva ACA W R H Fernando FCA FCMA  
W K B S P Fernando FCA ACMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond)  
H M A Jayasinghe FCA FCMA Ms. G G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA B E Wijesuriya ACA ACMA

# Income Statement

Year Ended 31 December 2009

	Note	2009 Rs.	2008 Rs.
Revenue	12	4,860,582,144	5,176,842,748
Other Income	13	630,235,141	784,388,448
		5,490,817,285	5,961,231,196
Staff Cost		(2,662,564,708)	(2,934,843,564)
Repairs and Maintenance Expenses		(213,780,359)	(216,005,030)
Administration and Establishment Expenses		(1,173,657,371)	(1,068,663,845)
Profit Before Tax	14	1,440,814,847	1,741,718,757
Income Tax Expenses	15	(506,460,333)	(573,071,725)
Profit for the year		934,354,514	1,168,647,032
Earnings Per Share - Basic	16	4,671.73	5,843.18

The accounting policies and notes on pages 66 through 82 form an integral part of the financial statements.



# Balance Sheet

As at 31 December 2009

	Note	2009 Rs.	2008 Rs.
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, Plant and Equipment	3	938,524,649	377,338,982
Deferred Tax Asset	15.2	700,558,084	676,984,586
		1,639,082,733	1,054,323,568
<b>Current Assets</b>			
Inventories	4	232,619,790	182,964,114
Trade and Other Receivables	5	1,989,841,638	1,752,220,239
Investments in Treasury Bills /Bonds Repurchase Agreements and Fixed Deposits		4,564,267,053	4,583,401,518
Cash and Bank Balances		400,223,621	415,904,695
		7,186,952,102	6,934,490,566
<b>Total Assets</b>		<b>8,826,034,835</b>	<b>7,988,814,134</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity Attributable to Equity Holders</b>			
Stated Capital	6	20,000,200	20,000,200
Reserves	7	91,624,459	91,624,459
Retained Earnings		5,789,772,121	5,055,417,607
<b>Total Equity</b>		<b>5,901,396,780</b>	<b>5,167,042,266</b>
<b>Non-Current Liabilities and Deferred Income</b>			
Retirement Benefit Liability	9	1,947,374,895	1,880,482,400
Deferred Government Grants	10	28,468,828	2,468,828
		1,975,843,723	1,882,951,228
<b>Current Liabilities</b>			
Trade and Other Payables	11	825,552,337	674,401,991
Income Tax Liabilities		120,272,336	264,418,649
Interest Bearing Liabilities	8	2,969,659	-
		948,794,332	938,820,640
<b>Total Equity and Liabilities</b>		<b>8,826,034,835</b>	<b>7,988,814,134</b>

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

  
Finance Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board by.

  
Director

  
Director

The accounting policies and notes on pages 66 through 82 form an integral part of the financial statements.

06 May 2010  
Colombo

# Statement of Changes in Equity

Year ended 31 December 2009

	Note	Stated Capital Rs.	Other Reserves Rs.	Retained Earnings Rs.	Total Rs.
<b>Balance as at 31 December 2007</b>		20,000,200	91,624,459	4,078,563,698	4,190,188,357
Effect on adoption of - SLAS 16 (Revised)	9	-	-	(191,793,123)	(191,793,123)
Profit for the year		-	-	1,168,647,032	1,168,647,032
<b>Balance as at 31 December 2008</b>		20,000,200	91,624,459	5,055,417,607	5,167,042,266
Dividend for the year		-	-	(200,000,000)	(200,000,000)
Profit for the year		-	-	934,354,514	934,354,514
<b>Balance as at 31 December 2009</b>		20,000,200	91,624,459	5,789,772,121	5,901,396,780

The accounting policies and notes on pages 66 through 82 form an integral part of the financial statements.

# Cash Flow Statement

Year ended 31 December 2009

	Note	2009 Rs.	2008 Rs.
<b>Cash Flows From / (Used in) Operating Activities</b>			
Profit before Income Tax Expense		1,440,814,847	1,741,718,757
Adjustments for			
Depreciation	3	70,062,774	56,274,551
Capital Expenditure Written Off	3	-	22,302,682
Provision for Non Moving Stock		3,657,863	3,501,870
Provision/(Reversal) for Doubtful Debts		115,470,588	72,106,012
Income from Investments		(489,683,422)	(647,294,979)
(Profit)/Loss on sales of Property, Plant and Equipment		(25,010)	(1,126,643)
Amortization of deferred government grants	10	(500,000)	(232,568)
Provision for Defined Benefit Plan	9	157,398,280	597,152,053
Operating Profit before Working Capital Changes		1,297,195,920	1,844,401,735
(Increase)/ Decrease in Inventories		(53,313,538)	(38,054,391)
(Increase)/ Decrease in Trade and Other Receivables		(335,185,407)	(714,968,252)
Increase/ (Decrease) in Trade and Other Payables		151,150,346	101,789,850
Cash Generated from Operations		1,059,847,321	1,193,168,942
Defined Benefit Plan Costs paid	9	(90,505,782)	(89,647,343)
Taxes Paid		(674,180,147)	(1,037,662,278)
Net Cash From Operating Activities		295,161,392	65,859,321
<b>Cash Flows from / (Used in) Investing Activities</b>			
Acquisition of Property, Plant and Equipment		(631,248,582)	(295,762,685)
Proceeds from Sale of Property, Plant and Equipment		25,150	1,331,004
Interest Received		471,776,842	610,621,374
Net Cash Flows from Investing Activities		(159,446,590)	316,189,693
<b>Cash Flows from / (Used in) Financing Activities</b>			
Dividends Paid		(200,000,000)	-
Grant received during the year	10	26,500,000	-
Net Cash Flow from/(used in) finance activities		(173,500,000)	-
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		(37,785,198)	382,049,014
<b>Cash and Cash Equivalents at the beginning of the year</b>	17	4,999,306,213	4,617,257,199
<b>Cash and Cash Equivalents at the end of the year</b>	17	4,961,521,015	4,999,306,213

The accounting policies and notes on pages 66 through 82 form an integral part of the financial statements.

# Notes to the Financial Statements

Year ended 31 December 2009

## 1. CORPORATE INFORMATION

### 1.1 General

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

### 1.2 Principal Activities and Nature of Operations

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

### 1.3 Date of Authorisation for Issue

The Financial Statements of Airport and Aviation Services (Sri Lanka) Limited for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the Board of Directors on 06 May 2010.

## 2. GENERAL POLICIES

### 2.1 Basis of Preparation

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

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

- a) The Company has commenced the valuation of assets through the chief valuer as per the directive under paragraph 3.6 of the said cabinet memorandum.
- b) The Company has requested that the Ministry of Ports and Aviation take the necessary action to initiate the statutory amendments mentioned under paragraph 3.5 of the said cabinet memorandum.

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

### 2.1.2 Statement of Compliance

The balance sheet, statements of income, changes in equity and cash flows, together with accounting policies and notes, ("Financial Statements") of the Company as at 31 December 2009 and for the year then ended, comply with the Sri Lanka Accounting Standards, except for the effects on the financial statements of the matter referred to in Note 2.1.1 to these financial statements.

### 2.1.3 Comparative Information

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

## **2.2 Summary of Significant Accounting Policies**

### **2.2.1 Foreign Currency Translation**

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

### **2.2.2 Taxation**

#### **Current Taxes**

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

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

#### **Deferred Taxation**

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

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

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

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

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

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

#### **Sales Tax**

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

# Notes to the Financial Statements *contd.*

Year ended 31 December 2009

## **2.2.3 Borrowing Costs**

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

## **2.2.4 Inventories**

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

Spare parts and consumables for fire equipment brought before 31.12.2003 are valued based on a valuation and thereafter on weighted average basis.

The cost incurred in bringing inventories to its present location and condition are accounted using the weighted average basis other than fuel which is valued at FIFO basis.

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

## **2.2.5 Trade and Other Receivables**

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

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

## **2.2.6 Cash and Cash Equivalents**

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

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

## **2.2.7 Property, Plant and Equipment**

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

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

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

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

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

## 2.2.8 Provisions

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

## 2.2.9 Retirement Benefit Obligations

### a) Defined Benefit Plan – Gratuity

The Company annually measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan using the Gratuity Formula in Appendix E of Sri Lanka Accounting Standard No 16, Employee Benefits (Revised 2006) which is based on the Projected Unit Credit Method as discussed in the said Standard.

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

### b) 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.

## 2.2.10 Grants & Subsidies

Grants and subsidies related to assets, including non-monetary grants at fair value are deferred in the Balance Sheet and credited to the Income Statement over the useful life of the asset.

## 2.2.11 Impairment of Non Financial Assets

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

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

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

# Notes to the Financial Statements *contd.*

Year ended 31 December 2009

## 2.3 Revenue Recognition

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

### a) Rendering of Services

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

### b) Interest

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

### c) Rental income

Rental income is recognised on an accrual basis.

### d) Franchise Fee and Concessions

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

### e) Others

Other income is recognised on an accrual basis.

## 2.4 Effect Of Sri Lanka Accounting Standards Issued But Not Yet Effective:

The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka and are effective for the accounting periods on the dates specified below.

### a) Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44) and Sri Lanka Accounting Standard 45 Financial Instruments; Recognition & Measurement (SLAS 45)

SLAS 44 and 45 becomes effective for financial years beginning on or after 1 January 2011. Accordingly, the Financial Statements for the year ending 31 December 2011 will adopt SLAS 44 and 45, for the first time.

These two standards together provide comprehensive guidance on identification, classification, measurement and presentation of financial instruments (including Derivatives) into financial assets, financial liabilities and equity instruments.

Due to the complex nature of the effects of these standards, the impact of adoption cannot be estimated as at the date of publication of these financial statements.

### b) Sri Lanka Accounting Standard 39- Share Based Payments (SLAS 39)-

SLAS 39- Share based payments, effective for periods beginning on or after 1 January 2010 will be first adopted in the year ending 31 December 2010. This standard requires an expense to be recognised where the Company buys goods or services in exchange for shares or rights over shares (equity –settled transactions), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ( cash- settled transactions). For equity-settled share-based payment transactions, the Company is required to apply SLAS 39 for grants of shares, share options or other equity instruments that were granted after 1 January 2010.

The Company is in the process of evaluating the impact of this standard. However, it is unlikely that this Standard will have a material impact on the financial statements.



	Balance As at 01.01.2009 Rs.	Additions /Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31.12.2009 Rs.
<b>3. PROPERTY, PLANT AND EQUIPMENT</b>				
<b>3.1 Gross Carrying Amounts</b>				
<b>At Cost</b>				
Buildings	15,691,166	22,649,515	-	38,340,681
Plant and Machinery	153,684,626	4,062,944	(2,766,818)	154,980,752
Motor Vehicles	241,321,879	414,929	-	241,736,808
Furniture and Fittings	78,143,732	3,841,754	(5,735)	81,979,751
Office Equipment	117,357,895	13,613,931	-	130,971,826
Communication Equipment	137,702,319	15,354,243	-	153,056,562
Fire and Safety Equipment	33,673,861	5,309,779	-	38,983,640
Training Equipment	6,852,057	-	-	6,852,057
Other Equipment	124,681,486	5,977,321	-	130,658,807
Fencing and Gates	2,272,842	3,750,980	-	6,023,822
Cargo Village Equipment				
Installation Cost	14,894,420	-	-	14,894,420
Roads and Roadways	38,337,830	-	-	38,337,830
Structures	2,817,156	1,528,995	-	4,346,151
Water Supply & Drainage System	-	1,575,800	-	1,575,800
<b>Total Value of Depreciable Assets</b>	<b>967,431,269</b>	<b>78,080,191</b>	<b>(2,772,553)</b>	<b>1,042,738,907</b>
	Balance As At 01.01.2009 Rs.	Incurred During the Year Rs.	Transfers Rs.	Balance As At 31.12.2009 Rs.
<b>3.2 In the Course of Construction</b>				
Capital Work in Progress	58,723,924	588,179,126	(35,010,735)	611,892,315
<b>Total Gross Carrying Amount</b>	<b>1,026,155,193</b>	<b>666,259,317</b>	<b>(37,783,288)</b>	<b>1,654,631,222</b>

# Notes to the Financial Statements *contd.*

Year ended 31 December 2009

	Balance As At 01.01.2009 Rs.	Charge for the Year Rs.	Disposals/ Transfers Rs.	Balance As at 31.12.2009 Rs.
<b>3.3 Depreciation</b>				
<b>At Cost</b>				
Buildings	413,070	1,917,034	-	2,330,104
Plant and Machinery	74,062,312	24,354,817	(2,766,754)	95,650,375
Motor Vehicles	228,891,855	4,189,080	-	233,080,935
Furniture and Fittings	49,630,420	5,402,830	(5,658)	55,027,592
Office Equipment	97,398,790	8,446,593	-	105,845,383
Communication Equipment	57,383,154	13,413,472	-	70,796,626
Fire and Safety Equipment	25,530,836	2,134,505	-	27,665,341
Training Equipment	6,801,932	-	-	6,801,932
Other Equipment	95,616,341	5,909,942	-	101,526,283
Fencing and Gates	399,454	752,977	-	1,152,431
Cargo Village Equipment Installation Cost	11,356,867	884,388	-	12,241,255
Roads and Roadways	1,163,857	1,916,892	-	3,080,749
Structures	167,323	543,269	-	710,592
Water Supply & Drainage System	-	196,975	-	196,975
<b>Total Depreciation</b>	<b>648,816,211</b>	<b>70,062,774</b>	<b>(2,772,412)</b>	<b>716,106,573</b>

	2009 Rs.	2008 Rs.
<b>3.4 Net Book Values</b>		
<b>At Cost</b>		
Buildings	36,010,577	15,278,096
Plant and Machinery	59,330,377	79,622,314
Motor Vehicles	8,655,873	12,430,024
Furniture and Fittings	26,952,159	28,513,312
Office Equipment	25,126,443	19,959,105
Communication Equipment	82,259,936	80,319,165
Fire and Safety Equipment	11,318,299	8,143,025
Training Equipment	50,125	50,125
Other Equipment	29,132,524	29,065,145
Fencing and Gates	4,871,391	1,873,388
Cargo Village Equipment Installation Cost	2,653,165	3,537,553
Roads and Roadways	35,257,081	37,173,973
Structures	3,635,559	2,649,833
Water Supply & Drainage System	1,378,825	-
	326,632,334	318,615,058
<b>In the Course of Construction</b>		
Capital Work in Progress	611,892,315	58,723,924
	611,892,315	58,723,924
<b>Total Carrying Amount of Property, Plant and Equipment</b>	<b>938,524,649</b>	<b>377,338,982</b>

	2009	2008
<b>3.5 The useful lives of the assets is estimated as follows</b>		
Buildings	Over 20 Years	Over 20 Years
Plant and Machinery	Over 04 Years	Over 04 Years
Motor Vehicles	Over 04 Years	Over 04 Years
Furniture and Fittings	Over 08 Years	Over 08 Years
Office Equipment	Over 04 Years	Over 04 Years
Communication Equipment	Over 08 Years	Over 08 Years
Fire & Safety Equipment	Over 08 Years	Over 08 Years
Training Equipment	Over 04 Years	Over 04 Years
Other Equipment	Over 08 Years	Over 08 Years
Fencing and Gates	Over 08 Years	Over 08 Years
Cargo Village Equipment Installation Cost	Over 20 Years	Over 20 Years
Roads and Roadways	Over 20 Years	Over 20 Years
Structures	Over 08 Years	Over 08 Years
Water Supply & Drainage System	Over 08 Years	-

**3.6** During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 631,248,582/-, (2008 - Rs. 295,762,685/-) for cash.

**3.7** Property, Plant & Equipment includes fully depreciated assets having a gross carrying amount of Rs. 572,013,646/-, (2008 Rs. 553,546,452/-)

	2009 Rs.	2008 Rs.
<b>4. INVENTORIES</b>		
General	41,566,767	40,210,120
Electronics	98,007,712	65,202,801
Engineering	98,800,839	88,489,658
Fuel	3,219,376	4,605,542
Fire	19,555,455	15,597,013
Goods in Transit	18,291,668	12,023,145
Less : Allowance for Slow moving Stock	(46,822,027)	(43,164,165)
	232,619,790	182,964,114
<b>5. TRADE AND OTHER RECEIVABLES</b>		
Trade Debtors - Other	1,164,242,431	978,701,020
Less: Provision for Doubtful Debts	(241,734,158)	(170,891,088)
	922,508,273	807,809,932
Other Debtors - Related Parties (5.1)	48,000,000	65,023,937
- Other (5.2)	913,828,838	756,941,009
Advances and Prepayments	87,761,008	63,497,109
Less: Provision for Doubtful Debts	(63,897,337)	(19,269,819)
Loans to Company Officers	81,640,856	78,218,071
	1,989,841,638	1,752,220,239

# Notes to the Financial Statements *contd.*

Year ended 31 December 2009

		2009 Rs.	2008 Rs.
<b>5.1</b>	<b>Other dues receivable from Related Parties</b>		
	<b>Relationship</b>		
	Retained Revenue Fund	-	2,917,621
	Voted Fund	48,000,000	62,106,316
		48,000,000	65,023,937

**5.2** This balance includes a loan of Rs. 500 Mn granted during the year 2008 to Mihin Lanka (Pvt) Limited, which remains outstanding as at 31 December 2009. Secretary to the Ministry of Ports & Aviation has confirmed that the funds required to settle dues by Mihin Lanka (Pvt) Ltd to Airport & Aviation Services (SL) Ltd, has been granted approval by the cabinet at the meeting held on 30 September 2009 to allocate the required funds in to the budget estimate 2010 and Ministry of Ports & Aviation would take action to settle such dues. Further, during the year 2009 an amount of Rs. 96.75 Mn has been accrued as interest on such loan which also remains outstanding as of 31 December 2009.

		2009		2008	
		Number	Rs.	Number	Rs.
<b>6.</b>	<b>STATED CAPITAL</b>				
	Fully Paid Ordinary Shares	200,002	20,000,200	200,002	20,000,200
		200,002	20,000,200	200,002	20,000,200

		2009 Rs.	2008 Rs.
<b>7.</b>	<b>RESERVES</b>		
	Net Assets taken over from Airports Authority	91,624,459	91,624,459
		91,624,459	91,624,459

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

		2009 Amount Repayable Within 1 Year Rs.	2009 Amount Repayable After 1 Year Rs.	2009 Total Rs.	2008 Amount Repayable Within 1 Year Rs.	2008 Amount Repayable After 1 Year Rs.	2008 Total Rs.
<b>8.</b>	<b>INTEREST BEARING LIABILITIES</b>						
	Bank Overdrafts (17.2)	2,969,659	-	2,969,659	-	-	-
		2,969,659	-	2,969,659	-	-	-

	2009 Rs.	2008 Rs.
<b>9. RETIREMENT BENEFIT LIABILITY</b>		
<b>Retirement Benefits Obligation-Gratuity</b>		
As at beginning of the year	1,880,482,400	1,181,184,567
Effect on adoption of - SLAS 16 (Revised)	-	191,793,123
Gratuity Charge	140,101,872	135,618,732
Interest Cost	214,374,994	129,930,302
Payments made during the year	(90,505,785)	(89,647,343)
(Gain)/ Loss arising from changes in the Assumptions	(197,078,585)	331,603,019
As at end of the year	1,947,374,895	1,880,482,400

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

	2009	2008
Discount Rate	11.4%	11.0%
Future Salary Increases	12.0%	11.79%
Staff Turnover	3.0%	4.0%
Retirement Age	57 years	57 years

	2009 Rs.	2008 Rs.
<b>10. DEFERRED GOVERNMENT GRANTS</b>		
<b>Treasury Grant</b>		
At the beginning of the year (10.1)	2,468,828	2,701,396
Grant Received during the year (10.2)	26,500,000	-
Less : Amortised during the year	(500,000)	(232,568)
At the end of the year	28,468,828	2,468,828

**10.1** The Company received this grant in 1992 for an expansion in Cargo Village. This grant has been deferred over the useful life of the Cargo Village Equipments, which is estimated as 20 years.

**10.2** The development of the 2nd International Airport at Mattala commenced in the year 2009. Accordingly, in the year 2009 Rs. 26.5 Mn. has been received from the Government in relation to the said project. Amortisation of these funds will commence on completion of the aforesaid project.

	2009 Rs.	2008 Rs.
<b>11. TRADE AND OTHER PAYABLES</b>		
Trade Payable - Others	44,760,917	3,192,578
Other Payables - Related Parties (11.1)	133,692,695	42,767,394
Refundable Deposits	143,913,519	136,867,459
Sundry Creditors including Accrued Expenses	503,185,206	491,574,560
	825,552,337	674,401,991

# Notes to the Financial Statements *contd.*

Year ended 31 December 2009

		2009 Rs.	2008 Rs.
<b>11.1</b>	<b>Other dues Payable to Related Parties</b>		
	<b>Relationship</b>		
	Retained Revenue Fund	44,874,751	33,768,178
	Voted Fund	88,817,944	8,999,216
		133,692,695	42,767,394
<b>12.</b>	<b>REVENUE</b>		
	Aeronautical	1,618,683,972	1,698,491,363
	Non-Aeronautical	3,233,995,582	3,472,287,567
		4,852,679,554	5,170,778,930
	Miscellaneous Revenue	7,902,590	6,063,818
		4,860,582,144	5,176,842,748
<b>12.1</b>	<b>Aeronautical &amp; Non-Aeronautical Revenue</b>		
	<b>Government Revenue</b>		
	Landing Charges	1,071,305,973	1,113,389,956
	Landing Charges - Domestic	6,819,468	7,752,157
	Over Flying Charges	368,708,778	309,582,477
	Entry Permits	134,472,689	105,986,860
	Parking Fees - Vehicles	46,344,170	51,187,136
	Total	1,627,651,078	1,587,898,586
	<b>Company Revenue</b>		
	Embarkation Levy	1,532,582,025	1,477,410,025
	Less : Amount paid to Treasury (2.1.1)	(1,305,393,197)	(883,866,744)
		227,188,828	593,543,281
	Rental	1,323,014,505	1,169,802,726
	Concession	1,057,146,511	1,155,656,581
	Aerobridge Charges	171,849,746	267,766,773
	Turnover Payment - SLCS 10%	15,141,889	16,493,548
	Franchise Fee on Ground Handling - SLA	145,051,536	103,063,419
	Ground Handling - Domestic - RMA/BIA	40,898,069	57,523,070
	Franchise Fee - SLCS 4%	96,028,349	110,521,933
	Other Aeronautical Income	148,709,043	108,509,013
	Total	3,225,028,476	3,582,880,344
	Total Aeronautical and Non-Aeronautical Revenue	4,852,679,554	5,170,778,930

**12.2** Aeronautical Revenue comprises of Landing, Landing - Domestic, Over Flying and Aerobridge Charges.

	2009 Rs.	2008 Rs.
<b>13. OTHER INCOME</b>		
Interest on Treasury Bills/Bonds Under Repurchase Agreements	221,290,679	426,953,549
Interest on USD Fixed Deposits	155,282,274	113,334,627
Interest on Rupee Fixed Deposits	113,110,469	107,006,803
Interest on Staff Loans	3,024,647	2,690,604
Amortisation of Government Grant	500,000	232,568
Operating Profit/ (Loss) on Fuel Filling Station (Note 13.1)	(1,299,462)	4,617,968
Other Interest Income	96,750,000	-
Exchange Gain	41,576,534	129,552,329
	630,235,141	784,388,448
<b>13.1 Operating Profit on Fuel Filling Station</b>		
Sales	650,554,182	834,894,284
Less: Turnover Tax	(82,635)	(80,855)
	650,471,547	834,813,429
Less : Cost of Sales	(639,983,017)	(818,482,617)
Gross Profit	10,488,530	16,330,812
Less : Personnel & Administration Expenses	(11,819,892)	(11,750,844)
Sundry Income	31,900	38,000
Operating Profit	(1,299,462)	4,617,968
<b>14. PROFIT/(LOSS) BEFORE TAX</b>		
<b>Stated after Charging /(Crediting)</b>		
Allowance/(Reversal) for Doubtful Debts	115,470,588	72,106,012
Depreciation	70,062,774	56,274,551
Personnel Costs includes		
- Directors' Emoluments	8,663,995	7,288,160
- Defined Benefit Plan Costs -Gratuity	157,398,280	597,152,053
- Defined Contribution Plan Costs - EPF & ETF	233,577,961	220,862,632
Legal Fees	1,604,137	2,303,236
(Profit)/Loss on Disposal of Property, Plant and Equipment	(25,010)	(1,126,643)
Donations	390,308	7,547,718
Work in Progress Written off	-	22,302,682

# Notes to the Financial Statements *contd.*

Year ended 31 December 2009

		2009 Rs.	2008 Rs.
<b>15.</b>	<b>INCOME TAX EXPENSE</b>		
	The major components of income tax expense for the years ended 31 December are as follows :		
	<b>Income Statement</b>		
	<b>Current Income Tax</b>		
	Current Tax Charge (15.1)	532,560,324	786,808,185
	Under/(Over) Provision of current taxes in respect of prior years	(2,747,386)	(13,312,006)
		529,812,938	773,496,179
	<b>Deferred Income Tax</b>		
	Reversal in Respect of Deferred Taxation (Note 15.2)	(23,573,501)	(260,970,509)
	Deemed Dividend Tax	220,897	60,546,055
		506,460,333	573,071,725
<b>15.1</b>	<b>Reconciliation between Current Tax Expense/ (Income) and the product of Accounting Profit</b>		
	Accounting Profit (Profit Before Tax)	1,440,814,847	1,741,718,757
	Aggregate Disallowed Items	363,472,061	727,798,315
	Aggregate Allowable Expenses	(149,490,118)	(141,332,927)
	Aggregate Allowable Income	-	-
	Income not subject to Tax	(155,682,579)	(113,382,780)
	Taxable Profit	1,499,114,211	2,214,801,365
	Statutory Tax Rate %	35%	35%
	Current Income Tax Expense	524,689,974	775,180,478
	SRL	7,870,350	11,627,707
		532,560,324	786,808,185

	Balance Sheet		Income Statement		
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.	
<b>15.2</b>	<b>Deferred Tax and Income tax related to the following</b>				
	<b>Deferred Tax Liability</b>				
	Capital allowance for the tax purpose	7,479,478	9,675,247	(2,195,769)	(749,945)
		7,479,478	9,675,247	(2,195,769)	(749,945)
	<b>Deferred Tax Assets</b>				
	Defined Benefit Plan	681,517,076	658,168,840	(23,348,236)	(244,754,242)
	Provision for Doubtful Stocks and Debtors	26,520,486	28,490,990	1,970,504	(15,466,322)
		708,037,562	686,659,830	(21,377,732)	(260,220,564)
	Deferred income tax reversal			(23,573,501)	(260,970,509)
	<b>Reflected in the Balance Sheet as follows:</b>				
	Deferred Tax Assets	708,037,562	686,659,830		
	Deferred Tax Liability	(7,479,478)	(9,675,244)		
		700,558,084	676,984,586		



## 16. EARNINGS PER SHARE

- 16.1** 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.

		2009 Rs.	2008 Rs.
<b>16.2</b>	<b>The following reflects the income and share data used in the basic Earnings Per Share computation.</b>		
	<b>Amount Used as the Numerator:</b>		
	Profit Attributable to Ordinary Shareholders	934,354,514	1,168,647,032
		2009 Number	2008 Number
	<b>Number of Ordinary Shares Used as the Denominator:</b>		
	Weighted Average number of Ordinary Shares in issue	200,002	200,002
		2009 Rs.	2008 Rs.
<b>17.</b>	<b>CASH AND CASH EQUIVALENTS IN CASH FLOW STATEMENT</b>		
	<b>Components of Cash and Cash Equivalents</b>		
	<b>Favourable Cash &amp; Cash Equivalents balance</b>		
	Fixed Deposits	3,166,123,134	3,053,539,763
	Investments in Treasury Bills /Bonds Under Repurchase Agreements	1,398,143,919	1,529,861,755
		4,564,267,053	4,583,401,518
	Cash and Bank Balances	400,223,621	415,904,695
		4,964,490,674	4,999,306,213
	<b>Unfavourable Cash &amp; Cash Equivalents balance</b>		
	Bank Overdraft	(2,969,659)	-
		(2,969,659)	-
	<b>Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement</b>	4,961,521,015	4,999,306,213

## 18. COMMITMENTS AND CONTINGENCIES

### 18.1 Capital Expenditure Commitments

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

	2009 Rs.	2008 Rs.
Contracted but not Provided for	-	10.39 Mn
Authorised by the Board, but not Contracted for	2,464.35 Mn	3,688.71 Mn
	2,464.35 Mn	3,699.10 Mn

# Notes to the Financial Statements *contd.*

Year ended 31 December 2009

**18.1 b** Company has entered in to a contract with China Harbour Engineering Company Limited, to construct a New Airport at Mattala for a sum of US \$ 209 Mn.

## **18.2 Contingencies**

- i) The Company is the defendant in the following lawsuits filed against the Company. Although there can be no assurance, the directors believe, based on the information currently available, that the ultimate resolution of such legal procedures would not likely have a material adverse effect on the results of operations, financial position or liquidity. Accordingly no provision for any liability has been made in these financial statements.
  - a) Members of the United Taxi Services Ltd, have filed 133 cases against the Company demanding Rs. 62 Mn for breach of contract. Court order which directed AASL to pay Rs. 40,000/- each to the plaintiffs of two cases in district court order. Court Negombo appeals filed by AASL against the district court order.
  - b) Arbitration in progress, as a result of a matters raised by Buildmart Lanka (Pvt) Ltd. against the Company demanding Rs. 13 Mn., for termination of Contract. The ruling has been made against the Company and ordered to pay Rs. 5,622,112/-. Presently the Company is in the process of appealing.
  - c) Several cases filed by ex-employees against the Company demanding re-instatement with back wages for termination of employment are being heard at the Labour Tribunal.
  - d) The family of a deceased passenger has filed a case against the Company and three other defendants claiming Rs.50 Mn as compensation.
  - e) Arbitration in progress, as a result of a matter raised by Vasiri Construction Co. against the Company demanding Rs. 1.4Mn. respectively, for termination of Contract.
  - f) Arbitration in progress, filed by Sri Lanka Nidahas Sevaka Sangamaya, asking special allowance for employees who are so far not entitled for an allowance.
  - g) An appeal filed against a district Court Judgment regarding a bond violation case. If the appeal is not decided in favour of AASL, Company will not be able to recover Rs. 2,758,000/-
  - h) An appeal filed against a Court Judgment regarding a bond violation case. If the appeal is not decided in favour of AASL, Company will not be able to recover Rs. 1,000,000/-.

## **19. 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.

## 20. RELATED PARTY DISCLOSURES

The Company manages the Retained Revenue Fund and Voted Fund on behalf of the government. Expenses incurred by the Company in respect of those are reimbursed on an actual basis. The balances from and due to related parties are disclosed in note 5 and 11 respectively.

	Entities in which significant influence is held by the Company*		Entities either controlled or in which significant influence is held by the State**	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>Balance Sheet</b>				
<b>Assets</b>				
Property, plant and equipment - WIP				
- Tranfered for Mattala project	10,537,719	-	-	-
Investments	-	-	4,564,267,052	4,583,401,520
Trade & Other Receivables				
- Deposits Received	-	-	13,232,209	10,618,917
- Fund transfers for the acquisition of Land	43,000,000	-	-	-
Loans Granted	-	-	500,000,000	500,000,000
Interest Receivable	-	-	96,930,000	-
<b>Liabilities</b>				
Trade & Other Payables				
- Advances Received	-	-	28,726,759	28,507,982
- Fund Transfers for Loan Repayments	83,000,000	-	-	-
<b>Income Statement</b>				
Aeronautical Revenue	-	-	598,979,902	812,581,443
Non-Aeronautical Revenue	-	-	791,331,716	701,817,335
Embarkation Levy	-	-	1,532,582,025	1,477,410,025
Payments made to the Treasury	-	-	1,305,393,197	883,886,744
Supply of Goods & Services	-	140,917	1,874,955,327	2,007,514,086
Interest Income	-	-	586,643,422	647,294,979
Taxes	-	-	1,008,733,514	1,350,107,456
Reimbursement of Expenses and Claims	13,887,516	55,638,335	-	-
Reimbursement of Taxes	-	1,608,898	-	-

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

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

	2009 Rs.	2008 Rs.
<b>20.1 Transactions with Key Management Personnel*</b>		
Short-term employee benefits	8,663,995	7,288,160
	8,663,995	7,288,160

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

# Retained Revenue Fund Accounts



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# Auditors' Report



## Chartered Accountants

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Sri Lanka

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GSM/CDW/DSA/JJ

## AUDITORS' REPORT TO THE MEMBERS OF AIRPORT AND AVIATION SERVICES (SRI LANKA) LIMITED

### RETAINED REVENUE FUND

#### Report on the Financial Statements

We have audited the accompanying financial statements of Retained Revenue Fund, which comprise the balance sheet as at 31 December 2009, the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

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

#### Scope of Audit and Basis of Opinion

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

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

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

#### Opinion

In our opinion, excepts as described in notes 1.1, 1.3, 3.1, and 5 so far as appears from our examination, the Fund maintained proper accounting records for the year ended 31 December 2009 and the financial statements give a true and fair view of the Fund's state of affairs as at 31 December 2009 and its surplus and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

06 May 2010  
Colombo

**Partners:** A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. Y A De Silva ACA W R H Fernando FCA FCMA  
W K B S P Fernando FCA ACMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond)  
H M A Jayasinghe FCA FCMA Ms. G G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA B E Wijesuriya ACA ACMA

# Income Statement

Year ended 31 December 2009

	2009 Rs.	2008 Rs.
Interest Income from Treasury Bills /Bonds under Repurchase Agreements	121,156,967	141,648,380
Administrative Expenses	(159,331)	(10,684,535)
Surplus for the year	120,997,636	130,963,845

The accounting policies and notes on pages 88 through 94 form an integral part of the financial statements.

# Balance Sheet

As at 31 December 2009

	Note	2009 Rs.	2008 Rs.
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Projects Completed	2	2,841,275,854	2,680,722,866
Projects in Progress	2	8,271,667	171,862,727
		2,849,547,521	2,852,585,593
<b>Current Assets</b>			
Receivables	3	69,612,425	58,717,915
Treasury Bills		1,027,824,446	907,532,314
Cash and Bank Balances		1,776,989	10,454,939
		1,099,213,860	976,705,168
<b>Total Assets</b>		3,948,761,381	3,829,290,761
<b>ACCUMULATED FUND AND LIABILITIES</b>			
Accumulated Fund	4	3,873,380,908	3,752,383,272
Contributions from Other Sources	5	62,323,991	62,323,991
<b>Total Fund</b>		3,935,704,899	3,814,707,263
<b>Current Liabilities</b>			
Trade and Other Payables	6	13,056,482	14,583,498
		13,056,482	14,583,498
<b>Total Fund and Liabilities</b>		3,948,761,381	3,829,290,761

The Board of Directors of Airport and Aviation Services (Sri Lanka) Limited is responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board by.



Director



Director

On behalf of the Retained Revenue Fund

The accounting policies and notes on pages 88 through 94 form an integral part of the financial statements.

06 May 2010  
Colombo



# Cash Flow Statement

Year ended 31 December 2009

	Note	2009 Rs.	2008 Rs.
Cash Flows From / (Used in) Operating Activities			
Surplus for the Year		120,997,636	130,963,845
Adjustments for			
Capital Expenditure written off		-	12,651,996
(Profit)/Loss on disposal of Property, Plant and Equipment		-	26,830
Interest Income from Treasury Bills /Bonds under Repurchase Agreements		(121,156,967)	(141,648,380)
Operating Profit / (Loss) before Working Capital Changes		(159,331)	1,994,291
(Increase) / Decrease in Receivables		507,543	2,628,682
Increase / (Decrease) in Trade and Other Payables		(1,527,016)	636,029
Net Cash From / (Used in) Operating Activities		(1,178,804)	5,259,002
<b>Cash Flows from / (Used in) Investing Activities</b>			
Interest Income Received		120,292,633	137,836,473
Investment in Treasury Bills		(412,987,108)	-
Incurred on Projects	2	(7,499,647)	(12,732,693)
Proceeds from Disposal of Assets		-	3,200
Net Cash Flows from / (Used in) Investing Activities		(300,194,122)	125,106,980
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>		(301,372,926)	130,365,982
<b>Cash and Cash Equivalents at the beginning of the year</b>	7	917,987,253	787,621,271
<b>Cash and Cash Equivalents at the end of the year</b>	7	616,614,327	917,987,253

The accounting policies and notes on pages 88 through 94 form an integral part of the financial statements.

# Notes to the Financial Statements

Year ended 31 December 2009

## 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 2009 and for the year then ended comply with the Sri Lanka Accounting Standards other than as described below.

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

According to the cabinet approval dated May 4, 2005, the Government Revenue and Embarkation Levy, part of which was previously recognised under Retained Revenue Fund is, with effect from January 01, 2006, accounted for as revenue of Airport & Aviation Services (Sri Lanka) Limited (AASL).

- b) According to the Cabinet approval dated August 17, 2005 the process for amalgamation of Assets and Liabilities of the Airports with those of AASL has already been initiated, with the revaluation of Airport Assets being in progress along with the necessary legislative amendments as follows.

- a) AASL has commenced the valuation assets of through the chief valuer as per the directive under paragraph 3.6 of the said cabinet memorandum.

- b) AASL has requested that the Ministry of Ports and Aviation take the necessary actions to initiate the statutory amendments mentioned under paragraph 3.5 of the said cabinet memorandum.

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

### 1.2 Projects in Progress

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

### 1.3 Projects Completed

#### a) Cost

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

#### b) Depreciation

A statement showing the notional depreciation charge for the year, the cumulative depreciation and written down value of assets as at 31/12/2009 has been prepared and shown in Note 2.

### 1.4 Income Statement

#### 1.4.1 Interest

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

	Balance As at 01.01.2009 Rs.	Additions/ Transfers Rs.	Disposals Rs.	Balance As at 31.12.2009 Rs.
<b>2. PROPERTY, PLANT AND EQUIPMENT</b>				
<b>2.1 Gross Carrying Amounts</b>				
Buildings	1,035,608,563	132,827,692	-	1,168,436,255
Communication Equipment	173,884,599	-	-	173,884,599
Plant and Machinery	207,038,111	19,272,596	-	226,310,707
Structures	84,908,014	463,857	-	85,371,871
Equipment	61,011,557	4,274,033	-	65,285,590
Furniture	25,904,150	-	-	25,904,150
Hangars	1,215,392	-	-	1,215,392
Fixtures and Fittings	6,714,233	-	-	6,714,233
Fencing and Gates	101,760,831	-	-	101,760,831
Miscellaneous Capital Items	122,245,716	-	-	122,245,716
Electrical Installation	23,654,107	2,303,829	-	25,957,936
Apron Expansion	237,338,300	1,400,901	-	238,739,201
Fire and Rescue Vehicles	47,909,963	-	-	47,909,963
Motor Vehicles	16,789,531	-	-	16,789,531
Road and Roadways	8,225,274	-	-	8,225,274
Training Equipment	63,518,766	-	-	63,518,766
Navigational Equipment	407,963,417	-	-	407,963,417
Fire and Safety Equipment	4,968,264	-	-	4,968,264
Water Supply System	50,064,078	10,080	-	50,074,158
<b>Total Value of Depreciable Assets</b>	<b>2,680,722,866</b>	<b>160,552,988</b>	<b>-</b>	<b>2,841,275,854</b>

	Balance As at 01.01.2009 Rs.	Incurred during the Year Rs.	Transfers Rs.	Transferred to AASL Rs.	Balance As at 31.12.2009 Rs.
<b>2.2 In the Course of Construction</b>					
Projects in Progress	178,060,581	7,499,647	(160,552,988)	(10,537,719)	14,469,521
Provision for Doubtful Projects (Note 2.6)	(6,197,854)	-	-	-	(6,197,854)
	171,862,727	7,499,647	(160,552,988)	(10,537,719)	8,271,667
<b>Total Gross Carrying Amount</b>	<b>2,852,585,593</b>	<b>7,499,647</b>	<b>-</b>	<b>(10,537,719)</b>	<b>2,849,547,521</b>

# Notes to the Financial Statements *contd.*

Year ended 31 December 2009

	Balance As At 01.01.2009 Rs.	Charge for the year Rs.	Disposals Rs.	Balance As at 31.12.2009 Rs.
<b>2. PROPERTY, PLANT AND EQUIPMENT <i>Contd.</i></b>				
<b>2.3 Depreciation (Memorandum only)</b>				
<b>At Cost</b>				
Buildings	358,544,846	57,976,628	-	416,521,474
Communication Equipment	115,051,727	14,455,703	-	129,507,430
Plant and Machinery	196,649,213	10,146,057	-	206,795,270
Structures	77,303,838	1,337,326	-	78,641,164
Equipment	34,341,560	5,962,373	-	40,303,933
Furniture	19,367,696	2,040,813	-	21,408,509
Hangars	811,491	60,770	-	872,261
Fixtures and Fittings	5,936,386	112,009	-	6,048,395
Fencing and Gates	55,335,736	8,052,075	-	63,387,811
Miscellaneous Capital Items	118,361,883	3,726,508	-	122,088,391
Electrical Installation	13,308,638	2,385,223	-	15,693,861
Apron Expansion	232,515,804	1,659,181	-	234,174,985
Fire and Rescue Vehicles	47,909,959	-	-	47,909,959
Motor Vehicles	16,789,519	-	-	16,789,519
Road and Roadways	2,040,566	411,264	-	2,451,830
Training Equipment	55,548,012	7,939,845	-	63,487,857
Navigational Equipment	183,161,296	50,995,426	-	234,156,722
Fire and Safety Equipment	1,941,359	621,033	-	2,562,392
Water Supply System	15,837,781	6,259,270	-	22,097,051
<b>Total Depreciation</b>	<b>1,550,757,310</b>	<b>174,141,504</b>	<b>-</b>	<b>1,724,898,814</b>

	2009 Rs.	2008 Rs.
<b>2.4 Net Book Values (Memorandum only)</b>		
At Cost	1,116,377,040	1,129,965,556
<b>Total Carrying Amount of Property, Plant and Equipment</b>	<b>1,116,377,040</b>	<b>1,129,965,556</b>

**2. PROPERTY, PLANT AND EQUIPMENT *Contd.***

**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:

	2009	2008
Buildings	Over 20 Years	Over 20 Years
Communication Equipment	Over 08 Years	Over 08 Years
Plant and Machinery	Over 04 Years	Over 04 Years
Structures	Over 08 Years	Over 08 Years
Equipment	Over 08 Years	Over 08 Years
Furniture	Over 08 Years	Over 08 Years
Hangars	Over 20 Years	Over 20 Years
Fixtures and Fittings	Over 08 Years	Over 08 Years
Fencing and Gates	Over 08 Years	Over 08 Years
Miscellaneous Capital Items	Over 08 Years	Over 08 Years
Electrical Installation	Over 08 Years	Over 08 Years
Apron Expansion	Over 20 Years	Over 20 Years
Fire and Rescue Vehicles	Over 04 Years	Over 04 Years
Motor Vehicles	Over 04 Years	Over 04 Years
Road and Roadways	Over 20 Years	Over 20 Years
Training Equipment	Over 08 Years	Over 08 Years
Navigational Equipment	Over 08 Years	Over 08 Years
Fire and Safety Equipment	Over 08 Years	Over 08 Years
Water Supply System	Over 08 Years	Over 08 Years

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

	2009 Rs.	2008 Rs.
<b>3. RECEIVABLES</b>		
VAT Control	-	42,675
Advances on Projects (3.1)	8,023,499	9,175,221
Refundable Deposits	359,846	359,846
Interest Income Receivable	16,236,329	15,371,995
Amount Due From Related Parties (3.2)	44,992,751	33,768,178
	69,612,425	58,717,915

**3.1** Advances on projects includes an amount of Rs. 7,000,000/- (2008 - Rs. 7,000,000/-) paid for the purchase of a land in Kataragama. However, the title of such land has not been obtained by the Fund.

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

# Notes to the Financial Statements *contd.*

Year ended 31 December 2009

	2009 Rs.	2008 Rs.
<b>3.2 Amounts Due from Related Parties</b>		
Airport and Aviation Services (Sri Lanka) Limited	44,992,751	33,768,178
	44,992,751	33,768,178
<b>4. ACCUMULATED FUND</b>		
As at beginning of the year	3,752,383,272	3,621,419,427
Surplus for the year	120,997,636	130,963,845
As at end of the year	3,873,380,908	3,752,383,272
<b>5. CONTRIBUTIONS FROM OTHER SOURCES</b>		
<b>5.1</b> Contribution from Other Sources	62,323,991	62,323,991

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

Had this procedure been followed the amount to be amortised in 2009 would be Rs.2,800,000/- whilst the cumulative amortisation as at 31/12/2009 would have amounted to Rs.15,343,991/- (2008 - Rs.12,543,991/-).

	2009 Rs.	2008 Rs.
<b>6. TRADE AND OTHER PAYABLES</b>		
Retention	8,910,474	10,783,499
Withholding Tax	38,241	5,589
Audit Fees	130,000	114,081
Creditors	438,354	-
Amounts Due to Related Parties (6.1)	3,539,413	3,680,329
	13,056,482	14,583,498
<b>6.1 Amounts Due to Related Parties</b>		
Airport and Aviation Services (Sri Lanka) Ltd	-	140,916
Voted Fund	3,539,413	3,539,413
	3,539,413	3,680,329
<b>7. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT</b>		
Bank Balances	1,776,989	10,454,939
Investment in Treasury Bills / Bonds under Repurchase Agreements (Investments with short maturities i.e. three months or less from the date of acquisition)	614,837,338	907,532,314
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement	616,614,327	917,987,253

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

## **8. COMMITMENT AND CONTINGENCIES**

### **8.1 Contingent Liabilities**

The Fund is the defendant in following lawsuits filed against the Fund. Although there can be no assurance, the Directors believe, based on the information currently available, that the ultimate resolution of such legal procedures would not likely have a material adverse effect on the results of operations, financial position or liquidity. Accordingly no provision for any liability has been made in these financial statements.

Arbitration in progress, as a result of a matter raised by Buildmart Lanka (Pvt) Ltd against the Company demanding Rs. 13 Mn. for termination of Contract. The ruling has been made against the Company and ordered to pay Rs. 5,622,113/-. Presently the Company is in the process of appealing.

Arbitration in progress, as a result of a matter raised by Vasiri Construction Company against Airport and Aviation Services (Sri Lanka) Limited as the managers of the fund for a sum of Rs. 1,453,904/- for termination of Contract.

Though the cases are against Airport and Aviation Services (Sri Lanka) Limited all transactions are recorded under the Retained Revenue Fund.

## **9. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

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

## **10. RELATED PARTY DISCLOSURES**

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

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

	<b>Entities either controlled or in which significant influence is held by the state*</b>	
	<b>2009 Rs.</b>	<b>2008 Rs.</b>
<b>Balance Sheet</b>		
<b>Assets</b>		
Project in Progress	430,553	1,797,657
Receivables	1,337,346	1,338,346
Amounts Due from Related Parties	44,992,751	35,228,765
Treasury Bills	1,027,824,446	907,532,314
<b>Liabilities</b>		
Amounts Due to Related Parties	631,312	1,058,703
<b>Income Statement</b>		
Interest Income net of taxes withheld	121,156,967	121,156,967

\* In carrying out normal operations, the Fund has entered in to transactions including the supply and purchase of various goods and services with entities which is either controlled or in which significant influence is held by the state. This includes Ceylon Electricity Board, Department of Inland Revenue, Lanka Ports Authority, Central Environmental Authority, Central Engineering Consultancy Bureau, State Engineering Consultancy Bureau, Road Development Authority , Irrigation Department, Urban Development Authority, Divisional Secretary Katana, National Water Supply & Drainage Board, Sri Lankan Airlines Ltd and Airport and Aviation Services (SL) Limited.



# Voted Fund Accounts (Development Projects)



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107	Explanatory Notes on the Report of the Auditor General

# Auditor General's Report



**විගණකාධිපති දෙපාර්තමේන්තුව**  
**கணக்காய்வாளர் தலைமை அறிபுதி திணைக்களம்**  
**AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය  
எனது இல  
My No

SC/A/AASL/FA/09

ඔබේ අංකය  
உமது இல  
Your No.

දිනය  
திகதி  
Date

14 June 2010

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) Ltd. relating to the Government Grants for capital expenditure for the year ended 31 December 2009 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) Ltd. (AASL) relating to the Government Grants for capital expenditure for the year ended 31 December 2009 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 Sub-section 14 of Section 21A of Air Navigation Act (Chapter 365) as amended by Section 3 of the Air Navigation (Special Provisions) Act No. 2 of 1982 and Section 13(1) of the Finance Act, No. 38 of 1971. My 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 also constitutes my detailed report on the accounts relating to the Government Grants in terms of Section 13(7)(a) of the Finance Act.

## 1:2 Audit of Accounts of the Airport & Aviation Services (Sri Lanka) Ltd

The financial statements of the AASL had been audited by a firm of Chartered Accountants in public practice appointed by the AASL in terms of Section 154(1) of the Companies Act, No. 7 of 2007.

## 1:3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error: selecting and applying appropriate accounting policies: and making accounting estimates that are reasonable in the circumstances.

නිදහස් වතුරලය,  
කොළඹ 07, ශ්‍රී ලංකාව

දුරකථනය  
தொலைபேசி  
Telephone. } 2691151

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#- மெயில்  
E-mail. } oaggov@slt.net.lk

#### **1:4 Scope of Audit and Basis of Opinion**

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in the financial statements and assessment of accounting principles used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. Sub-sections (3) and (4) of 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.

### **2. FINANCIAL STATEMENTS**

#### **2:1 Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Airport and Aviation Services (Sri Lanka) Ltd. had maintained proper accounting records for the year ended 31 December 2009 and except for the effects on the financial statements of the matters referred to in paragraph 2:2 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles, give a true and fair view of the state of affairs of the Airport and Aviation Services (Sri Lanka) Ltd. as at 31 December 2009 and the financial results of its operations and cash flows for the year then ended, relating to Government Grants for capital expenditure.

#### **2:2 Comments on Financial Statements**

##### **2:2:1 Non-compliance with Laws, Rules, Regulations and Management Decisions**

A sum of Rs. 75,869,136 had been invested in Treasury Bills without obtaining the concurrence of the Minister in charge of the subject of Finance in term of 11 Section of the Finance Act, No. 38 of 1971.

##### **2:2:2 Lack of Evidence for Audit**

The confirmation of balances relating to the balances amounting to Rs. 45,917,766 out of balances receivable was not furnished and as such those could not be satisfactorily vouched in a audit.

### **3. FINANCIAL AND OPERATING REVIEW**

#### **3:1 Financial Results**

According to the financial statements presented, the financial results of the operations relating to the Government Grants for the capital expenditure of the Company during the year under review had been a net surplus of Rs. 7,194,308 as against the net deficit of Rs.184,952 in the financial results for the preceding year, thus indicating an improvement of Rs. 7,379,260 in the financial results.

# Auditor General's Report *contd.*

## 3:2 Performance

The following indicators show a decrease in the performance of the Airport and Aviation Services (Sri Lanka) Ltd., during the year under review as compared with the preceding year.

Particulars	Year 2009	Year 2008
Aircraft Movements (Number)	28,624	31,764
Passenger Movements (Number)	4,242,356	4,642,831
Operating Income Rs.	4,860,582,144	5,176,842,748

## 3:3 Underutilisation of Assets

The Japan Bank for International Co-operation (JBIC) had made a provision of Japanese Yen 12,384 million under the Loan Agreement No. SLP62 dated 04 August 1999 for the Stage I of Part II of the Project.

The Japan Bank for International Co-operation had confirmed that a sum of Japanese Yen 12,067 million had been released by 01 December 2006, in terms of the Loan Agreement. Thus, the underutilised sum amounted to Japanese Yen 317 million.

Nevertheless, an Air Cargo Handling Terminal Building had been constructed at a cost of Rs. 838,662,392 under the above Credit Scheme and the Taking Over Certificate thereon had been issued on 15 July 2005. However, this building had not been given over to Air Services Company for air cargo handling purposes. In addition, there was no evidence of any income received during the past several years by giving over accommodation in the Air Cargo Handling Terminal Building to the Air Services Company.

## 3:4 Lack of Particulars of Properties Acquired

A land, 1,150 hectares in extent situated in the area of authority of the Divisional Secretariat, Lunugamvehera had been acquired on 17 October 2006 for the construction of the abandoned Weerawila International Airport. Nevertheless, it was observed in audit that the particulars of the lands acquired had not been disclosed in the financial statements of the Company.

## 3:5 Mattala International Airport

- (a) The Government of Sri Lanka and the authorities of the Airport and Aviation Services had decided again on the development of the second International Airport in Sri Lanka and had selected Mattala for the purpose. A sum of Rs 96,894,812 had been incurred in that connection.
- (b) Even though the Company had spent its own funds and retained income amounting to Rs 96,894,812 on the Project during the year under review, the Company had received only a sum of Rs. 26,500,000 as the Government Grant for capital expenditure during the year under review.

### 3:6 Acquisition of Lands

The following amounts paid as advances to various Divisional Secretaries for the purpose of the acquisition of lands for various development activities of the Company had been shown as advances and deposits in the financial statement as at 31 December 2009.

<u>Date of Payment</u>	<u>Divisional Secretariat</u>	<u>Amount (Rs.)</u>
31 December 1997	Katana	2,083,648
16 December 1998	Gampaha	4,718,000
18 July 2000	Mount Lavinia	834,118
12 February 2008	Mount Levinia	41,000,000
22 February 2008	Katana	2,000,000

In view of the delays in the land acquisition process, interest totalling Rs. 17,691,195 had been paid to the respective landlords during the last two years alone. The advances granted to the Divisional Secretariats for land acquisition had been retained in the General Deposit Accounts of those Secretariats due to the possibility of further delays in the acquisition of lands.

### 4. SYSTEMS AND CONTROLS

Special attention is needed in respect of the following areas of control.

- (a) Acquisitions of Lands
- (b) Contract Administration
- (c) Customs Duty and Reimbursement of Duty



**S. Swarnajothi**  
*Auditor General*

# Income & Expenditure Statement

For The Year Ended 31st December 2009

	2009 Rs.	2008 Rs.
<b>Income</b>		
Interest on Treasury Bills	7,209,573	2,426,052
<b>Total Income</b>	<b>7,209,573</b>	<b>2,426,052</b>
<b>Less : Expenditure</b>		
Loss on Disposal of Fixed Assets	-	2,091,236
Bank Charges	12,600	9,550
Debit Tax	2,664	65,426
Repair & Maintenance of Project Office	-	444,791
<b>Total Expenditure</b>	<b>15,264</b>	<b>2,611,004</b>
<b>Surplus /(Deficit) for the year</b>	<b>7,194,308</b>	<b>(184,952)</b>
Deficit B/F	(132,869,554)	(132,684,602)
<b>Deficit C/F to Balance Sheet</b>	<b>(125,675,245)</b>	<b>(132,869,554)</b>


# Balance Sheet

As At 31st December 2009

		2009 Rs.	2008 Rs.
<b>ASSETS</b>			
<b>Non Current Assets</b>			
Property Plant & Equipments	Sch.01	23,252,942,832	23,254,388,218
<b>Total Non Current Assets</b>		23,252,942,832	23,254,388,218
<b>Current Assets</b>			
Deposits & Advances	Sch.02	50,635,766	50,635,766
Amounts due from Related Parties	Sch.03	92,357,357	12,538,629
Other Receivables	Sch.04	2,500,000	2,500,000
Investment in Treasury Bills		-	75,869,136
Bank Accounts	Sch.05	22,676,370	19,431,653
<b>Total Current Assets</b>		168,169,493	160,975,184
<b>Total Assets</b>		23,421,112,325	23,415,363,402
<b>EQUITY &amp; LIABILITIES</b>			
Treasury Contribution - ( Local )		8,235,977,361	8,235,977,361
Treasury Contribution - ( Foreign )		14,075,646,120	14,075,646,120
Defence Ministry Contribution		109,661,415	109,661,415
Ministry of Tourism & Civil Aviation Contribution		40,000,000	40,000,000
Retained Revenue Contribution		32,000,000	32,000,000
Net Assets Taken Over From Airport Authority		801,102,309	801,102,309
AASL Contribution		57,101,390	57,101,390
<b>Total Treasury &amp; Other Contributions</b>		23,351,488,594	23,351,488,594
Income & Expenditure Account		(125,675,245)	(132,869,554)
<b>Accumulated Fund</b>		23,225,813,349	23,218,619,040
<b>Current Liabilities</b>			
Creditors	Sch.06	190,298,976	191,744,362
Amounts due to Related Parties	Sch.07	5,000,000	5,000,000
<b>Total Current Liabilities</b>		195,298,976	196,744,362
<b>Total Equity &amp; Liabilities</b>		23,421,112,325	23,415,363,402



**Kamal Ratwatte**  
Vice Chairman



**L Dahanayake**  
Acting Head of Finance

# Cash Flow Statement

For The Year Ended 31st December 2009

	2009 Rs.	2008 Rs.
<b>Cash Flow From Operating Activities</b>		
Net Surplus / (Deficits) for the year	7,194,308	(184,952)
(Profit)/ Loss on Sale of Fixed Assets	-	2,091,236
	7,194,308	1,906,284
<b>Adjustments for</b>		
(Increase)/Decrease in Advances & Deposits	-	105,282,185
(Increase)/Decrease in Receivables	-	(12,538,629)
Increase/(Decrease) in current account payables	(79,818,728)	(48,526,061)
Increase/(Decrease) in Creditors & Payables	(1,445,386)	(239,365)
Cash Generated from Operations	(81,264,114)	43,978,131
<b>Net Cash Flow from Operating Activities</b>	(74,069,805)	45,884,415
<b>Cash Flow From Investing Activities</b>		
Sale of Fixed Assets	-	120,000
Incurred on Projects in Progress/ Adjustments	1,445,386	(59,238,322)
<b>Net Cash flow from Investing Activities</b>	1,445,386	(59,118,322)
<b>Cash Flow From Financing Activities</b>		
Treasury Contribution	-	55,219,474
Other Contributions	-	45,407,453
<b>Net Cash flow from Financing Activities</b>	-	100,626,927
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>	(72,624,419)	87,393,020
Cash & Cash Equivalents at the beginning of the year	95,300,790	7,907,770
<b>Cash &amp; Cash Equivalents at the end of the year</b>	22,676,370	95,300,790
<b>Cash and Cash Equivalents</b>		
Cash at Bank and in Hand	22,676,370	19,431,653
Investment in Treasury Bills	-	75,869,136
	22,676,370	95,300,790



# Summary of Significant Accounting Policies

1. Under the Air Navigational Act, the management of Capital Assets has been entrusted to Airport & Aviation Services (SL) Ltd., but the ownership of the Assets remains with the Government of Sri Lanka. Since the Income generated by utilising the assets employed is shown in a separate set of accounts, an Income Statement fully compliant to SLAS 3 cannot be prepared logically.

However, an Income & Expenditure Statement has been prepared, without charging the annual depreciation for the year under reference in the same format as per the last years accounts.

2. Financial Statements have been prepared on the historical cost basis with generally accepted accounting principles. No adjustments have been made for inflationary factors affecting the Financial Statements.
3. All known liabilities have been accounted for, in preparing financial statements.

4. **Depreciation**

Depreciation has not been provided in the Income Statement, however a statement showing a depreciation charge for the year and the cumulative and written down value of assets as at December 31, 2009 has been prepared on memorandum basis and given as notes to the accounts (Refer Schedule - 01)

The provision for depreciation is calculated in the schedule attached by using the straight-line method on the cost of all property, plant and equipment in order to write off such amounts over the estimated useful lives by equal installments. The annual depreciation of Assets for the current year is Rs.1,698,625,601/-

The revenue generated with the Fixed Assets of this Fund accrue to AASL and dealt with in a separate set of books (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.

Property, plant and equipment acquired prior to January 1, 2006 were fully depreciated in the year of disposal but none in the year of purchase. Property, plant and equipment acquired after January 1, 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 October 10, 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. This has been disclosed under Item No 1 of the Accounting Policies and also under Notes to the Accounts – 1. “ Fixed Assets”, which was accepted by the Auditor General in the Accounts for the year ended December 31, 2005.

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.

# Notes to the Accounts

For The Year Ended 31st December 2009

**1. Fixed Assets**

Fixed Assets Master Summary is enclosed as Schedule - 01

The Fixed Assets are stated at cost. Depreciation has not been provided in the Accounts and is shown as a note wherein the relevant depreciation rates have also been stated (Ref. Accounting Policies).

**2. Treasury Contribution – Local**

Payment of local taxes and duties in respect of the Phase 2 Development Project of the Bandaranaike International Airport has been recognised under Treasury Contribution Local.

**3. Treasury Contribution – Foreign**

Direct Foreign Aids Payments and Reimbursable Foreign Aids in respect of BIA Development Project have been recognised under Treasury Contribution Foreign.

**4. Income & Expenditure Account**

As per Treasury Directive an Income & Expenditure Account for the Development Project has been prepared taking into account the Treasury Bill Interest receipts, Bank Charges and Debit Tax. This results in accumulative loss of Rs.125,675,245/- up to year 2009.

**5. 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 Company during the year ended December 31, 2009.

**Schedule 01  
Fixed Assets & Depreciation Summary as at 31st December 2009**

Description	Dep. Rate	Cost (Rs.)			Depreciation (Rs.)			Net Book Value
		Balance as at 01/01/09	Adjustments/Transfers	Balance as at 31/12/09	Balance as at 01/01/09	Charge for the Year	Balance as at 31/12/09	
Land	0.0%	742,240,632	-	742,240,632	-	-	-	742,240,632
Road & Roadways	5.0%	192,220,184	-	192,220,184	40,942,364	8,773,394	49,715,757	142,504,427
Buildings	5.0%	4,545,134,410	79,331,283	4,624,465,693	727,685,413	220,502,045	948,187,458	3,676,278,235
Communication Equipment	12.5%	993,913,387	741,406	994,654,793	371,377,678	110,937,294	482,314,972	512,339,821
Plant & Machinery	25.0%	3,229,825,891	(17,490,958)	3,212,334,934	2,002,604,645	675,780,200	2,678,384,846	533,950,088
Motor Vehicles	25.0%	84,450,777	-	84,450,777	61,261,030	11,997,522	73,258,552	11,192,224
Fire Rescue Vehicles	25.0%	167,477,115	-	167,477,115	167,477,111	-	167,477,111	4
Structures	12.5%	56,340,251	-	56,340,251	56,331,514	4,359	56,335,872	4,379
Navigational Equipment	12.5%	3,192,393,406	(15,822,577)	3,176,570,829	2,003,469,245	221,773,696	2,225,242,941	951,327,889
Equipment	12.5%	113,375,278	-	113,375,278	105,348,223	3,900,546	109,248,769	4,126,509
Furniture	12.5%	361,223,154	(8,160,925)	353,062,230	315,842,523	6,530,732	322,373,255	30,688,974
Hangars	12.5%	7,188,779	-	7,188,779	7,188,775	-	7,188,775	4
Fixtures & Fittings	12.5%	205,755,374	1,199,375	206,954,749	60,423,390	23,303,434	83,726,824	123,227,925
Fencing & Gate	12.5%	42,488,994	-	42,488,994	23,414,719	3,689,945	27,104,664	15,384,330
Apron	5.0%	1,319,386,394	-	1,319,386,394	462,006,771	56,665,217	518,671,989	800,714,406
Taxiways	5.0%	411,311,373	-	411,311,373	108,948,462	20,565,569	129,514,030	281,797,343
Electrical Installation	12.5%	474,299,666	-	474,299,666	230,144,564	40,988,122	271,132,686	203,166,980
Aero Bridges	12.5%	1,011,414,025	-	1,011,414,025	331,586,272	126,426,753	458,013,025	553,401,000
Sewage Disposal System	12.5%	280,690,397	-	280,690,397	189,472,494	70,656,139	260,128,632	20,561,765
Water Supply & Drainage System	12.5%	245,566,027	-	245,566,027	89,740,221	31,724,975	121,465,196	124,100,831
Equipment - Office	25.0%	49,757,920	2,128,600	51,886,521	40,459,753	2,658,900	43,118,653	8,767,868
Equipment - Other	12.5%	369,096,097	(43,371,591)	325,724,506	281,009,477	8,805,645	289,815,122	35,909,384
Equipment - Fire & Safety	12.5%	94,772,800	-	94,772,800	32,237,382	11,183,382	43,420,764	51,352,036
Runway	5.0%	1,779,315,364	-	1,779,315,364	1,488,643,871	30,835,148	1,519,479,019	259,836,345
Terminal Building	5.0%	2,449,441,310	-	2,449,441,310	2,428,146,074	6,553,002	2,434,699,076	14,742,233
Ancillary Buildings	5.0%	835,309,213	-	835,309,213	788,940,233	4,369,583	793,309,816	41,999,397
<b>Total</b>		<b>23,254,388,218</b>	<b>(1,445,386)</b>	<b>23,252,942,832</b>	<b>12,414,702,202</b>	<b>1,698,625,601</b>	<b>14,113,327,803</b>	<b>9,139,615,029</b>
<b>Net Book Values</b>		<b>10,839,686,016</b>		<b>9,139,615,029</b>				

# Notes to the Accounts *contd.*

For The Year Ended 31st December 2009

	2009 Rs.	2008 Rs.
<b>Schedule 02</b>		
<b>Deposits &amp; Advances</b>		
12.02.08      107483 / JV 03      Divisional Secretary, Mt. Lavinia	41,000,000	41,000,000
22.02.08      107769 / JV 03      Div. Secretary, Katana	2,000,000	2,000,000
31.12.97      1751      Div. Secretary, Katana	2,083,648	2,083,648
16.12.98      1861      District Secretary, Gampaha	4,718,000	4,718,000
	834,118	834,118
	50,635,766	50,635,766
<b>Schedule 03</b>		
<b>Amounts due from Related Parties</b>		
Current Account With Company	88,817,944	8,999,216
Current Account With Retained Revenue	3,539,413	3,539,413
	92,357,357	12,538,629
<b>Schedule 04</b>		
<b>Other Receivables</b>		
Debtors ( Sri Lankan Airline)	2,500,000	2,500,000
	2,500,000	2,500,000
<b>Schedule 05</b>		
<b>Bank Accounts</b>		
Bank of Ceylon Corporate Branch C/A 0000000451	19,631,601	16,459,294
Bank of Ceylon Corporate Branch C/A 0000001600	3,044,769	2,972,359
	22,676,370	19,431,653
<b>Schedule 06</b>		
<b>Creditors</b>		
Taisei Mitsubishi Joint Venture	186,195,950	186,913,630
VAT Control Account	4,103,026	4,830,732
	190,298,976	191,744,362
<b>Schedule 07</b>		
<b>Amounts due to Related Parties</b>		
C/A With Government Revenue	5,000,000	5,000,000
	5,000,000	5,000,000
<b>Schedule 08</b>		
<b>Profit &amp; Loss On Disposal of Fixed Assets</b>		
Sale Proceeds / Insurance Claim	-	120,000
Less - Costs		
Escalator "OTIS"	-	2,211,236
Profit / (Loss) on Disposal	-	(2,091,236)
<b>Schedule 09</b>		
<b>Repair &amp; Maintenance of Project Office</b>		
Cost of Carpeting & Vertical Blinds	-	180,574
Other Repair & Maintenance Expenses	-	264,217
	-	444,791

# Explanatory Notes on the Report of the Auditor General

Voted Fund Account (Grants provided by the Parliament to AASL) For the Year Ended 31 December 2008

## 2.2 Comments on Financial Statements

### 2.2.1 Non-compliance with Laws, Rules, Regulations and Management decisions

Rs. 75.8 Mn. being the balance excess payment refunded by the Contractor was temporarily invested in Treasury Bills until the loan repayment was due on August 20, 2009.

Action will be taken to obtain Treasury approval to invest excess funds, even if it is on temporary nature, in the Treasury Bills as per clause (2) of the Financial Act No. 38 of 1971 in future.

### 2.2.2 Lack of Evidence for audit

Deposits & Advances

Institution	Amount (Rs)	Confirmation
Divisional Secretary, Mt. Lavinia	41,000,000	Requested. No response
Divisional Secretary, Katana	2,000,000	Requested. No response
Divisional Secretary, Katana	2,083,648	Requested. No response
Divisional Secretary, Mt. Lavinia	834,118	Requested. No response
<b>TOTAL</b>	<b>45,917,766</b>	

Reminders will be sent to the relevant Divisional Secretaries to get their confirmations with regard to Deposits and Advances.

## 3. FINANCIAL AND OPERATING REVIEW

### 3.1 Financial Results

During the year, net surplus has increased to Rs. 7,194,308/- due to additional interest income earned from temporary investments in Treasury Bills.

### 3.2 Performance

The decline in operational performance for the year 2009 in comparison to 2008 was due to external factors such as Global economic downfall and Civil war prevailed in the country. The operating income too declined due to above external factors and increase in payments made to the Treasury on account of Government loan repayments obtained for the BIA developments.

However, after restoration of peace in the country, the latter part of the year reflected a steady growth in performance.

### 3.3 Under-utilisation of Assets

The loan agreement SLP-62 dated August 4, 1999 was effective from December 15, 2006.

There was a considerable delay in obtaining final approval to proceed with works in respect of contract packages "A" & "B1".

Due to competitiveness of tenders, there was a substantial saving of the loan, which was subsequently utilised to carry out additional works at an additional cost of JP Yen 3,644,439,911/-. Amount returned to JBIC could not be utilised due to non-availability of sufficient time to carry out further additional work.

# Explanatory Notes on the Report of the Auditor General *contd.*

The original scope of the works as given below were completed on schedule. However, some of the additional works were completed after the loan disbursement period.

- Package A - Civil & Utility work
- Package B1 - Passenger Terminal Building Work
- Package B2 - New Cargo Building Work
- Package C - Air Navigation Systems

Since SriLankan Airlines has been operating as the sole handling agent at BIA, the Company was not authorised to lease out this building to any other airline other than SriLankan Airlines. Although the company has been in the process of negotiation since 2005, SriLankan Airlines disputed certain conditions applicable to the lease agreement for the new building. Finally, the company managed to resolve disputed issues and accordingly lease agreement was signed in September 2009.

### **3.4 Lack of Particulars of Properties acquired**

Although there had been Gazette Notifications for acquisition of some land, since the project was abandoned, no further action has been taken with regard to title transfer. No compensation has been paid either.

### **3.5 Hambantota International Airport**

- a) A sum of Rs. 96,894,812/- had been incurred for the preliminary expenses such as Land Preparation, EIA Report, Construction of Building, Purchase of Equipment, Travelling expenses, Inauguration Ceremony expenses etc.
- b) We have requested from the Treasury to reimburse the expenses mentioned and received only Rs. 26.5 Mn. as at December 31, 2009

The sum of Rs. 307.5 Mn. has been allocated for the 1st quarter under the Government Estimate for the year 2010 and the balance of Rs. 70,394,812/- will be reimbursed by the Treasury out of the Government Estimates.

### **3.6 Acquisition of Lands**

Payment of compensation is beyond the control of AASL, and is handled by the Acquisition Officer concerned as per the Land Acquisition Act.

AASL has requested the Secretary to Ministry of Ports & Aviation as well as District Secretary, Gampaha to refund the unsettled funds back to AASL on the condition that this would be released back to Acquisition Officer whenever needed.

#### **4. SYSTEMS AND CONTROLS**

##### **a) Acquisitions of Lands**

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

##### **b) Contract Administration**

Contract Administration carried out in accordance with administration manuals issued and updated by the Consultants.

##### **c) Customs Duty and Reimbursement of Duty**

Reimbursements are done on the production of relevant cusdecs which have been certified by the Engineer as well as the Project Director. In certifying the claims submitted by the Contractors for reimbursements of duties and taxes, it is the Engineer's responsibility to ensure that the claimed amount is in accordance with the items imported specifically for the BIA Development.

# Principal Data

Name	:	<b>BANDARANAIKE INTERNATIONAL AIRPORT</b>
Location	:	32 km North of Colombo City
Elevation	:	9 m above mean sea level
Aerodrome Ref. Temp	:	32.30 °C
Total Airport Area	:	500 Hectares
Runway	:	Single Runway, 3,340 m long and 45 m wide, 7.5 m shoulder either side. Flexible Pavement Surface-Asphalt Porus Friction Course
Runway Designation	:	04 and 22
Taxi Way	:	Full Parallel to Runway width of 30 m. 7.5 m shoulders either side and 90° exist Taxiways 5 Nos. Surface Asphalt
Aircraft Parking Aprons	:	Four Parking Aprons – A, B, C & D Total Parking Positions – 29 Total Area – 287,608 Sq. m
Road Ways	:	Access to City & West of the Country via Colombo – Negombo Road Access to Central, North & East of the Country via Katunayake – Minuwangoda Road Expressway to city envisaged in the near future.
Car Parking Slots	:	Terminal Car Park – 350 Slots Remote Car Park – 320 Slots Coach Park – 34 Slots Special Enclosure for Tourist Coaches, Airlines and Authorised Tour Operators
Passenger Terminal Building	:	Total Floor Area – 90,000 Sq. m with 330 m Long Finger - Pier Building. Gate Lounges – 8 Contact Gates at Pier with 14 Nos. of Aerobridges – 4 Bus Gates Emigration – 16 Nos. of Passport Control Desks Immigration – 27 Nos. of Passport Control Desks Pax. Check-In Facilities – 54 Nos. of Check-In Desks
Terminal Equipment	:	Flight Information Displays Security Screening & Surveillance Systems Baggage Handling Systems Escalators & Lifts Automated People Mover System
Cargo Terminal	:	Handling Capacity – 300,000 MT/Year Ground – 7,500 Sq. m First Floor – 2,000 Sq. m Freezer & Cold Room – 133 Cu. m
Cargo Village Terminal I	:	Floor Area – 2,787 Sq. m Freight Forwarders Warehouses Airline Offices Banks Courier Service Gem & Diamond Exchange Customs



- Cargo Village Terminal II : Floor Area – 1,858 Sq. m  
Facilities for Refrigerated & Frozen Cargo  
Airmail Sorting Centre  
Off Shore Avionics Workshop – Aircraft Spare Stores
- Cargo Terminal III : Total Area – 2,320 Sq. m
- Maintenance & Stores Complex : Total Floor Area – 4,850 Sq. m  
Main Stores, Tool Stores & Workshop – 2,500 Sq. m  
Vehicle Maintenance – 1,500 Sq.m  
Administration – Technical – 750 Sq. m  
Central Fault Detection & Reporting System  
GEM 80 Central fault detection & reporting system
- Control Systems & Services : Terminal Area & Aerodrome Control Services by Control Tower  
Approach Control Service up to 60 NM with Primary Surveillance Radar &  
Secondary Surveillance Radar  
Fire & Rescue Services – Category 09  
Aeronautical Information Service  
Metrological Information Service  
DVOR / DME for Navigation & Homing  
ILS Cat.1 with Cat.2 capability on Runway 04 & 22  
PAPI both sides of the Runway  
Runway Lighting – Cat.1 & Cat.2 on 22 end  
– Cat.1 on 04 end  
Visual Docking Guidance System for 8 Contact Gates  
Automated Terminal Information Service (ATIS) Broadcast
- Other Facilities : VIP, WIP Facilities & On-Line Reservation Facility for CIP Lounge  
1st Class and Business Class Lounges  
Transit Hotel with 24 Nos. of Rooms and a Spa  
Special Facilities for Welcoming Tourists  
Taxi Service  
Local Transport  
Tour Operators  
Rent-A-Car  
Hotel Booking Counters  
Mobile Phone Connections  
Bond Baggage & Left Luggage  
Passenger Assistance  
Passenger Meeting  
Day Room & Showers  
Flight Kitchen  
Police Station  
Post Office  
Restaurants
- Medical Facilities : Medical Centre with Doctor on Duty on 24 Hour basis (With Ambulance)
- Fuel Farm Facilities : 24 Hour Refuelling Services Jet A-1 Fuel Hydrant Fuelling System







Airport and Aviation Services  
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