

Chairman's Report

Industry Outlook during 2002

The aviation industry which was severely affected worldwide after the 9/11 incidents showed signs of slow but steady recovery towards the middle of the year.

In the aftermath of 9/11 the major challenge faced by the aviation industry was re-gaining the confidence of the traveller whilst ensuring the safety and security of air travel. Surveys conducted in the United States have revealed an overall concern over future air travel by passengers. In fact some of those interviewed had expressed no desire to travel by air ever again.

Prohibitive increase in insurance cover against risk of war and Terrorism, saw the operational costs of airlines rising considerably, part of which was passed down to the passengers making air travel further discouraging.

Number of Airlines went bankrupt despite employee layoffs, down sizing, discontinuation of non-profitable routes etc. many airlines looked up to the Airports for concessions ranging from discounts on rates, to total waiver of Airport Charges.

The 9/11 incidents, which affected the Air travel industry worldwide, took place just under two months from the attack at the BIA and the adjoining Air Force Base, allowing no time for recovery. Travel advisories, were issued in many western countries against travel to Sri Lanka. The effect of those advisories was the cancellation of charters and majority of the reservations prearranged. Recovery was extremely difficult and time consuming.

The Government offer of free Landing at the BIA in August 2001 didn't have an apparent effect on attracting new Airlines or bringing back some of those who pulled out after the July 24th attack.

The initial intention of the Government was to grant the concession only up to December 31, 2001. However the concession was extended up to mid February 2002. The total effect of this concession on Airport Revenue was Rs 260 Mn while the effect on the 2002 results was Rs 80 Mn.

Most Airports were also severely affected with the state of affairs. Unlike the Airlines, airports do not have the flexibility of down sizing in the short term, since they have to maintain majority of their facilities already in place, irrespective of any reduction in passengers and Airline traffic.

Airports however managed to hold their overall costs and accounted for approximately 4% only of the airline operating costs. According to “Airport Council International” the overall airport expenses per passenger has dropped from USD 8.53 in 1998 to USD 7.59 in 2001.

ACI Economic Survey 2001 also reveals that despite being monopolies, most Airports have taken cost cutting measures such as hiring freezes, reduced staff travel, etc.

Worldwide Performance

The comparative passenger and Air Traffic figures for the first 9 months of 2001 and 2002 indicate a drop of 3.7% and 3.3% worldwide. The position has improved to 0.4% for passengers and 0.9% for aircraft as at end 2002. Cargo volumes in the meantime have recorded a 4.3% growth over 2001.

The Asia Pacific region however has recorded encouraging growth figures of 5.6% for passengers, 3.8% for aircraft movement and 13.1% for Cargo, over 2001

**Table 1 –Passengers, Aircraft Movement & Cargo
Growth 2002 over 2001**

	World	Asia Pacific	BIA
Passengers Movement	-0.4%	5.6%	5.2%
Aircraft Movement	-0.9%	3.8%	2.2%
Cargo Movement	4.3%	13.1%	10.6%

IATA's Traffic forecast for period 2001-2005 after events of September 11th 2001 indicates an overall average growth of 3.5% p.a., down 1.2 percentage points from the previous forecast. IATA had projected a negative growth of 0.5% in 2002 while a strong recovery in 2003, when passenger figures are expected to surpass 2000 levels for the first time.

Performance of BIA

Despite the downturn in the Worldwide Aviation Industry BIA recorded an operational surplus of Rs. 4.2 Mn before depreciation, for the year. This was Rs. 20.3 Mn. in 2001.

The report of the ICAO Security Team that was issued towards the latter part of 2001 assisted in regaining the confidence of the international community. The subsequent removal of travel advisories and the promotional programs initiated by the Ceylon Tourist Board saw a steady recovery of tourist arrivals. In fact 2002 recorded arrivals of 393,171 Tourists, which was an increase of 25.4% against the troubled year 2001.

In spite of the setbacks in the industry, slowly but steadily the BIA continued to move towards desired goals, to be the safest and friendliest airport in the Region.

Phase II Development

The much awaited development project with Japanese aid, achieved considerable progress. The Tenders for the project have been evaluated and the Cabinet approval for the award is awaited. This project, which covers the construction of a Pier with eight Gate Lounges and Boarding Bridges, is expected to be completed by end 2004. The project will also provide improved Radar and communication facilities. Once in place BIA would be one of the best Airports in the Region.

Improved reliability in Air Navigation Services

Upgrading of AFTN Circuits between Colombo – Mumbai and Colombo – Singapore

The existing AFTN Circuits low speeds of 50 & 75 Bauds were identified to be upgraded, as per the Regional air Navigation Plan implemented by ICAO in order to meet the following requirements.

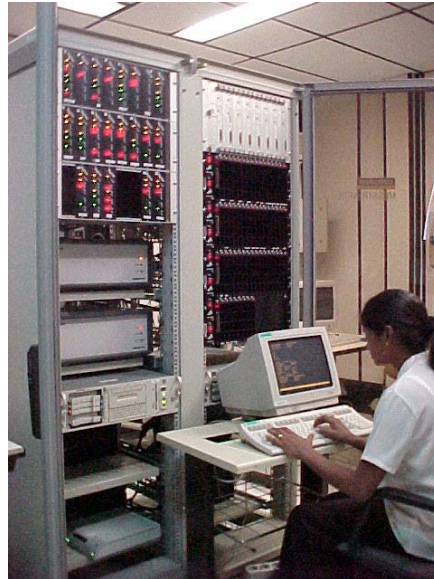
- a. to accommodate ever increasing AFTN message traffic between the nodes concerned*
- b. to prepare the necessary communication backbone infrastructure needed for the implementation of Aeronautical Telecommunication Network (ATN) in future.*

ATN will enable communication facility between ground – ground (fixed) segment as well as ground – air (mobile) segment for numerous Aeronautical voice and data communication applications.

Necessary communication infrastructure was established through International Private Leased Circuits (IPLC) operating at 64kbps, provided by Sri Lanka Telecom between Ratmalana-Colombo and Ratmalana- Singapore.

Operation of Ratmalana – Mumbai data circuit commenced on trial basis during mid 2002. Certain technical issues at Singapore for the establishment of data circuit between Ratmalana – Singapore are presently being addressed.

These two circuits are expected to be commissioned by mid 2003 marking a major enhancement of AFTN communication services thereby increasing the efficiency and availability of these services in keeping with the ICAO Regional Air Navigation plan.



**'MESSIR' AFTN Message Switching
Centre installed at Ratmalana Airport**

Improvements to Aero-mobile Service Console (AMSC)

As per a recommendation made by the ICAO mission carried out during 2000, two AFTN Terminals were installed at the operational positions of AMSC located at Ratmalana Airport.

This facility has enabled Aeronautical Comm. Officers who operate the AMSC, to directly enter the information obtained from Aircraft into the AFTN terminal to be sent to Flight Information Centre (FIC) for further action.

This improvement to AMSC made along with the facility to display GPS synchronized clock, has enhanced the accuracy and efficiency of aeronautical information relayed to FIC compared to the earlier arrangement of copying and retyping of such messages on an AFTN Terminal physically located at close proximity to the AMSC.

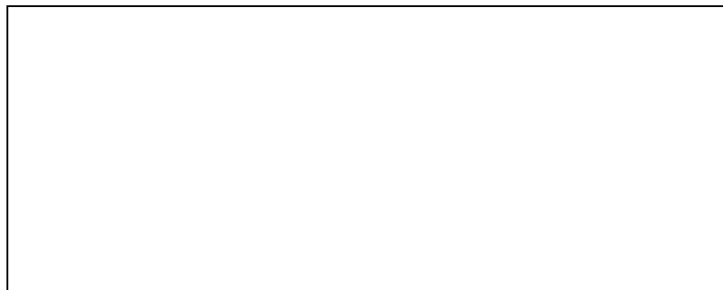


View of AMSC with the installation of two AFTN terminals and GPS synchronized clock

Preparedness for an Emergency

A new Rapid Intervention Fire Vehicle was added to the fleet of 11 Fire Vehicles during the year improving the reliability and response time in an emergency.

A full-scale emergency exercise was also carried out during the year.



The new RIV with the Fleet of Fire Vehicles in the background.

Domestic Aviation

A new lease of life was given to Domestic Aviation when civil flights between Colombo Airport, Ratmalana and Palaly (North) commenced in June 2002, subsequent to the peace initiation between the Government and the LTTE.

The AASL entered a new sphere of commercial activity in August 2002, in providing ground handling services for Domestic Flights, at the Ratmalana Airport.

Rs. 4.3 Mn was invested to convert the Ratmalana Terminal Building for passenger and baggage screening and the provision of other facilities for departing and arriving passengers.

The first private airline operator to undertake these flights was Expo Aviation (Pvt) Limited. They have been joined by two others since September 2002, viz Serandib Express (Pvt) Limited and Lion Air (Pvt) Limited.

By the end of the year they have increased the total flights to Palaly to 132 per month, the approximate passengers handled per month being 6900. Encouraged by the progress made in these flights the possibility of extending domestic aviation to other parts of the country was also explored during the year. Accordingly, Weerawila, Chinabay, Koggala, Ampara, Batticaloa and Anuradhapura Airports, which were non-operational during the past several years, have been identified for development under private/public joint venture basis.

Personnel Development

The operation of BIA at internationally accepted levels of safety, security and facilitation requires a competent and well-trained work force. Being the gateway to the country the first impression of visitors depends on the courtesy and the efficiency with which they are served at the Airport. AASL continued to strive hard to achieve this end through continuous training of their staff locally as well as abroad. While 668 were trained locally some of them at the Civil Aviation Training Centre of AASL and the others at outside Agencies 51 were granted an opportunity to obtain foreign training. The total cost of training for the year was Rs. 15.6 Mn.

Considering the set back faced by the aviation industry as a whole right round the world since 9/11, I am quite satisfied with the progress the BIA has made during the past. With the strong signs of recovery that is evident, I am also confident at despite the uncertainty created by the Gulf War, the future outlook is better for the BIA.

I wish to avail of this opportunity to express my gratitude to the Board of Directors, the Senior Management and the Staff who rallied round me in meeting numerous challenges faced by the

organization during the year. I have no doubt that I would have their support in the years to come as well.

Hemasiri Fernando

Chairman
April 28, 2003

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DIRECTORS' REPORT

Year ended December 31,2002.

The Directors have pleasure in presenting their report, together with the Audited Accounts of the Company for the year ended December 31, 2002.

ACTIVITIES OF THE COMPANY

The main activities of the Company which remained unchanged since the previous year, were the provision of Air Navigational Support 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 Government Grants and Government Revenue retained for the purpose.

OPERATING RESULTS

The Company recorded a Pre-Tax profit of

Rs 0.5 Mn. Compared to Rs 63.2 Mn in the previous year.

The Government's decision to exempt Landing Charges upto 14/02/2002 to encourage aircraft arrivals after the terrorist attack on 24/07/2001 resulted in a loss of revenue share of the Company by approximately Rs 25.9 Mn. There were

reductions in Franchise Fees on Sri Lankan Catering Services and Overhead Recoveries

amounting to Rs 26.2 Mn and Rs 6.8 Mn respectively. The Increase in personnel cost of

Rs 64.0 Mn over the previous year was one of the main contributors to the reduction in the Pre Tax Profit.

The Post Tax Loss was Rs. 40.3 Mn. compared to a Post Tax Loss of Rs. 21.3 Mn. in the previous year.

REVENUE

Revenue consisting of Agency Fees, Rental & Concessions and other Income for the year 2002 increased by 13% to Rs 1612.6 Mn, compared to Rs 1427.5 Mn in 2001. Major contributors towards this net increase were :

- Rs 100.3Mn overall increase in Agency Fee mainly arising from the increase in Embarkation Tax.
- Rs.67.1 Mn increase in Rental & Concession income
- Rs 24.9 Mn increase in Ground Handling Franchise Fee from Sri Lankan Airlines Limited
- Rs 26.2 Mn decrease in Franchise Fee from Sri Lankan Catering Services Ltd.

- There was a 43% (Rs. 38.3 Mn.) reduction in Interest Income in the year compared to the previous year from

Rs. 87.9 Mn. to Rs. 49.6 Mn. due to the decrease in Treasury Bill interest rates from an average 17% in the previous year to 11 %.

OPERATING EXPENDITURE

Total Operating Expenditure increased by

Rs 232.0 Mn over the previous year to Rs 1632.0 Mn representing an increase of 16.6%.

Increase in Personnel Expenses by 65.2 Mn (7%) and Electricity Charges by 103.0 Mn (45%) were the main Contributors for the increase in expenses.

DIRECTORS

(1) The Directors of the Company as at December 31, 2002 were :

Mr. Hemasiri Fernando	-	Chairman
Maj.Gen. Ananda Weerasekera	-	Vice Chairman
Mr. Gamini Abeyratne	-	Executive Director
Mr. Dulindra Weerasuriya	-	Executive Director
Mr. D Widanagamachchi	-	Director
Mr. Quintus Tissera	-	Director
Mr. Alfred De Silva	-	Director
Mr. Anomal De Soysa	-	Director

AVM Anselm Peries, Chairman resigned from the Board on 23/01/2002 and Mr.

Hemasiri Fernando was appointed on 24/01/2002 as the Chairman.

Mr. D N Jayawardana, Vice Chairman/Executive Director resigned from the Board on 05/02/2002 and Major General Ananda Weerasekera was appointed on 25/03/2002 as Vice Chairman.

Mr. Nimal de Britto, Executive Director resigned from the Board on 06/02/2002. Mr. L Gunawardana, Mr. M Fernandopulle, Directors and Mrs. M A R V Nanayakkara (Treasury Representative) resigned on 05/02/2002.

Mr. V J Inbaraj Director resigned on 06/02/2002. Mr. Dulindra Weerasuriya was appointed a Director on 02/04/2002 and later appointed as an Executive Director on 28/10/2002. Mr. Gamini Abeyratne was appointed as Executive Director on 28/10/2002.

Mr. D Widanagamachchi, Mr. Quintus Tissera, Mr. Alfred De Silva and Mr. Anomal De Soysa were appointed on 02/04/2002, 08/05/2002, 25/06/2002, 21/06/2002 respectively as Directors.

SHAREHOLDING as at December 31, 2002

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

 200,002 20,000,200
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Hemasiri Fernando
CHAIRMAN

April 30, 2003

PERSONNEL

At the beginning of the year, 3033 employees were on the permanent payroll. As at December 31, 2002 the total employee strength stood at 2968 representing a net decrease of (65 employees) 2.2% during the year.

AUDITORS

M/s KPMG Ford, Rhodes, Thornton & Co.,
 Chartered Accountants
 32, Sir Mohamed Macan Markar Mawatha,
 Colombo 3.

M/s KPMG Ford, Rhodes Thornton & Company are available for reappointment.

ACKNOWLEDGMENT

The Board wishes to avail of 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 Transport, Highways & Civil Aviation and other Institutions that continued to assist the Company in its endeavours.

BY ORDER OF THE BOARD

BALANCE SHEET

<u>As At 31st December</u>		<u>2002</u>	<u>2001</u>
	<u>Notes</u>	Rs.	Rs.
ASSETS			
Property, Plant & Equipment	1	182,746,142	198,875,456
Total non-current assets		182,746,142	198,875,456
Inventories	2	109,210,372	106,384,460
Trade & Other Receivables	3	271,804,224	286,026,656
Treasury Bills		481,041,963	459,976,712
Current Account with Govt Revenue		76,457,148	16,371,091
Cash at Bank and in Hand		1,434,830	10,702
Total current assets		939,948,537	868,769,621
TOTAL ASSETS		1,122,694,679	1,067,645,077
EQUITY & LIABILITIES			
Share Capital	4	20,000,200	20,000,200
Net Assets taken over from Airport Authority		91,624,459	91,624,459
Retained Earnings		338,139,671	378,454,866
Shareholders' funds		449,764,330	490,079,525
Grants	5	5,201,396	6,859,282
Deferred Expenditure	6	(81,076,580)	(135,842,176)
		373,889,146	361,096,631
Retiring Benefit Obligations.	7	477,171,727	451,727,511
Deferred Taxation	8	-	-
Non - current liabilities		477,171,727	451,727,511
Trade & Other Payables	9	257,259,412	211,258,514
Income Tax Payable		7,403,596	37,496,325
Bank Overdraft		6,970,798	6,066,096
Current liabilities		271,633,806	254,820,935
TOTAL EQUITY & LIABILITIES		1,122,694,679	1,067,645,077

Figures in brackets indicate deductions.

The accounting policies and notes thereto form an integral part of these accounts.

For and on behalf of the Board -

.....
Director
Colombo
25th April, 2003

.....
Director

Airport & Aviation Services (Sri Lanka) Ltd.,
31st December, 2002

INCOME STATEMENT

<u>For the Year Ended</u>	<u>Notes</u>	<u>2002</u> Rs.	<u>2001</u> Rs.
Turnover	10	<u>1,582,795,335</u>	<u>1,375,363,119</u>
Salaries & Related Costs		(976,280,931)	(912,248,373)
Directors' Emoluments		(3,886,422)	(2,751,796)
Auditors' Remuneration		(245,000)	(245,000)
Depreciation		(53,502,709)	(44,968,600)
Repairs & Maintenance Expenses		(101,366,640)	(89,606,071)
Other Operating Expenses		<u>(496,825,608)</u>	<u>(350,246,710)</u>
Operating Profit/(Loss) from Operations		(49,311,975)	(24,703,431)
Profit on sale of Property Plant & Equipment		227,505	-
Interest Income	11	<u>49,592,048</u>	<u>87,870,044</u>
Profit / (Loss) Before Taxation		507,578	63,166,613
Income Tax Expense.	12	<u>(40,822,773)</u>	<u>(84,478,237)</u>
Profit / (Loss) After Taxation		<u>(40,315,195)</u>	<u>(21,311,624)</u>
Basic Earnings / (Deficit) per share - (Rs.)	13	(202)	(107)

Figures in brackets indicate deductions.

The accounting policies and notes thereto form an integral part of these accounts.

AIRPORT AND AVIATION SERVICES (SRI LANKA) LIMITED
RETAINED REVENUE PROJECTS ACCOUNTS
BALANCE SHEET AS AT 31ST DECEMBER 2002

	<u>2002</u> Rs.	<u>2001</u> Rs.
<u>FINANCED BY</u>		
<u>ACCUMULATED FUND</u>		
Retained Revenue as at 1st January 2002	1,727,118,943	1,521,901,808
Retained Revenue During the year	<u>237,815,426</u>	<u>205,217,135</u>
	1,964,934,369	1,727,118,943
Interest Income	325,787,060	291,138,477
United Nations Development Programme Grant	246,265	246,265
Contributions from Other Sources	<u>62,323,991</u>	<u>62,323,991</u>
	2,353,291,685	2,080,827,676
Contributions to Development Project	(32,000,000)	(32,000,000)
	<u><u>2,321,291,685</u></u>	<u><u>2,048,827,676</u></u>

.....)
) Directors
.....)

AIRPORT AND AVIATION SERVICES (SRI LANKA) LIMITED
RETAINED REVENUE PROJECTS ACCOUNTS
BALANCE SHEET AS AT 31ST DECEMBER 2002

	<u>2002</u>	<u>2001</u>
	Rs.	Rs.
<u>FIXED ASSETS</u>		
<u>AT COST</u>		
Buildings	445,005,333	423,910,614
Communication Equipment	64,679,206	60,740,998
Plant & Machinery	42,180,364	40,278,940
Structures	75,323,858	75,195,964
Equipment	19,004,672	18,969,773
Furniture	9,833,009	9,833,048
Hangars	1,215,392	1,215,392
Fixtures & Fittings	5,818,155	5,818,155
Fencing & Gates	39,968,295	38,775,052
Miscellaneous Capital Items	122,226,362	121,026,544
Electrical Installation	8,497,142	8,497,141
Apron	234,736,164	234,736,164
Fire & Rescue Vehicles	10,470,472	10,470,472
Motor Vehicles	16,789,531	16,789,531
Roads & Roadways	3,268,455	1,814,561
Training Equipment	63,436,344	63,436,344
Navigational Equipment	60,259,898	60,259,897
Fire & safety Equipment	836,529	-
	<u>1,223,549,181</u>	<u>1,191,768,590</u>
<u>PROJECTS IN PROGRESS</u>		
Retained Revenue Projects in Progress	649,095,862	596,850,713
Advances On projects	7,097,552	2,174,745
Deposits	404,753	404,753
Bank Charges	59,576	55,227
Debit Tax	68,297	-
	<u>656,726,040</u>	<u>599,485,438</u>
<u>NET CURRENT ASSESTS</u>		
Investment in Treasury Bills	397,168,112	224,157,450
Interest Receivable	621,939	257,113
Bank of Ceylon -0660-02-0000233-3	(3,543,697)	22,126,451
Bank of Ceylon -0660-02-0000676-2	3,269,458	-
Retention	(3,561,047)	(15,950,571)
C/A with Development Project	26,516,523	26,500,815
C/A with Company	(4,050,625)	(4,916,223)
C/A with Government Revenue	24,747,982	5,722,336
Withholding Tax	(152,181)	(323,723)
	<u>441,016,464</u>	<u>257,573,648</u>
	<u>2,321,291,685</u>	<u>2,048,827,676</u>

AIRPORT AND AVIATION SERVICES (SRI LANKA) LIMITED
RETAINED REVENUE PROJECTS ACCOUNTS

ACCOUNTS

YEAR ENDED

31ST DECEMBER 2002

AIRPORT AND AVIATION SERVICES (SRI LANKA) LIMITED
RETAINED REVENUE PROJECTS ACCOUNTS
RECEIPTS AND PAYMENTS ACCOUNT FOR THE YEAR 31ST DECEMBER 2002

Rs.

RECEIPTS

Retained Revenue Contribution	218,789,781
Interest Income	34,283,756
Refund of Advances	30,184
Receipts from Company	5,595,745
	<u>258,699,466</u>

LESS: PAYMENTS

04 End Drainage at BIA	3,351
Trunked Radio System for Ground Communication System	1,622,344
Construction of Cargo Terminal III	2,453,925
Construction of Security Billet Complex	2,357,970
Extension to administrative block & construction of a toilet at Airport Manager's office - RMA	1,160
Chain Link Fencing along the Attidiya Road side TX-Station	533,155
Const. of Duty Free Shopping Complex	24,858,226
Medical Storage for Triage Area	489
Facilities for Design Consultants	65,648
Improvements to VIP Garden & Arrival Terminal Garden	102,456
Const. of Canteen at Air Cargo Village	41,328
Customs office at Air Cargo Village / Quarantine	4,222,562
Renovations to existing toilets & cont. of a new toilet	456,276
Salvage Stores RMA	266,266
Augmentation of Water Supply at BIA	3,403,922
Refurbishment of central A/C Plant at RMA	5,118
Improvements to water supply system at BIA	34,551
Extension & Improvements to staff canteen at RMA	5,170
Expansion of Communication facility between RMA & BIA	258,160
Supply & Installation of A/C System to the Project office	248,630
Improvements to the Well & Const. of Pump House at Attidiya	2,461
Refurbishment of Ratmalana Area Control Centre	103,146
Const. of Cubicles to Departure Vehicle Porch	364,437
Expansion of Arrival porch	939,812
Additional VIP room & toilet - BIA VIP Lounge	14,846
Treatment of well water supply to Naikanda water tower	829,340
Construction of Foot Bridge , Rest room & toilets at Pidurutalagala	235,056
10 KVA standby power generator for BIA - Kapungoda	22,729
Improvements to the public toilet	183,546
Improvement of facilities at VVIP landscaping office for PKS and Supervisory staff	31,076
Const. of raised floor aeronautical mobile service centre	279,990
Const. of power house & relocation of standby generator	326,079
Renovation to fire station Building - RMA	1,131,017
Balance C/F	<u>45,404,242</u>

AIRPORT AND AVIATION SERVICES (SRI LANKA) LIMITED
RETAINED REVENUE PROJECTS ACCOUNTS
RECEIPTS AND PAYMENTS ACCOUNT FOR THE YEAR 31ST DECEMBER 2002

	Rs.
Balance B/F	45,404,242
Construction of shops at Departure walkway	16,007
Development of a new road between the railway line & Temple	93,147
Installation of cameras & monitors at arrival terminal	1,066,084
Improvements to Bore well water supply - BIA	1,200
Supply & Installation of pumps & accessories for proposed sewerage pit for Admin Bldg.	1,009,774
Play ground & indoor stadium - AASL	512,849
Const. of smoking room at BIA	408,589
Const. of an additional chain link fence around radar antenna at radar hill	294,813
Hazardous material response suits & Equipment	826,526
Procurement of a solar heating system	423,703
Const. of kennel for police dogs	308,988
Fabrication & erection of shelter	581,266
Rest room for plumbers at batik garages	24,273
Const. of CIP lounge at BIA	1,786,781
Improvements to terminal building at Ratmalana	4,088,275
Pre - fab office building - RMA	1,498,621
Extention to X ray machine hall	112,654
Const. of guard hut for the police station at BIA	33,696
Extention to the ornamental fence at the VVIP Lounge	7,750
Emergency rescue pier & building at BIA	51,454
Fire vehicle	140,640
Const. of an elevated water tank	48,453
Procurement of 20 ton mobile crane	78,727
Expansion of arrival terminal building	19,412,670
Construction of holiday bungalow at Kataragama	10,880
Construction of holiday bungalow at Anuradhapura	60,227
Const. of parking area at BIA	226,884
Proposed parallel runway & associated works	131,766
	78,660,939
<u>Payments to creditors</u>	
Commissioner General of Inland Revenue	961,118
AAS (SL) Ltd. Cost of material & 20 % O/H	10,339,109
<u>Release of Retention</u>	
CIW Enterprises	31,624
Nilantha Enterprises	19,073
Alcomax Engineering / Retention	1,772
Ally Weerasinghe Ltd. / Retention	1,090
State Engineering Corp.	10,377,978
Balance C/F	10,431,537

AIRPORT AND AVIATION SERVICES (SRI LANKA) LIMITED
RETAINED REVENUE PROJECTS ACCOUNTS
RECEIPTS AND PAYMENTS ACCOUNT FOR THE YEAR 31ST DECEMBER 2002

		Rs.
Balance B/F		10,431,537
Prashadini Iron Works		2,321
Harithma Construction		121,225
Teletronics Ltd.		93,200
D G Builders		8,467
Polychem Lanka Ltd.		19,801
Link Engineering Ltd.		98,244
Civimech (Pvt) Ltd.		86,303
Wijaya Engineering & Const. Ltd.		138,560
Free Lanka Granite Ltd.		10,204
Wijaya Engineering & Const. Ltd.		8,259
		11,018,121
 <u>AA(SL)LTD Reimbursements</u>		
Duty and other charges	188,044	
Storage Charges	4,783	192,827
 <u>Advances</u>		
Lanka Walltiles Ltd.	14,484	
A A Senarathne	5,600,000	
Road Const. & Development Co. Ltd.	29,700	
Titan Steels	20,147	
Bank of Ceylon	19,564	
Bank of Ceylon	39,128	5,723,023
 <u>Payments made on behalf of Co.</u>		
Cashier/S M R Rafeek	8,824	8,824
 <u>Payments made on behalf of Voted Funds</u>		
Cashier/S M R Rafeek	1,830	
Cashier/AA(SL)LTD	14,692	16,522
 <u>Others</u>		
GST Payments (Recoverable from Co.)	1,096,365	
Bank Charges	72,646	1,169,011
Total Payments		108,089,494
Excess of Receipts over Payments		150,609,972
Add:Balance B/F		246,283,901
Cash at Bank / Treasury Bills		396,893,873

Airport & Aviation Services (Sri Lanka) Ltd.,
31st December, 2002

STATEMENT OF CHANGES IN EQUITY

	Share Capital Rs.	Net Assets taken over from Airport Authority Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01.01.2001 / as previously stated	20,000,200	91,624,459	365,973,676	477,598,335
Prior year adjustments (PYA)			33,792,814	33,792,814
Balance as at 01.01.2001 after PYA	20,000,200	91,624,459	399,766,490	511,391,149
Net profit / (Loss) for the year	-	-	(21,311,624)	(21,311,624)
Balance as at 31st December, 2001	20,000,200	91,624,459	378,454,866	490,079,525
Net Profit / (Loss) for the year	-	-	(40,315,195)	(40,315,195)
Balance as at 31st December, 2002	<u>20,000,200</u>	<u>91,624,459</u>	<u>338,139,671</u>	<u>449,764,330</u>

The Company had not considered previously temporary differences arising due to provision for retiring gratuity in the computation of Deferred Tax. The Accounting Policy for Deferred Taxation has been disclosed in Accounting Policies to the financial statements.

The change of basis of computation was accounted retrospectively and the resulting adjustment made to the opening balance of the retained earnings, in accordance with the Sri Lanka Accounting Standard No 10 Net Profit or Loss for the period, Fundamental Error and Changes in Accounting Policies.

Figures in brackets indicate deductions.

The accounting policies and notes thereto form an integral part of these accounts.

**Airport & Aviation Services (Sri Lanka) Ltd.,
31st December, 2002**

CASH FLOW STATEMENT

<u>For the Year Ended</u>	<u>2002</u>	<u>2001</u>
	Rs.	Rs.
Cash Flow from Operating Activities		
Net Profit before Taxation	507,578	63,166,613
Adjustments for		
Depreciation on Property, Plant and Equipment	53,502,709	44,968,600
Provision for Retiring Gratuity	46,126,335	101,927,269
Amortisation of Deferred Expenditure	45,280,727	45,280,727
Amortisation of Grants	(1,657,886)	(3,635,899)
Profit on Disposal of Property, Plant & Equipment	(227,505)	-
Provision for Non-Moving Inventories	(1,446,643)	299,239
Provision for Bad Debts and Unrecoverable Deposits	18,140,697	433,514
Debtors write off	-	21,587
Operating Profit before Working Capital Changes	<u>160,226,012</u>	<u>252,461,650</u>
(Increase)/Decrease in Inventories	(1,379,269)	924,523
(Increase)/Decrease in Debtors & Receivables	(63,294,117)	(116,571,497)
Increase/(Decrease) in Creditors & Payables	46,000,897	35,154,288
Cash Generated from Operations	<u>141,553,523</u>	<u>171,968,964</u>
Retiring Gratuity Paid	(11,907,455)	(5,882,357)
Income Tax Paid	(70,915,502)	(84,843,156)
Net Cash Flow from Operating Activities	<u>58,730,566</u>	<u>81,243,451</u>
Cash Flow from Investing Activities		
Purchase and construction of Property, Plant & Equipment	(37,373,449)	(57,924,381)
Proceeds from Sale of Property, Plant & Equipment	227,560	-
Net Cash used in Investing Activities	<u>(37,145,889)</u>	<u>(57,924,381)</u>
Net Increase in Cash & Cash Equivalents	<u>21,584,677</u>	<u>23,319,070</u>
Cash & Cash Equivalents at the beginning of the year	<u>453,921,318</u>	<u>430,602,248</u>
Cash & Cash Equivalents at the end of the year (Note A)	<u>475,505,995</u>	<u>453,921,318</u>

Note A

<u>Increase in Cash and Cash Equivalents</u>	<u>Opening</u>	<u>Closing</u>	<u>Movements</u>
	Rs.	Rs.	<u>during the Year</u>
Cash at Bank and in Hand	10,702	1,434,830	1,424,128
Treasury Bills	459,976,712	481,041,963	21,065,251
Bank Overdraft	(6,066,096)	(6,970,798)	(904,702)
	<u>453,921,318</u>	<u>475,505,995</u>	<u>21,584,677</u>

ACCOUNTING POLICIES

1. General

The Financial Statements are prepared under the historical cost convention in accordance with Sri Lanka Accounting Standards, and provide the information required by the Companies Act No.17 of 1982. No adjustment has been made for inflationary factors affecting the Financial Statements.

2. Assets and Bases of their Valuation

2.1 Property, Plant & Equipment

The Property, Plant & Equipment are stated at cost or valuation (the latter where they have been taken over from the Airports Authority and UNDP CATS Project) less accumulated depreciation.

2.1.1 The cost of Property, Plant & Equipment is the cost of acquisition or construction together with any expenses incurred in bringing the assets to its' working condition for its' intended use.

2.1.2 Depreciation

Depreciation is charged on all Property, Plant & Equipment on the straight line basis to write off the cost using the following rates per annum.

Buildings	5.0%
Furniture & Fittings	12.5%
Communication Equipment	12.5%
Fire & Safety Equipment	12.5%
Other Equipment	12.5%
Office Equipment	25.0%
Training Equipment	25.0%
Plant & Machinery	25.0%
Motor Vehicles	25.0%

No depreciation is provided on Property, Plant & Equipment in the year of purchase, whilst full year depreciation is charged in the year of disposal.

ACCOUNTING POLICIES

2.1.3. Capital Work-in-Progress

Capital Work-in-Progress represents capital assets in transit.

2.2 Development Projects Undertaken on behalf of the Government

The capital expenditure on development of Airport facilities which is funded by the Government is not incorporated in these accounts.

However, the capital expenditure on the "Cargo Village Equipment" which is funded by a Government Grant, is reflected in these accounts under Property, Plant & Equipment.

3. Inventories

All inventories have been valued at the lower of cost or net realizable value. The general basis on which cost is determined is at weighted average cost.

Company has provided for Inventories which are non moving for more than 10 years. The Company's policy is to write off the fire equipment spares stocks in the year of purchase. As such unused fire equipment spares stocks are not valued and included in the stocks.

4 Debtors and Receivables

Debtors are stated at their estimated realizable amounts.

5. Liabilities and Provisions

All known liabilities have been accounted for in preparing the Financial Statements.

6. Taxation

6.1 Income Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

6.2 Deferred tax

Deferred tax is computed under the balance sheet liability method, for all temporary differences arising between the tax bases of assets.

The principal temporary differences arise from depreciation of property, plant and equipment and provision for retiring gratuity not allowed as a tax deduction until paid.

7. Retiring Benefits

The Company made full provision on account of gratuity that may fall due for payment under the Payment of Gratuity Act No.12 of 1983. The basis of provision is four weeks salary for every year of service completed. The liability is not externally funded.

8. Government Grants

Grants and subsidies are credited to the income statement over the periods necessary to match them with the related cost, which they are intended to be compensated on a systematic basis.

Grants related to asset, including non - monetary grants at fair value is deferred in the balance sheet and credited to income statement over the useful life of the related asset.

ACCOUNTING POLICIES

9 Income Statement

9.1 Turnover

Turnover represents the amount earned as agency fee for the management of the Airport, and Income derived from other services related to the operations of the Airport.

9.2 Revenue Recognition & Expenses

Gains and losses of a revenue nature on disposal of property, plant & equipment have been accounted for in the Income Statement.

All expenditure incurred in the running of the business and maintaining property, plant & equipment in a state of efficiency has been charged to revenue in arriving at the profit for the year.

10. Translation of Foreign Currency

All foreign currency transactions are translated to Sri Lankan Rupees at the rate of exchange ruling at the time the transaction was effected. All exchange gains and losses have been taken into Income Statement.

11. Comparative Figures

Certain previous year's figures have been reclassified to conform with the current year's presentation.

12. Segmental Reporting.

No segment information is presented in the financial statements since business segment is not a distinguishable component that constitute a meaningful segment.

13. 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, treasury bills and deposits in bank net of outstanding bank overdraft. The cash flow statement reported is based on indirect method.

ACCOUNTING POLICIES

14. Corporate Information.

14.1 Domicile and Legal Form.

Airport and Aviation Services (Sri Lanka) Limited is a limited liability company incorporated under the Companies Act No.17 of 1982. The registered office of the Company is located at Bandaranaike International Airport, Katunayake.

14.2 Historical Background.

The Company was appointed as the agent of the Government by Air Navigational (Special Provision) Act No. 2 of 1982 to undertake the management of Airports on behalf of the Government, previously carried out by the Airport Authority under Airport Authority Act No. 46 of 1979.

14.3 Principal activities and nature of operations.

Airport management and providing facilities to the users of the Airport.

14.4 Parent and ultimate parent company.

The Secretary to the Treasury is the main shareholder, having a 99% of share holding in the company. Therefore the ultimate parent is Government of Democratic Socialist Republic of Sri Lanka.

14.5 Number of employees.

The number of employees as at the end of the year was 2968. In Year 2001, the No of employees was 3033.

NOTES TO THE ACCOUNTS

1. Property, Plant & Equipment

	Plant & Machinery	Motor Vehicles	Furniture & Fittings	Office Equipment	Communication Equipment	Fire & Safety Equipment	Other Equipment	Training Equipment	Cargo Village Equipment	Total 31.12.02	Total 31.12.01
Cost											
As at 01.01.02	44,231,515	179,458,868	40,544,140	74,502,676	43,502,877	23,510,036	86,716,180	8,464,167	14,894,420	515,824,879	454,165,167
Additions	3,326,991	17,391,432	2,970,746	6,147,176	3,766,388	1,348,965	2,613,365	310,100	-	37,875,163	61,659,712
Disposals / Transfers	(89,000)	(3,112,778)	(9,975)	(572,858)	(38,933)	-	(61,433)	(1,205,492)	-	(5,090,469)	-
As at 31.12.02	<u>47,469,506</u>	<u>193,737,522</u>	<u>43,504,911</u>	<u>80,076,994</u>	<u>47,230,332</u>	<u>24,859,001</u>	<u>89,268,112</u>	<u>7,568,775</u>	<u>14,894,420</u>	<u>548,609,573</u>	<u>515,824,879</u>
Depreciation											
As at 01.01.02	33,299,781	112,827,266	28,142,297	42,483,510	29,973,941	15,454,489	43,578,462	7,138,055	6,004,153	318,901,954	273,933,354
Charge for the year	4,053,763	21,246,383	2,740,481	11,315,153	2,941,850	1,731,968	8,187,602	540,788	744,721	53,502,709	44,968,600
Disposals / Transfers	(88,998)	(3,112,776)	(9,969)	(572,841)	(38,929)	-	(61,416)	(1,205,486)	-	(5,090,415)	-
As at 31.12.02	<u>37,264,546</u>	<u>130,960,873</u>	<u>30,872,809</u>	<u>53,225,822</u>	<u>32,876,862</u>	<u>17,186,457</u>	<u>51,704,648</u>	<u>6,473,357</u>	<u>6,748,874</u>	<u>367,314,248</u>	<u>318,901,954</u>
Net Book Value											
As at 31.12.02	<u>10,204,960</u>	<u>62,776,649</u>	<u>12,632,102</u>	<u>26,851,172</u>	<u>14,353,470</u>	<u>7,672,544</u>	<u>37,563,464</u>	<u>1,095,418</u>	<u>8,145,546</u>	<u>181,295,325</u>	<u>196,922,925</u>
As at 31.12.01	10,931,734	66,631,602	12,401,843	32,019,166	13,528,936	8,055,547	43,137,718	1,326,112	8,890,267		
Capital Work in Progress										<u>1,450,817</u>	<u>1,952,531</u>
										<u>182,746,142</u>	<u>198,875,456</u>

Airport & Aviation Services (Sri Lanka) Ltd.,
31st December, 2002

NOTES TO THE ACCOUNTS

2 <u>Inventories</u>	Cost As at 31.12.02 Rs.	Provision for non- moving Inventories As at 01.01.02 Rs.	Write back of Provision during the year for non- moving Inventories Rs.	Provision made during the year for non- moving Inventories Rs.	Provision for non- moving Inventories As at 31.12.02 Rs.	Carrying Value As at 31.12.02 Rs.	Carrying Value As at 31.12.01 Rs.
General	15,255,324	(350,885)	33,634	-	(317,251)	14,938,073	16,223,037
Electronics	54,626,512	(20,674,080)		(1,145,750)	(21,819,830)	32,806,682	32,334,956
Engineering	57,622,790	(7,808,561)	2,563,439	(4,680)	(5,249,802)	52,372,988	50,803,440
Fuel	2,464,635	-	-	-	-	2,464,635	2,016,688
Goods in Transit	6,627,994	-	-	-	-	6,627,994	5,006,338
	<u>136,597,255</u>	<u>(28,833,526)</u>	<u>2,597,073</u>	<u>(1,150,430)</u>	<u>(27,386,883)</u>	<u>109,210,372</u>	<u>106,384,460</u>

NOTES TO THE ACCOUNTS

	<u>31. 12. 02</u>	<u>31. 12. 01</u>
	Rs.	Rs.
3 Trade & Other Receivables		
Concession Debtor - Sri Lankan Catering Services (Pvt) Ltc	57,731,137	95,792,601
Other Concession Debtors.	21,018,868	18,692,040
Rental Debtors	38,431,120	15,300,262
Reimbursable Medical Claims (Note 3.1)	14,549,969	14,560,941
Deposits & Advances	36,905,445	28,787,652
Prepayments	21,163,496	1,609,455
Staff Loans (Note 3.2)	34,955,588	36,909,586
Interest Receivable	1,065,420	9,205,923
Other Receivables	72,291,210	73,335,528
Provision for Bad Debts	<u>(26,308,029)</u>	<u>(8,167,332)</u>
	<u>271,804,224</u>	<u>286,026,656</u>
3.1 Reimbursable Medical Claims		
Medical claims paid to Members of Staff and reimbursable by Union Assurance Limited		
Union Assurance Limited has disputed the claims. The Company has initiated steps to recover the claims as per the provisions of the agreement with Union Assurance Limited. Provision of Rs. 9,954,455 is included under provision for bad debts.		
3.2 Staff Loans below Rs. 20,000	5,490,849	4,165,477
Staff Loans above Rs. 20,000	<u>29,464,739</u>	<u>32,744,109</u>
	<u>34,955,588</u>	<u>36,909,586</u>
4 Share Capital		
<u>Authorised</u>		
15,000,000 Shares of Rs.100/- each	<u>1,500,000,000</u>	<u>1,500,000,000</u>
<u>Issued and Fully Paid</u>		
200,002 Shares of Rs.100/- each	<u>20,000,200</u>	<u>20,000,200</u>
5 Grants		
5.1 Treasury Grant		
At the beginning of the year	5,701,396	6,201,396
Less: Amortised during the year	<u>(500,000)</u>	<u>(500,000)</u>
At the end of the year	<u>5,201,396</u>	<u>5,701,396</u>
5.2 UNDP Grant		
At the beginning of the year	-	1,978,014
Less: Amortised during the year	<u>-</u>	<u>(1,978,014)</u>
At the end of the year	<u>-</u>	<u>-</u>
5.3 INFODEV Implementation Grant		
At the beginning of the year	1,157,886	2,315,771
Less: Amortised during the year	<u>(1,157,886)</u>	<u>(1,157,885)</u>
At the end of the year	<u>-</u>	<u>1,157,886</u>
Total Grants as at year end	<u>5,201,396</u>	<u>6,859,282</u>
5.4 The Treasury Grant for "Cargo Village" is recognised in the Income Statement over the useful life of the assets constructed or procured.		

Airport & Aviation Services (Sri Lanka) Ltd.,
31st December, 2002

NOTES TO THE ACCOUNTS

	<u>31. 12. 02</u>	<u>31. 12. 01</u>
	Rs.	Rs.
6 <u>Deferred Expenditure</u>		
Total incremental retiring gratuity deferred	135,842,176	181,122,903
Over provision of deferred gratuity	(9,484,869)	-
Amortised during the period	<u>(45,280,727)</u>	<u>(45,280,727)</u>
At the end of the year	<u><u>81,076,580</u></u>	<u><u>135,842,176</u></u>

The Company increased the basis of determining the provision for retiring gratuity from two weeks' salary to four weeks' salary for each completed year of service from year 2000. The increase was effected from 01st January 2000 and the Company decided to amortize the balance over a period of five years.

7. <u>Retiring Benefit Obligations</u>		
Provision for Retiring Gratuity		
At the beginning of the Year	451,727,511	355,682,599
<u>Add: Provision for the Year</u>	46,126,335	101,927,269
Gratuity for reinstated employees	710,205	-
	<u>498,564,051</u>	<u>457,609,868</u>
Payments during the year	(11,907,455)	(5,882,357)
Over provision of deferred gratuity	(9,484,869)	-
At the end of the year	<u><u>477,171,727</u></u>	<u><u>451,727,511</u></u>

4 Nos terminated employees were reinstated subsequent to legal proceedings. The retiring gratuity paid to the said employees are being recovered from their salaries.

8. Deferred Taxation
The tax effect of temporary differences resulted in a deferred tax asset of Rs. 97,593,468/- (31.12.2001 - 72,042,213) No credit was taken in the Income Statement since the differences are not expected to reverse for a considerable period.

9. <u>Trade & Other Payables</u>		
Accrued Liabilities	91,290,824	84,802,789
Rent Deposits	87,121,080	69,120,501
Other Payables	78,847,508	57,335,224
	<u><u>257,259,412</u></u>	<u><u>211,258,514</u></u>

NOTES TO THE ACCOUNTS

10. <u>Turnover</u>	<u>2002</u>	<u>2001</u>
	Rs.	Rs.
Agency Fee (Refer 10.1)	731,739,773	631,437,338
Rental & Concessions (Refer 10.2)	552,477,959	485,427,528
Franchise fee-Ground Handling	93,457,991	68,510,237
Franchise fee-Sri Lanka Catering Services (Pvt) Ltd.	70,203,930	96,395,508
Overhead recoveries from retained revenue projects (Refer 10.3)	14,266,454	21,087,521
Over provision of expense creditors	-	2,992,272
Electricity Recoveries	104,926,548	75,130,726
Others	45,307,867	46,559,108
	<u>1,612,380,522</u>	<u>1,427,540,238</u>
Less:National Security Levy (NSL)	<u>(29,585,187)</u>	<u>(52,177,119)</u>
	<u><u>1,582,795,335</u></u>	<u><u>1,375,363,119</u></u>

10.1 Agency Fees.

This represents 40% of fees and charges collected or recovered on behalf of the Government of Sri Lanka net of Goods and Service Tax (GST), Value Added Tax (VAT) & National Security Levy (NSL)

10.2. Rental & Concession

The Air Navigation Act empowers the Company to collect or recover all rents and income arising from the use and control of all immovable property vested in the Government of Sri Lanka, or made available to the Company in the capacity as an agent and utilise the proceeds to defray expense incurred on the maintenance and improvement of the immovable property.

10.3 Overhead Recovery

The Company has recovered as Overhead recoveries amounting to Rs.14,266,454/- (2001 - Rs.21,087,521/-) from Government sponsored Development Projects at the Airport. The Company charges this to the latter for the management and supervision work.

11. <u>Interest Income</u>	<u>2002</u>	<u>2001</u>
	Rs.	Rs.
Interest from Treasury Bills	47,015,096	85,526,308
Interest from Staff Loans	2,576,952	2,343,736
	<u>49,592,048</u>	<u>87,870,044</u>

12. Income Tax Expense

Taxation on Profits for the year	40,822,773	84,478,237
Deferred Tax (Note 8)	-	-
	<u>40,822,773</u>	<u>84,478,237</u>

NOTES TO THE ACCOUNTS

13. Basic Earnings per share
The calculation of the basic earnings per share is based on profit/(loss) attributable to ordinary shareholders for the year divided by the weighted average number of ordinary share in issue during the year.
14. Events Occurring after the Balance Sheet Date
There are no material events occurring after the balance sheet date that require adjustment or disclosures to the financial statements.
15. Contingent Liabilities
The following cases have been filed against the Company. No provision is required in the accounts as the Lawyers are of the opinion that the outcome of or the potential liability on any of these cases cannot be assessed at this stage.
- 1) Members of the United Taxi Services Ltd have filed 133 cases against the Company demanding Rs.63 Mn for breach of contract.
 - 2) Arbitration-filed by one Partner of, M/s Floor Shine Services against the Company demanding Rs.80 Mn for termination of contract.
16. Directors Interest In Contracts.
No Director of the Company is directly or indirectly involved in any contract with the Company

NOTE OF THE AUDITOR GENERAL

The accounts relating to the Government Grants to the Airport & Aviation Services (Sri Lanka) Ltd. for the year ended 31 December, 2002 were audited under my direction in pursuance of provisions in Article 154 (3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No. 38 of 1971.

My observations on these accounts that should be published in terms of Section 14(2) (C) of the Finance Act are contained in my report of even date addressed to the Chairman of the Company.

Sgd. (S.C. Mayadunne)
Auditor General
31st March, 2003
Auditor General's Department, Colombo 7

Auditor General's Department

LS/X/AASL/FA/2002

31 March 2003

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

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS RELATING TO THE GOVERNMENT GRANTS TO THE AIRPORT AND AVIATION SERVICES (SRI LANKA) LTD FOR CAPITAL EXPENDITURE FOR THE YEAR ENDED 31 DECEMBER 2002 IN TERMS OF SECTION 14(2)(C) OF THE FINANCE ACT, NO.38 OF 1971.

The Accounts relating to the Government Grants to the Airport and Aviation Services (Sri Lanka) Ltd. for capital expenditure for the year ended 31 December 2002 were audited under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Sub-section 14 of Section 21A of Chapter 365 of Air Navigation Act 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 constitutes also my 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 Company

The accounts of the Company had been audited by a firm of accountants in public practice appointed by the Company in terms of Section 156(1) of the Companies Act, No. 17 of 1982. Accordingly, the capital expenditure incurred by the Company in terms of Section 23 (3) (b) of Air Navigation Act as amended by Air Navigation (Special Provisions) Act No 2 of 1982 and Air Navigation (Special Provisions) Act No. 11 of 1983 for the year ended 31 December 2002 had been audited by the firm of accountants referred to above.

1:3 Scope of Audit

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the 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, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting the amounts and disclosures in the financial statements and assessment of accounting principles and significant estimates and judgments made in the preparation of financial statements, evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. 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 the extent of the audit.

2. Accounts

2.1 Audit Opinion

Except for the effects of the adjustments arising from the matters referred to in paragraph 2:2 of this report, I am of opinion that, the financial statements relating to the Government Grants for capital expenditure have been satisfactorily prepared to present fairly in all material respects, the financial position of the Government Grant for capital expenditure as at 31 December 2002 in accordance with Sri Lanka Accounting Standards other than the Standards referred to in this report and stated accounting policies as set out in Notes 1 to 5 to the financial statements.

2.2 Comments on Accounts

2.2.1 Accounting Policies

- (a) A Statement of Income and Expenditure had not been prepared according to SLAS-3
- (b) Items of capital expenditure shown in the accounts are stated at cost. No depreciation has been provided on depreciable assets according to SLAS – 8 and 18

2.2.2 Accounting Deficiencies

05 (five) Accounting deficiencies aggregating Rs 5,372,518 in respect of A A S L observed in audit test checks carried out during the year were brought to the notice of the Chairman of the Airport and Aviation Services (Sri Lanka) Limited.

2.2.3 Lack of Evidence for Audit

Fixed assets aggregating Rs 1,362,583,138 could not be satisfactorily vouched or accepted in audit due to lack of evidence required.

2.2.4 Unreconciled Accounts

Differences between ledger account balances and final account balances are as follows.

Item	Balance as per ledger account	Balance as per Final Account
	Rs.	Rs.
Bank charges	720,412 (Dr)	755,872 (Dr)
Debit Tax	35,459 (Dr)	-
Treasury Contribution (Local)	5,958,501,313 (Cr)	5,938,806,709 (Cr)
- Do - (Foreign)	3,249,366,347 (Cr)	3,269,060,931 (Cr)

2.2.5 Non-compliance with Laws, Rules Regulations, Management Decisions etc.

Financial Regulation 757 (2) and 509 had not been complied with.

3. Financial and Operating Review

- 3.1** The Treasury had provided a sum of Rs. Rs.45,000,000 for Development Projects under Head 290 – (Ministry of Aviation and Airports Development) Programme –7, Object Code 2201 – Transfer to Public Institutions 1- Airport and Aviation Services (Sri Lanka) Ltd. Revised Provision for the preceding year amounted to Rs.258,500,000. Out of voted funds amounting to Rs.45,000,000 for the year under review for the administration building at B I A and the rehabilitation of Airport , no funds had been transferred to the Company up to the date of this report.
- 3.2** Although sums of Rs. 19,844,610 and Rs. 30,365,282 respectively had been incurred on 13 Projects during the year under review and the preceding year, there was no evidence that the Treasury contributions for these projects had been received up to the date of this report.

3.3 Delay in Projects

(a) Completion of following Projects had been delayed.

Project No.	Description	Revised date of completion	% of works done up to 31/12/02	Amount paid up to 31/12/02
-----	-----	-----	-----	-----
				Rs.
784	Construction of Administration Building	08.08.02	74 %	89,244,445
847	Renovation to existing Apron.	08.09.02	85 %	21,322,263
798	Installation and commencing of electronic perimeter security fence	not decided	0 %	407,040

(b) The Government of Sri Lanka has received a loan from the Japan Bank for International Co-operation (JBIC) under loan agreement No.SL-P6 for the Bandaranayaka International Airport Development Project which consisted with 4 separate contract packages as follows.

Package	A	Civil and utility works
„	B1	Passengers building works
„	B2	New cargo building works
„	C	Air navigation systems

- (i) According to the above loan agreement, the works should be completed and utilized the facilities in the year 2005. However the above packages had been delayed up to the date of this report.
- (ii) Commencement of package B1 – Passenger building works, had been delayed due to disagreements relating to the selection of a tenderer.

3.4 Project Administration

Observations made on Project No.797 Stage 1 Phase II Development Programme carried out during the year under review are as follows.

- (a) A sum of Rs.3.8 Million had been spent for purchase of 2 Nos. cars in the year 2001 for the use of Consultants of this Project.
 - (i) Purchase of these 2 cars had not been budgeted and the Treasury contribution had not been obtained.
 - (ii) One car was being used in the Directorates' pool whilst the other was being used by the Chief Civil Engineer (Design)
- (b) An additional motor car had been obtained on lease at the rate of Rs.30,000 per month for the use of Consultants under this Project.

4. **Systems and Controls**

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

- (a) Cash Management
- (b) Utilization of Fixed Assets
- (c) Project Administration
- (d) Maintenance of Books, Registers, Records etc.

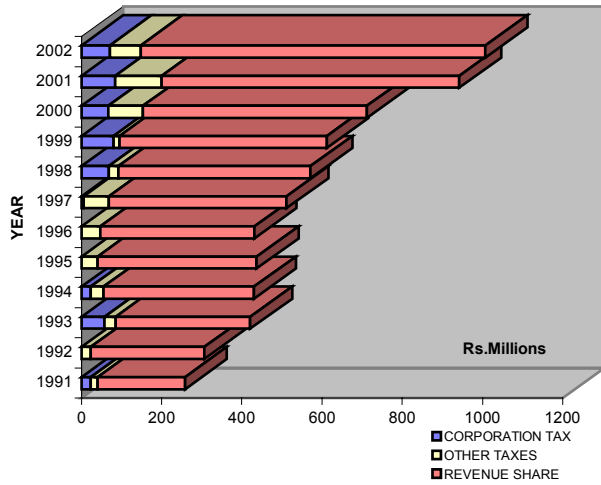
(S.C. Mayadunne)
Auditor General.

PERFORMANCE HIGHLIGHTS

	1997	1998	1999	2000	2001	2002	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
FINANCIAL HIGHLIGHTS							
NET PROFIT BEFORE TAX	71,709	176,305	123,076	231,153	63,227	508	
TOTAL AASL REVENUE	794,900	903,000	1,017,000	1,270,000	1,375,000	1,583,000	
SHAREHOLDERS FUNDS AT DECEMBER 31ST	293,364	374,349	394,566	481,892	490,080	449,764	
TOTAL FIXED ASSETS (WDV) AS AT DEC. 31ST	92,799	96,289	112,811	185,919	198,875	182,746	
TOTAL CURRENT ASSETS AS AT DEC. 31ST	462,827	564,516	627,827	729,178	868,770	939,949	
TOTAL CURRENT LIABILITIES AS AT DEC. 31ST	262,262	158,911	178,688	218,652	254,821	271,634	
TOTAL CAPITAL EXPENDITURE FOR THE YEAR	21,187	22,395	42,047	45,352	63,612	39,326	
OPERATIONAL HIGHLIGHTS							
NO. OF INTERNATIONAL FLIGHTS HANDLED	NOS.	17,731	18,452	20,176	21,429	17,953	18,351
TOTAL NO. OF PASSENGERS	NOS.	2,319,272	2,365,736	2,648,780	2,880,387	2,628,043	2,766,000
FREIGHT HANDLED	M.T.	96,132	93,082	102,708	127,120	100,448	111,104
TOTAL NO. OF EMPLOYEES AS AT DEC. 31ST	NOS.	2,400	2,412	2,463	2,669	3,033	2,968
HIGHLIGHTS IN RATIOS							
NET PROFIT BEFORE TAX TO SH.HOLDERS FUNDS	%	24.44	47.1	31.19	47.97	12.90	0.11
NET PROFIT BEFORE TAX TO TOTAL REVENUE	%	9.02	19.52	12.10	18.20	4.60	0.03
TOTAL REVENUE TO TOTAL ASSETS	Times	1.43	1.37	1.37	1.39	1.29	1.41
CURRENT ASSETS TO CURRENT LIABILITIES	Times	1.8	3.6	3.5	3.3	3.4	3.5
TOTAL ASSETS PER EMPLOYEE	Rs'000	231.5	274.0	300.7	342.9	352.0	378.3
TOTAL COST OF EMPLOYMENT PER EMPLOYEE	Rs'000	170.9	178.9	247.3	250.3	300.8	328.9
AIRCRAFTS HANDLED PER EMPLOYEE		7.39	7.65	8.19	8.03	5.92	6.18
NO. OF PASSENGERS PER EMPLOYEE		966.36	980.82	1,075.43	1,079.20	866.48	931.94
FREIGHT (M. TONNES) PER EMPLOYEE		40.06	38.59	41.70	47.63	33.12	37.43
NET OPERATIONAL COST PER FLIGHT HANDLED	Rs'000	39	39	44	51	78	89

Performance Review

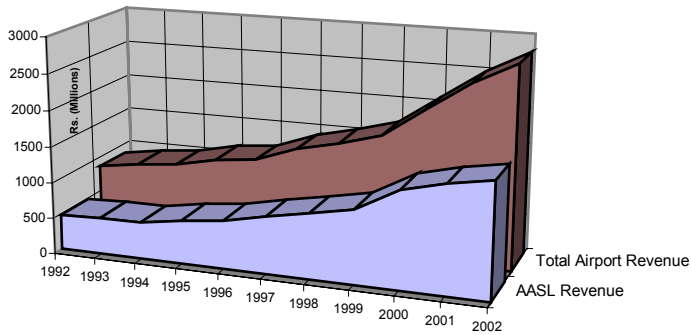
CONTRIBUTION TO GOVERNMENT REVENUE



During the year under review a sum of Rs. 1,007.3 Mn. out of the airport operational income was contributed to the Govt. Revenue by way of revenue share and taxes in comparison to 942.4 Mn. in 2001.

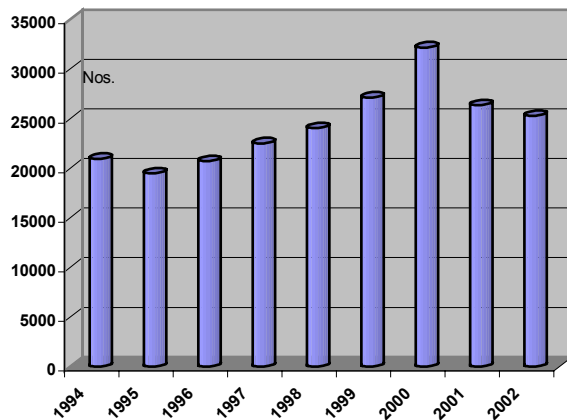
A decade ago in 1992 the contribution was only 307 Mn. which increased by more than 300% over the period, as shown in the graph.

REVENUE GENERATED



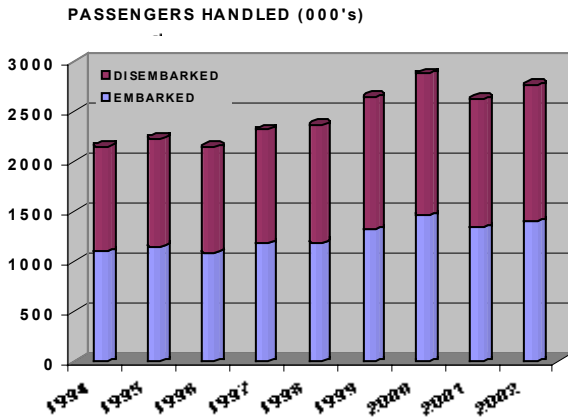
The total operational revenue generated at Bandaranaike International Airport and AASL Company revenue, increased steadily over the last two decades in Rupee terms. In the year 2002 the total revenue generated had been 2,794 Mn. as against 2,495 Mn. in 2001. If not for the 2001 July attack on the Airport and September 11th incidents the revenue in the year 2002 would have increased significantly.

AIRCRAFT MOVEMENTS at BIA

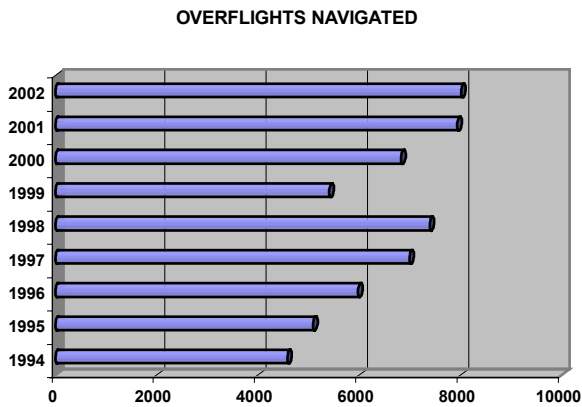


The aircraft handled at BIA decreased significantly in the year 2001 & 2002 mainly due to limited operation of military aircraft, after the initiation of the peace process. Most of the international airlines who suspended operations in 2001 after the attack had recommenced operations by end 2002.

Performance Review.....

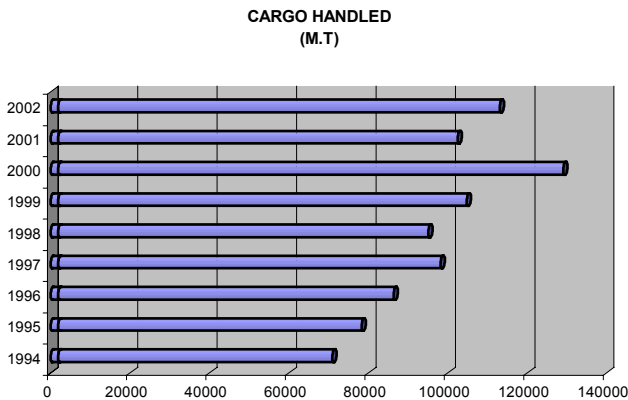


Number of passengers handled at BIA increased annually except in the year 2001. In 2002, BIA handled 2,766,164 passengers; an increase of 5.3% over the year 2001.



Due to the advantageous location of our FIR, the number of over flights seeking navigational assistance has increased significantly over the recent years.

In 2002, 8012 overflights were navigated.



111,104 Tonnes of cargo were handled at BIA in comparison to 100,448 Tonnes in 2001.

During the period 1994 to 2002 there has been a 61% increase in this area of operations.