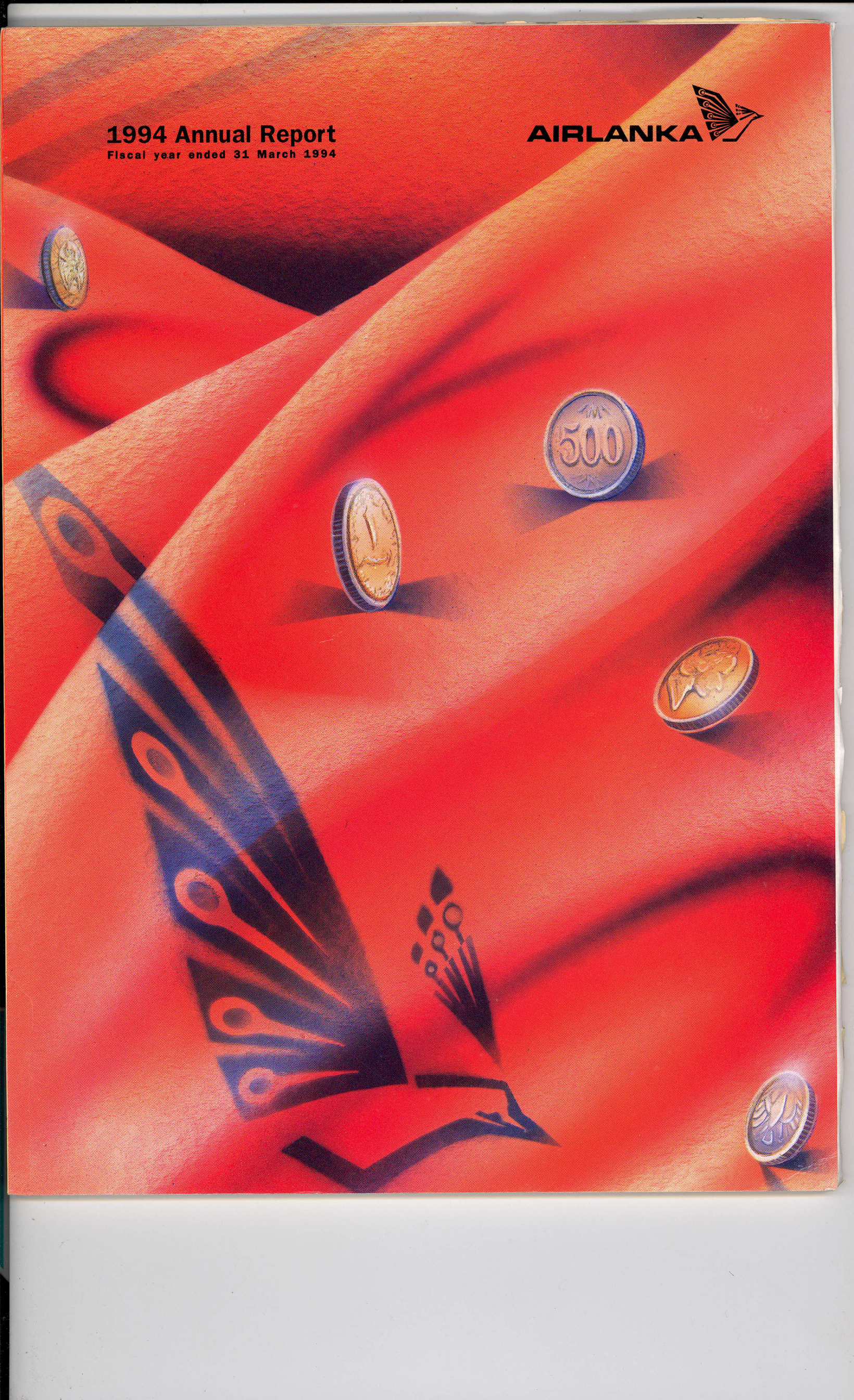
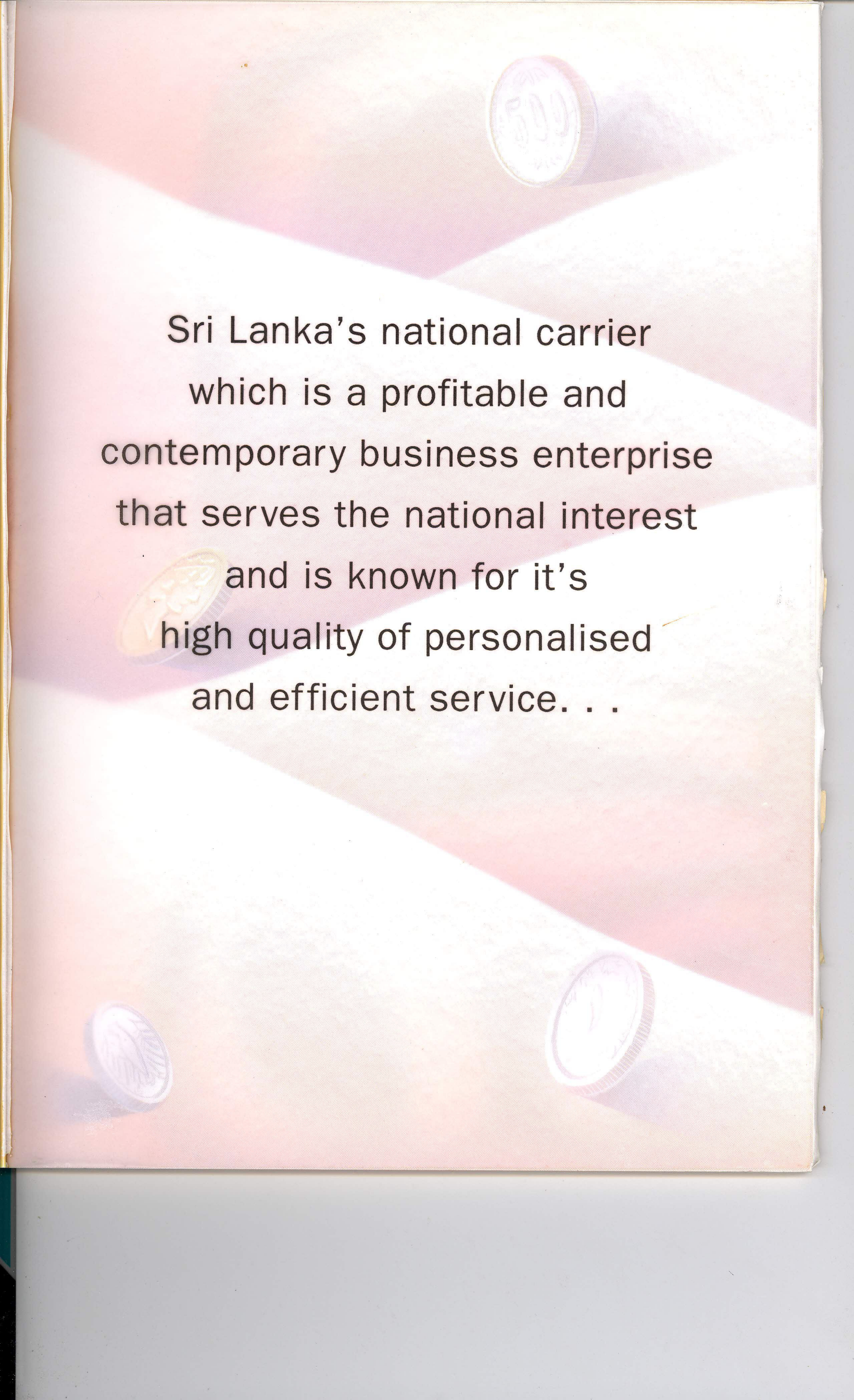


**1994 Annual Report**  
Fiscal year ended 31 March 1994



The background features the colors of the Sri Lankan flag (orange, green, and white) in a stylized, overlapping pattern. Several coins are scattered across the page, including a 500 Sri Lankan Rupee coin at the top right, a 100 Sri Lankan Rupee coin on the left, and two other coins at the bottom.

Sri Lanka's national carrier  
which is a profitable and  
contemporary business enterprise  
that serves the national interest  
and is known for its  
high quality of personalised  
and efficient service. . .

**Corporate information:**

**Legal Form**

Public Limited Liability Company

**Directors**

Deshamanya Gen. D. S. Attygalle

Chairman/Managing Director

Mr. L. Fernando

Mr. K. H. J. Wijayadasa

Mr. A. S. Jayawardena

Mr. N. Jayamanne

Mr. K. Balapatabendi

Air Chief Marshall A. W. Fernando

**Company Secretary**

Mrs M R Peries

**Registered Office**

37, York Street,

Colombo 1

Sri Lanka

**Auditors**

Ernst & Young

Chartered Accountants,

P.O.Box 101

Colombo 10


**Principal Bankers**

Bank of Ceylon





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The year 1993-94 failed to see any tangible recovery from recession in most of our generating markets specifically continental Europe and Japan.

As in the previous year, the industry itself faced the same traumatic effects of excess capacity and fierce competition. In general, the year saw airlines pursuing the illusory goal of market share at the cost of declining yields.

Faced with these tremendous odds, I am happy to report that the Company recorded a net profit of Rs. 247.85 million - the highest ever recorded by the Company as against the previous year's recorded net profit of Rs. 127.61 million.

A notable feature of this year's operations was that we succeeded in reducing our expenditure by 5.1% over the previous year.

## Chairman's

# Statement

The induction of the A340-300 aircraft to our fleet is a major challenge to Air Lanka in the next financial year.

Whilst the general trends as enumerated by me earlier will continue to beset the industry, we are called upon to derive optimum returns on our investment.

In this context, I must record that we need to adopt a pragmatic and a rational approach towards our civil aviation policy.

The greatest danger faced by the national carrier is from the charter operators who seek rights to operate to Sri Lanka during the peak demand periods. As a scheduled carrier, we are committed to maintain our schedules irrespective of seasonality and demand.



ULE

However, ad hoc charter operations when permitted, take away what is justly our traffic during such demand periods. In addition, we have to contend with mega carriers whose flexibility to manipulate prices is well beyond our control.

These constraints deny us the opportunity to maximise our earnings during the peak traffic seasons.

I commend these thoughts to the authorities concerned in the hope that we earn our rightful returns from the enormous resources that have been committed to our refueling programme.

In conclusion I must stress that every effort will be made to reduce our costs in the next financial year and improve upon the performance of the year under review.

On behalf of the Board of Directors I wish to thank the Management and all staff for their dedicated services and for the excellent work done by them during the year.



Deshamanya Gen D S Attygalle  
Chairman/Managing Director  
AIRLANKA LIMITED

# Operational Highlights

Aircraft fleet as at 31 March 1994

Aircraft type	Owned	Finance leases	Operating leases	On order
Lockheed Tristar L 1011 - 500	-	2	-	-
Lockheed Tristar L 1011 - 200	-	-	2	-
Lockheed Tristar L 1011 - 100	1	-	-	-
Lockheed Tristar L 1011 - 50	1	-	-	-
Airbus A 320 - 200	-	2	-	-
Airbus A 340 - 300	-	-	-	3
<b>Total</b>	<b>2</b>	<b>4</b>	<b>2</b>	<b>3</b>

Financial	1994	1993	1994	1993
Revenue	Rs. M	12,800.43	13,244.15	12,456.05
Expenditure	Rs. M	11,939.21	12,516.07	11,757.77
Operating profit	Rs. M	861.22	728.08	698.28
Net profit	Rs. M	252.28	178.64	247.85
Traffic				
Capacity offered	ASK millions	6,137.90	5,145.36	6,137.90
Passengers carried	Thousands	1,067	994	1,067
Cargo carried	Tonnes	26,518	25,957	26,518
Passenger load factor	%	68.48	69.51	68.48
Overall load factor	%	62.88	66.34	62.88
Break-even load factor	%	62.10	65.56	62.10
Staff & Productivity				
Average number of staff	Nos.	4,531	5,055	4,442
Revenue per employee	Rs.	2,857,082	2,532,231	2,804,153

Group Company

Rs.M  
1993

Rs.M  
1994

Rs.M  
1993

Rs.M  
1994



## Review of

# Operations

### Net Earnings

The Company registered a net profit of Rs. 247.85 million during the year 1993/94, compared with a net profit of Rs. 127.61 million recorded in 1992/93. An increase of Rs. 120.24 million or 94.22% from 1992/93.

The Group net profit for the year ended 31st March 1994 amounted to Rs. 252.28 million, an increase of Rs. 73.64 million or 41.22% from the previous year.

At the Company level, earnings per share was up by 178.6% to Rs. 4.82 per share. Return on shareholders' funds was 8.7%, compared to 5.0% achieved in 1992/93.

### Revenue

Total operating revenue amounted to Rs. 12,456.05 million, down by Rs. 489.39 million or 3.8% from 1992/93.

The revenue of the group in 1993/94 was Rs. 12,800.43 million, a decrease of Rs. 443.72 million or 3.4% from the previous year.

Revenue from airline operations decreased by Rs. 656.33 million or 5.3% to Rs. 11,590.45 million.

Passenger revenue excluding charter revenue totalled Rs. 10,067.73 million a decrease of 6.0% from 1992/93.

Revenue from cargo carriage decreased by 1.0% to Rs. 1,153.98 million.

Passenger and cargo revenue constituted 93% of the Company's total revenue for the year.

Revenue from charter operations decreased Rs. 41.88 million or 40.0% to 62.89 million, while ground handling revenue increased by 30.2% or Rs. 777.63 .





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Duty Free Sales decreased Rs. 13.44 million or 13.2% to Rs. 87.97 million.

Ground handling and Duty Free Sales constituted 6% and 0.5% of the company's total revenue respectively.

The European routes continued to be the largest contributor to revenue from airline operations with 45.4% of the total. Middle East routes were second at 21.6%. South East Asian and Regional routes followed at 20.7% and 12.3% respectively.

### **Expenditure**

In 1993/94 the Company's operating expenditure totalled Rs. 11,757.77 million reflecting a decrease of 5.1% from 1992/93.

Savings in cost were from aircraft Lease charges (Rs. 580.7 million or 40.8%), Aviation fuel and oil (Rs. 470.3 million or 16.8%), Passenger Services (Rs. 285.2 million or 18.3%), Stations and Traffic (Rs. 107.7 million or 4.5%) and Advertising and Promotions costs (Rs. 46.6 million or 24.7%)

These cost saving were partially offset by Increases in Aircraft Maintenance and Overhaul (Rs. 364.3 million or 26.7%), Aircraft Standing Charges (Rs. 288.1 million or 59.5%), Marketing costs (Rs. 152.7 million or 15.1%), Flight Operation costs (Rs 35.2 or 7.4%) and Administration costs (Rs. 11.3 million or 2.8%).

Termination of the lease of one L1011-500 aircraft and one B737 aircraft during the year under review contributed to the reduction in lease charges.

Savings in fuel costs were due to reduced fuel prices and a lower volume of fuel uplifted during the financial year.

Decrease in the number of passengers and changes in uplift patterns contributed to the lower Passenger Services cost.

Cost reduction in stations and traffic can be attributed to the decreased level of aircraft



Unit cost increased 17.3% to Rs. 18.12 per achieve this improvement. Favoured fare levels enabled the company to increased movements in exchange rates and 10.3% and 0.2% respectively. Compared to 1992/93, unit yield increased by 11.1% to Rs. 27.64 per load tonne - kilometer, with passenger and cargo yields increasing by 10.3% and 0.2% respectively. Favoured movements in exchange rates and increased fare levels enabled the company to achieve this improvement. Unit cost increased 17.3% to Rs. 18.12 per

**Yield/Unit Cost/Break-Even Load Factor:**

14.9% decline in passenger kilometers achieved. However the passenger seat factor rose 1.03 percentage points to 69.5% due to a 16.2% decrease in seat kilometers offered against a 14.9% decline in passenger kilometers achieved. While cargo carriage decreased from 26,518 tonnes to 25,957 tonnes. The number of passengers carried decreased by 6.8% to reach 0.99 million in 1993/94 compared to 1.07 million in the previous year, while cargo carriage decreased from 26,518 tonnes to 25,957 tonnes. However the passenger seat factor rose 1.03 percentage points to 69.5% due to a 16.2% decrease in seat kilometers offered against a 14.9% decline in passenger kilometers achieved. Yield/Unit Cost/Break-Even Load Factor: 14.9% decline in passenger kilometers achieved. However the passenger seat factor rose 1.03 percentage points to 69.5% due to a 16.2% decrease in seat kilometers offered against a 14.9% decline in passenger kilometers achieved. While cargo carriage decreased from 26,518 tonnes to 25,957 tonnes. The number of passengers carried decreased by 6.8% to reach 0.99 million in 1993/94 compared to 1.07 million in the previous year, while cargo carriage decreased from 26,518 tonnes to 25,957 tonnes. However the passenger seat factor rose 1.03 percentage points to 69.5% due to a 16.2% decrease in seat kilometers offered against a 14.9% decline in passenger kilometers achieved.

**Capacity and Traffic Growth**

1993/94 saw 19.2% decline in total capacity production from 782.71 million tonne kilometers to 632.15 million tonne kilometers. This was due to Air Lanka's route network being reviewed with a view to achieving cost efficiency which resulted in certain destinations becoming off-line. Traffic fell by 14.8% against a 19.2% decrease in capacity. This resulted in an increase in load factor of 3.46 percentage points to 66.34%. The number of passengers carried decreased by 6.8% to reach 0.99 million in 1993/94 compared to 1.07 million in the previous year, while cargo carriage decreased from 26,518 tonnes to 25,957 tonnes. However the passenger seat factor rose 1.03 percentage points to 69.5% due to a 16.2% decrease in seat kilometers offered against a 14.9% decline in passenger kilometers achieved. Yield/Unit Cost/Break-Even Load Factor: 14.9% decline in passenger kilometers achieved. However the passenger seat factor rose 1.03 percentage points to 69.5% due to a 16.2% decrease in seat kilometers offered against a 14.9% decline in passenger kilometers achieved. While cargo carriage decreased from 26,518 tonnes to 25,957 tonnes. The number of passengers carried decreased by 6.8% to reach 0.99 million in 1993/94 compared to 1.07 million in the previous year, while cargo carriage decreased from 26,518 tonnes to 25,957 tonnes. However the passenger seat factor rose 1.03 percentage points to 69.5% due to a 16.2% decrease in seat kilometers offered against a 14.9% decline in passenger kilometers achieved.

**Financial Position**

Shareholders' funds grew by 277.50 million or 10.85% to Rs. 2,834.23 million as at 31 March 1994. The Company's Liquid Assets fell by Rs. 97.04 million to Rs. 1,452.29 million. The Group Liquid Assets as at 31st March 1994 was Rs. 1,601.88 million, a decrease of Rs.50.25 million from the previous year. Total assets of the Company rose by Rs. 1,540.28 million or 10.7% to Rs. 15,913.97 million. The total assets of the Group were Rs. 16,214.70 as at 31st March 1994, an increase of Rs.1,577.28 million or 10.8% from 1992/3. Return on total assets was 1.6% compared with 1.0% in the previous year. Return on total assets for the Group was 1.6%. Value Added Total value added by the Company during the year under review amounted to Rs. 2,880.85 million, an increase of Rs. 725.45 million or 33.6% over the previous year. Contributions to value added came chiefly from revenue of Rs. 12,456.05 million, investment income of Rs. 168.10 million and non-operating revenue of Rs. 189.84 million. Of the total value added 40.6% was distributed to employees in the form of salaries and allowances, Provident Fund contributions and other staff related expenses,

and Overhaul costs and aircraft standing charges were the main contributors to this increase. With higher unit costs, break-even load factor deteriorated 3.5 percentage points to 65.6%. The load factor gap - the difference between the overall and break-even load factors remained at 0.78 percentage points in 1993/94.

Shareholders' funds grew by 277.50 million or 10.85% to Rs. 2,834.23 million as at 31 March 1994. The Company's Liquid Assets fell by Rs. 97.04 million to Rs. 1,452.29 million. The Group Liquid Assets as at 31st March 1994 was Rs. 1,601.88 million, a decrease of Rs.50.25 million from the previous year. Total assets of the Company rose by Rs. 1,540.28 million or 10.7% to Rs. 15,913.97 million. The total assets of the Group were Rs. 16,214.70 as at 31st March 1994, an increase of Rs.1,577.28 million or 10.8% from 1992/3. Return on total assets was 1.6% compared with 1.0% in the previous year. Return on total assets for the Group was 1.6%. Value Added Total value added by the Company during the year under review amounted to Rs. 2,880.85 million, an increase of Rs. 725.45 million or 33.6% over the previous year. Contributions to value added came chiefly from revenue of Rs. 12,456.05 million, investment income of Rs. 168.10 million and non-operating revenue of Rs. 189.84 million. Of the total value added 40.6% was distributed to employees in the form of salaries and allowances, Provident Fund contributions and other staff related expenses,

whilst 38.7% was retained in the company for re-investment and future growth, 19.7% of the value added was paid to suppliers of capital in the form of interest charges and 1.0% went to Overseas governments as taxes.

Total value added by the Group was Rs. 3,089.38 million, an increase of Rs. 681.79 million or 28.3% over the previous year.

### Personnel

The total number of personnel employed by the Company at 31 March 1994 numbered 4,442 compared to 4,531 at 31 March 1993.

Employee productivity in terms of revenue per employee and capacity per employee declined by 1.85% and 17.62% respectively.

Value added per employee increased from Rs. 475,701 in 1993 to Rs. 648,548 in 1994.

Employee statistics as at 31 March 1994 are given below:

Functional Analysis	No. of Employees
Engineering & maintenance	1,103
Flying operations	194
In-flight services	584
Stations & traffic	623
Marketing	420
Advertising & publicity	13
Overseas offices	317
Administration & security	1,188
<b>TOTAL</b>	<b>4,442</b>



### Aircraft Fleet

Air Lanka's fleet strength as at 31 March 1994 stood at 8 aircraft - 06 Lockheed Tristar L1011s and 02 Airbus A320s.

Of these, two L1011 Tristars are on operating leases from another airline, two are fully owned and the rest are on finance leases.

The airline has three Airbus A340-300 aircraft on order, for delivery in the next financial year.

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**Route Development**

Air Lanka's route network now spans 29 cities in 21 countries and offers 61 flights a week providing convenient connections to many destinations.

Air Lanka's streamlined schedule which, has operated since last year, has seen the airlines punctuality performance improve dramatically reaching an all-time high of 82% on-time departures in February 1994.

The present flight schedule has contributed greatly to this performance, by providing the flexibility required to step-up maintenance to new levels, and reduce strain on the fleet, by a more rational approach.

**Reservations Systems and Distribution**

Air Lanka has now tied-up with SABRE which has significantly enhanced Air Lanka's reservation system by providing a vast data base for Travel Information, Flight Information, details of lost/stolen/blacklisted tickets, bank rates, Credit Card authorisations, Hotel Reservation/Car rental facilities, Communications, Marketing Information and a host of other facilities in par with the most advanced technology available in the industry.

**Airport Operations**

Air Lanka's facilities at Colombo Airport, Katunayake were enhanced to provide better service to passengers. The Peacock Lounge was fully refurbished to provide more comfort to Business Class passengers. A revamped Baggage Service Department came into being with the centralisation of all functions involving baggage handling. A new Baggage Service Counter has been situated in a more convenient location in the Arrivals Terminal, to process inquiries on lost or missing baggage.

**Cargo Operations**

A major Cargo Automation Project is underway,

**Communication Services**

Air Lanka commissioned a totally new microwave based communication System this year. This project has provided Air Lanka with a new telephone, telex, fax and computer network system which has greatly enhanced the airline's contactability, whilst significantly increasing efficiency in information transfer via telex, phone and fax. The new system obviates the need for conventional telephone cable transmissions.

**Flight Operations**

The Flight Operations Department now provides Flight Operations handling to a large number of scheduled and non-scheduled airlines like Saudia, Gulf Air, Royal Jordanian, Middle East Airlines, Cargolux etc. The demand for Flight Operations handling from Air Lanka, reflects the confidence placed in our Flight Dispatchers who are all licensed professional staff.

Air Lanka's Flight Operations Department, in collaboration with the Director of Civil Aviation, also conduct ICAO 201 Flight Operations officers Course. Several non-employees also train for this certification, and are recruited to Air Lanka as and when vacancies arise.

Air Lanka now operates ETOPS flights on A320 aircraft to Thailand and Singapore. This operation requires specialised training and skills on the part of Flight Crew and Dispatchers. Air Lanka's specially trained staff have been able to provide this facility.

**Serendib Club**

Air Lanka's exclusive frequent flyer programme Serendib Club opened a new

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Service Centre in October 1993. The new Centre provides exclusive counter services for the members of the Club to handle all their requirements. A tie up with Celltel the Mobile Phone Company provides Serendib Club members with mobile phone facilities whilst mutually providing initial membership to Celltel phone users. Serendib Club counts over 1000 members at present.

### **Human Resource Development**

In the face of fierce competition and a complex and demanding environment, Air Lanka realises that its future success depends largely on the development of skills of its staff. The Company thus continues to place great emphasis on training opportunities through its Centre for Training. This institution provides training for both Air Lanka employees as well as others from the fields of Travel and Commerce. Air Lanka's Training facility has received the prestigious IATA accreditation in a number of disciplines from Dangerous Goods handling to Fares and Ticketing.

Air Lanka's In-flight Department also conducts specialised training to equip Cabin Crew, in disciplines such as Supervisory Skills, Personality Development and Foreign Language skills (eg. Japanese, German and French). A special training programme for identified First and Business Class crew members is also in place.

Under Air Lanka's Human Resource Development effort, a major revamping of the existing performance Appraisal System was completed, this year.

Air Lanka continues to place emphasis on the need for the company to provide facilities for self development not only in academic and technical fields, but in the social and sporting contexts as well. The airline enjoyed yet another year of success in the field of sports. Our sportsmen and women brought fame and

honour to Air Lanka by winning Travel Trade and Mercantile championships in Hockey, Cricket, Volleyball, Swimming, Badminton and Rugby. Six veteran athletes and a swimmer competed at the Australian Masters Games 1993 in April/May 1993 winning 11 gold, 04 Silver and 03 Bronze medals. Air Lanka's Cricket Team won the World Airlines 50 over Cricket Tournament in Australia. A total of 15 sports are actively conducted under the auspices of the Air Lanka Sports Council. In February 1994 Air Lanka conducted the inaugural Golf Classic at Royal Colombo Golf Club, with over 85 foreign participants and over 210 local golfers drawn from R.C.G.C. members.

### **Subsidiary Company**

Our Subsidiary Air Lanka Catering Services, is the sole caterer to 19 airlines, operating through Colombo International Airport, supplying more than 1.6 million meals annually.



# Financial Accounts & Reports

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## Directors' Report

The Directors have pleasure in submitting their Report and audited Accounts for the year ended 31 March 1994.

The Accounts are set out on pages 17 to 40.

### Financial Structure

Air Lanka Limited is a Company substantially owned by the Government of Sri Lanka.

The issued share capital of the Company as at balance sheet date was Rs. 5,146.35 million.

### Principal Activities

Air Lanka's principal activity is the operation of international scheduled and non scheduled air services for the carriage of passengers, freight and mail, as the designated carrier of Sri Lanka.

Providing Air Terminal services at the Colombo International Airport and the sale of duty free goods on-board, constitute other main activities of the Company.

Air Lanka owns 60% of the issued share capital of its subsidiary company, Air Lanka Catering Services Limited, which is the sole caterer to airlines operating through Colombo International Airport.

There was no significant change in the nature of the activities of the Company during the year.

### Directors in Office

The names of the present Directors of Air Lanka Limited are listed below:-

Deshamanya Gen. D S Attygalle

Chairman/Managing Director

Mr. L. Fernando

Mr. K. H. J. Wijayadasa

Mr. A. S. Jayawardena

Mr. N. Jayamanne

Mr. K. Balapatabendi

Air Chief Marshall A. W. Fernando

Deshamanya Gen. D S Attygalle was appointed on 25 May 1993 in place of Mr M G D

Jayawardena who resigned on 24 May 1993. Gen. D S Attygalle resigned from the Board on 31 August 1994 and was re-appointed on 01 September 1994.

Mr R Paskaralingam served throughout the Financial Year 1993/94 and continued in office until he resigned on 30 August 1994.

Mr R A Jayakody, Mr. S K H Wijayatilake PC and Mr. S Dhanabala resigned on 24 May 1993.

Mr. K M Abeysinghe, Mrs. R L Nanayakkara and Mr. D S J Pelpola were appointed to the Board on 25 May 1993 and resigned on 30 August 1994.

Mr. K H J Wijayadasa was appointed to the Board on 25 May 1993, resigned on 31 August 1994 and was re-appointed on 01 September 1994.

ACM A W Fernando was appointed to the Board on 06 September 1993, resigned on 31 August 1994 and was re-appointed on 01 September 1994.

Mr. Gamini Marapana PC was appointed to the Board on 01 February 1994 and resigned on 17 August 1994.

Mr. C Gamage was appointed to the Board on 19 May 1994 and resigned on 30 August 1994.

Mr. L Fernando, Mr. A S Jayawardena and Mr. N Jayamanne were appointed to the Board on 01 September 1994. Mr. K Balapatabendi was appointed to the Board on 07 September 1994.

Particulars of interests of Directors in contracts and proposed contracts having been declared by the Directors are in note 22 to the accounts.

### Accounts

The Consolidated profit for the year ended 31 March 1994, before interest and other similar charges was Rs 1,136.52 million.

## Directors' Report

Consolidated net profit for the year, after interest and similar charges, deferred expenditure, extraordinary items and minority interests amounted to Rs 252.28 million.

### Reserves

There were no material transfers to or from reserves or provisions during the year ended 31 March 1994, other than those stated in the accounts and the notes thereto.

### Accounting Policies

The principal accounting policies of the Company are set out on pages 19 to 21.

### Fixed Assets

Movements of fixed assets are shown in note 7 to the accounts.

### Bank and Other Borrowings

The net bank loans and other borrowings, including obligations under finance leases of the Company are shown under notes 16 and 17 to the accounts.

### Auditors

A resolution for the re-appointment of Ernst & Young as the auditors of the Company and determining their remuneration is to be proposed at the Annual General Meeting.

By order of the Board

Mrs. M R Peries  
Company Secretary.  
27 September 1994  
Registered Office:  
37 York Street,  
Colombo 1.

## Report of The Auditors

We have examined the Balance Sheet of Air Lanka Limited as at 31st March 1994, the Consolidated Balance Sheet of the Company and of its Subsidiary and the related Statements of Profit and Loss Account and the Changes in Financial Position for the year then ended, read together with the accounting policies and notes, exhibited on pages 17 to 40 of the Annual Report.

Our examination was made in accordance with the Sri Lanka Auditing Standards. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for purposes of our audit. In auditing the returns submitted by overseas stations, we have relied on management representation as to the accuracy and completeness of these returns.

The Financial Statements of the subsidiary, Air Lanka Catering Services Limited have been audited by another firm of chartered accountants.

The Company has embarked on a re-fleeting programme consisting of two A320 - 200 and three A 340-300 aircraft at a cost of US\$ 459 M (Rs.22,142 M). This is to be funded substantially by borrowings from a consortium of financial institutions. As at the date of this report, financing packages in respect of two A320 - 200 and the two A340 - 300 has been finalised and the amount outstanding and committed as at date is US\$ 328 M (Rs.16,276 M).

The financial projections for the next 5 year period prepared by the Company indicate that the internally generated cash flows are sufficient to service such borrowings. High financial gearing of the Company due to increased external borrowing can result in a substantial impact on its cash flows & its ability to service the debts, in the event there is a decline in profitability.

In our opinion, except for Accounting Policy G (iii) to the Financial Statements of Air Lanka Limited, so far as it appears from our examination, proper books of account have been maintained by the Company and to the best of our information and according to explanations given to us, the said Financial Statements which are in agreement therewith, read together with the accounting policies and notes referred to therein ;

- 1) provide the information required by the Companies Act No. 17 of 1982 ; and
- 2) give a true and fair view of the state of the Company's affairs as at 31st March 1994 and of its Profit and Changes in Financial Position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that according to information available to us no Director of the Company is directly or indirectly interested in a contract with the Company other than those disclosed in Note 22 to the accounts.

In our opinion, except for Accounting Policy G (iii) to the Consolidated Financial Statements, so far as it appears from our examination, the Consolidated Balance Sheet, Statements of Profit and Loss Account and Changes in Financial Position which are properly drawn up in accordance with the audited accounts of the Company and its Subsidiary included in consolidation -

- 1) provide the information required by the Companies Act No.17 of 1982; and
- 2) give a true and fair view of the state of affairs of the Group as at 31st March 1994 and of its Profit and Changes in Financial Position for the year then ended.

Ernst & Young  
Chartered Accountants  
Colombo

29 September 1994

## Profit and Loss Account

for the year ended 31 March

	Note	GROUP		COMPANY	
		1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
REVENUE	1	<u>12,800.43</u>	13,244.15	<u>12,456.05</u>	12,945.44
OPERATING PROFIT	2	861.22	728.08	698.28	555.16
Other income	3	<u>275.30</u>	99.89	<u>363.67</u>	153.77
		1,136.52	827.97	1,061.95	708.93
Interest and similar charges	4	<u>(788.25)</u>	(537.70)	<u>(788.25)</u>	(537.70)
		348.27	290.27	273.70	171.23
Deferred expenditure written off	5	<u>(50.24)</u>	(43.62)	<u>(50.24)</u>	(43.62)
		298.03	246.65	223.46	127.61
Extraordinary items	6	<u>24.39</u>	15.97	<u>24.39</u>	-
		322.42	262.62	247.85	127.61
Minority interests		<u>(70.14)</u>	(83.98)	-	-
<b>PROFIT FOR THE YEAR</b>		<b>252.28</b>	178.64	<b>247.85</b>	127.61
PROFIT/(LOSS) BROUGHT FORWARD	11	<u>(2,010.02)</u>	(5,724.66)	<u>(2,154.72)</u>	(5,818.33)
PROFIT/(LOSS) AVAILABLE FOR APPROPRIATION		<u>(1,757.74)</u>	(5,546.02)	<u>(1,906.87)</u>	(5,690.72)
APPROPRIATIONS					
Dividends					
Interim		-	-	-	-
Proposed		-	-	-	-
		-	-	-	-
UNAPPROPRIATED PROFIT/(LOSS) CARRIED FORWARD		<u>(1,757.74)</u>	(5,546.02)	<u>(1,906.87)</u>	(5,690.72)

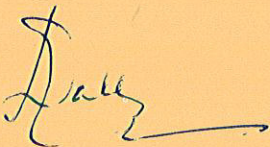
The accounting policies and notes on pages 19 to 38 form part of these accounts.

# Balance Sheet

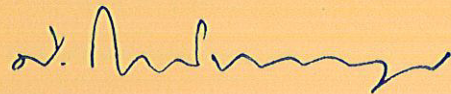
as at 31 March

	Note	GROUP		COMPANY	
		1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
Fixed assets	7	10,821.31	9,114.46	10,742.20	9,019.84
Work in progress		0.09	-	-	-
Investment in subsidiary	8	-	-	30.40	30.40
Net current assets/(liabilities)	9	(1,661.35)	(1,455.82)	(1,912.32)	(1,682.11)
		<u>9,160.05</u>	<u>7,658.64</u>	<u>8,860.28</u>	<u>7,368.13</u>
Financed by:					
Issued share capital	10	5,146.35	7,369.47	5,146.35	7,369.47
Funds awaiting allotment		-	1,312.87	-	1,312.87
Profit and loss account	11	(1,757.74)	(5,546.02)	(1,906.87)	(5,690.72)
Capital reserve	12	275.56	275.56	267.56	267.56
Revenue reserve	13	0.63	0.63	-	-
Other reserves	14	23.76	22.43	23.76	22.43
		<u>3,688.56</u>	<u>3,434.94</u>	<u>3,530.80</u>	<u>3,281.61</u>
Less: Deferred items	15	(696.57)	(724.88)	(696.57)	(724.88)
Shareholder's funds		2,991.99	2,710.06	2,834.23	2,556.73
Minority Interests		125.64	122.69	-	-
Long term loans	16	2,817.86	2,684.57	2,817.86	2,684.57
Obligations under finance leases	17	3,095.82	2,031.60	3,095.82	2,031.60
Deferred Liabilities	18	128.74	109.72	112.37	95.23
		<u>9,160.05</u>	<u>7,658.64</u>	<u>8,860.28</u>	<u>7,368.13</u>

For and on behalf of the Board



Deshamanya Gen. D S Attygalle  
Chairman/Managing Director  
Colombo, 27 September 1994



K H J Wijayadasa  
Director

The accounting policies and notes on pages 19 to 38 form part of these accounts.

## Accounting Policies

### A) Accounting Convention

The Financial Statements have been prepared under the historical cost convention in accordance with accepted accounting principles and the Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka except as stated in the Accounting Policy G (iii). No adjustments have been made for the effects of inflation other than for revaluation and restatement of certain assets as stated below.

### B) Consolidation

The Consolidated Financial Statements include the accounts of the Company and its subsidiary, Air Lanka Catering Services Limited.

The Company and its subsidiary have a common financial year which ends on 31 March.

The consolidated profit and loss account includes the total profits and losses of the Company and of its subsidiary, Air Lanka Catering Services Limited. The proportion of the profit or loss applicable to outside shareholders is shown under the heading "Minority Interest".

All assets and liabilities of the Company and of its subsidiary, Air Lanka Catering Services Limited are included in the consolidated balance sheet. The interests of the outside shareholders are shown in the consolidated balance sheet under the heading "Minority Interest".

The consolidated profit and loss account does not include unrealised profits from inter-company transactions involving inventory and turnover from intra-group transactions.

### C) Fixed Assets

Fixed assets are stated at cost of acquisition or construction except for certain properties which are included at valuation or are restated.

Major overhauls and modifications which result in an increase in the earning capacity or the useful life of assets are capitalised.

Depreciation is calculated to write off the cost or valuation, less residual value if any, over the anticipated useful lives of the fixed assets on a straight line basis.

Cost of fixed assets which have been financed by foreign currency loans/leases were restated in 1987/88 and in 1988/89 at year end exchange rates. These are carried at their restated value as at 31 March 1989.

#### 1. Fleet

Aircraft and aircraft engines owned by the Company prior to 31 March 1989 are stated in the accounts at their restated value as at 31 March 1989. Subsequent additions are reflected at cost.

#### 2. Property and Equipment

Property owned by the Company and situated at No. 12 Sir Baron Jayatilaka Mawatha, Colombo 1, was valued by Mr D S A Senaratne, Chartered Valuer on 25 December 1988 and the Air Lanka Administration and Training Building situated at Katunayake was valued by Mr S Fernando, Chartered Valuer, on 20 January 1989. These properties are included in the accounts on the basis of that valuation.

All other property and equipment have been included in these accounts at cost.

#### 3. Aircraft Rotable Spares

Aircraft rotable spares, which are treated as tangible fixed assets are recorded in the balance sheet at cost.

#### 4. Leased Assets

Where assets are financed by lease arrangements under which all the risks and rewards of ownership are substantially transferred to the lessee, such assets are treated as fixed assets and recorded at the present value of the minimum lease payments payable over the lease period, derived by discounting them at the rate of interest

## Accounting Policies

implicit in the lease. The corresponding liability is recorded as an obligation under finance leases.

Amounts payable under operating lease agreements are charged to the profit and loss account as they arise.

### D) Depreciation

Depreciation is provided on all fixed assets (freehold and leasehold) other than freehold land at rates calculated to write off the cost or valuation of fixed assets, less residual value if any, over their estimated useful lives, on a straight-line basis.

New aircraft and spare engines - over 16 years after making a 10 percent allowance for residual value.

Used aircraft and spare engines - over the estimated remaining useful life which currently ranges from 4 to 8 years.

Buildings - over the expected useful life subject to a maximum of 20 years.

Equipment - over periods ranging from 3 to 10 years according to the type of equipment.

Aircraft rotatable spares - over 8 years.

### E) Subsidiary Company

A subsidiary company is an enterprise in which the Company has a controlling interest and in which the Company has more than 50 percent investment in equity.

The profit and loss account of the Company includes the dividends declared and paid by the subsidiary company.

The investment in the subsidiary company is stated at cost.

### F) Stocks and Consumable Stores

Stocks are stated at the lower of cost and net realisable value after making due allowance for any obsolete or slow moving items.

Aircraft consumable spares and ground

support equipment consumable spares are valued on the basis of weighted average cost.

Other consumable stocks are valued on first-in-first-out basis.

### G) Conversion of Foreign Currencies

(i) Foreign currency transactions are converted into Sri Lanka Rupees at the rates of exchange prescribed by the International Air Transport Association where applicable, and at exchange rates ruling on transaction dates in all other cases.

(ii) All monetary assets and liabilities denominated in foreign currencies as at balance sheet date are translated at the exchange rates ruling as at 31 March 1994.

(iii) Gains and losses arising from the translation of long term liabilities (term loans and leases denominated in foreign currencies) as at balance sheet date which finance specific fixed assets are recorded in an exchange equalisation account and amortised as currency gains/losses over the remaining life of the related assets. Unamortised balance of such gains and losses are carried forward in the exchange equalisation account.

This policy is a departure from the provisions of the Sri Lanka Accounting Standard No. 21, issued by the Institute of Chartered Accountants of Sri Lanka which is effective from 01 April 1990. This requires such exchange differences to be dealt with in the Profit and Loss Account in the year in which they arise. Adoption of the provisions of the Sri Lanka Accounting Standard No. 21 would result in an increase in the profit for the year by Rs. 5.64 million.

The directors consider that the policy adopted presents a fair view since;

a) The foreign exchange earnings of the company are adequate to meet the foreign currency commitments on long-term loans and finance leases without the need to

## Accounting Policies

convert Sri Lanka Rupees into the relevant currencies,

and

b) The related assets, mainly aircraft, which are financed by foreign currency loans and finance leases are saleable in foreign currency.

In these circumstances, if the entire unrealised exchange difference is taken into the Profit and Loss Account of a given year, it would distort that particular year's result.

(iv) Exchange losses which are regarded as an adjustment to borrowing costs, amounting to Rs. 231.09 million on long-term loans obtained to meet pre-delivery payments in respect of new aircraft are capitalised as part of the cost of such aircraft, as permitted by Sri Lanka Accounting Standard No.20.

Amount capitalised during the year is Rs. 57.18 million.

v) All other gains and losses arising on translation are dealt with in the Profit and Loss Account as exchange differences.

### H) Debtors

Debtors are stated at the amounts they are estimated to realise. Provision has been made in the accounts for bad and doubtful debts.

### I) Liabilities and Provisions

All known liabilities as at the balance sheet date have been provided for in the financial statements.

All employees based in Sri Lanka are covered under the Employee Provident Fund and Employees Trust Fund.

All employees based in Sri Lanka with 5 or more years service with the company are entitled to the payment of gratuity, under the Payment of Gratuity Act No 12 of 1983.

Overseas based employees are covered under social security schemes applicable in their home country.

### J) Airline Revenue Recognition

Passenger and cargo sales are initially recorded as a liability in the Sales in advance of carriage account and subsequently recognised as air transport revenue when the service is utilised through carriage by the company.

Passenger and cargo sales made by the company and utilised on the services of other airlines are billed by them and offset against Sales in advance of carriage when paid.

Provision is made in the accounts for anticipated revenue adjustments which the management considers necessary.

### K) Deferred Expenditure

Airframe overhaul ( "C" check ) costs are deferred and amortised over prescribed flying hours.

Computer systems development, crew conversion and aircraft refurbishment costs are deferred and amortised over periods ranging from three to five years.

### L) Borrowing Costs

Borrowing costs amounting to Rs.246.17 million incurred on long term loans obtained to meet pre - delivery payments in respect of new aircraft are capitalised as part of the cost of such aircraft.

Amount capitalised during the year as permitted by Sri Lanka Accounting Standard No. 20 is Rs. 105.60 million.

### M) Income from Investment

Dividend income and interest income from fixed deposits are accounted for on a cash basis.



## Notes to The Accounts

### 1. Revenue

	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
Airline operations - Note 1 (a)	11,581.15	12,233.85	11,590.45	12,246.78
Ground handling	777.63	597.25	777.63	597.25
Duty free sales	87.97	101.41	87.97	101.41
Flight catering	353.68	311.64	-	-
	<u>12,800.43</u>	<u>13,244.15</u>	<u>12,456.05</u>	<u>12,945.44</u>

1(a). Revenue from airline operations comprises :

	COMPANY	
	1994 Rs. M	1993 Rs. M
Scheduled services :		
Passenger	10,067.73	10,709.26
Excess baggage	225.29	177.02
Cargo	1,153.98	1,165.31
Mail	80.56	90.42
	<u>11,527.56</u>	<u>12,142.01</u>
Non scheduled services :	62.89	104.77
	<u>11,590.45</u>	<u>12,246.78</u>

## Notes to The Accounts

### 2. Operating profit /(loss)

	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
Airline operations	137.76	155.19	137.76	155.19
Ground handling	528.60	363.05	528.60	363.05
Duty free sales	31.92	36.92	31.92	36.92
Flight catering	162.94	172.92	-	-
	<b>861.22</b>	<b>728.08</b>	<b>698.28</b>	<b>555.16</b>

	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
Operating profit has been arrived at after charging ;				
Depreciation on owned fixed assets	446.95	361.62	423.65	341.37
Depreciation on leased fixed assets	444.06	248.65	444.06	248.65
	<b>891.01</b>	<b>610.27</b>	<b>867.71</b>	<b>590.02</b>
Operating lease charges	842.96	1423.64	842.96	1,423.64
Auditor's remuneration	0.89	0.76	0.66	0.57
Director's emoluments	6.69	5.66	1.17	0.76
Bad and doubtful debts	11.50	19.73	11.44	19.72
Deferred maintenance checks	30.78	41.58	30.78	41.58

## Notes to The Accounts

### 3. Other income

	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
Profit/(loss) on disposal of fixed assets	5.75	1.59	5.73	0.45
Exchange differences	(28.34)	(121.78)	(28.49)	(133.97)
Interest	178.94	86.26	168.10	81.02
Dividend from subsidiary/associate company	-	41.30	100.49	114.93
Other items	118.95	92.52	117.84	91.34
	<u>275.30</u>	<u>99.89</u>	<u>363.67</u>	<u>153.77</u>

### 4. Interest & similar charges

	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
Interest charges :				
On bank loans	(67.51)	(41.70)	(67.51)	(41.70)
On other loans and lease finances	(498.18)	(323.95)	(498.18)	(323.95)
	<u>(565.69)</u>	<u>(365.65)</u>	<u>(565.69)</u>	<u>(365.65)</u>
Currency losses :				
On bank loans	(46.94)	(27.19)	(46.94)	(27.19)
On other loans and lease finances	(175.62)	(144.86)	(175.62)	(144.86)
	<u>(222.56)</u>	<u>(172.05)</u>	<u>(222.56)</u>	<u>(172.05)</u>
	<u>(788.25)</u>	<u>(537.70)</u>	<u>(788.25)</u>	<u>(537.70)</u>

## Notes to The Accounts

### 5. Deferred expenditure written off

	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
Maintenance checks	(30.78)	(41.58)	(30.78)	(41.58)
Crew training and conversion	(3.80)	(2.90)	(3.80)	(2.90)
Computer systems development	(7.90)	(1.58)	(7.90)	(1.58)
Aircraft refurbishing expenses	(38.54)	(38.54)	(38.54)	(38.54)
Other items	0.00	(0.60)	0.00	(0.60)
	<u>(81.02)</u>	<u>(85.20)</u>	<u>(81.02)</u>	<u>(85.20)</u>
Less : Deferred maintenance checks included in operating expenditure	30.78	41.58	30.78	41.58
	<u>(50.24)</u>	<u>(43.62)</u>	<u>(50.24)</u>	<u>(43.62)</u>

### 6. Extraordinary items

	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
Profit on sale of aircraft B-737	24.39	-	24.39	-
Provision for deposits with BCCI	-	19.04	-	-
Design and development cost of new flight kitchen written off.	-	(3.07)	-	-
	<u>24.39</u>	<u>15.97</u>	<u>24.39</u>	<u>-</u>

## Notes to The Accounts

### 7. Fixed assets - GROUP

	Aircraft and Related equipment					Total Rs. M
	Own Rs. M	Leased Rs. M	Property Rs. M	Equipment Rs. M	Projects Rs. M	
<b>Cost</b>						
At 01 April 1993	2,529.76	6,061.42	752.31	1,415.24	3,844.22	14,602.95
Additions	198.22	-	5.99	64.16	2,577.80	2,846.17
Disposals	(239.69)	-	-	(5.47)	-	(245.16)
Adjustments & transfers	276.04	1,975.81	14.34	181.11	(2,693.12)	(245.82)
At 31 March 1994	2,764.33	8,037.23	772.64	1,655.04	3,728.90	16,958.14
<b>Depreciation</b>						
At 01 April 1993	1,895.75	2,389.13	303.43	900.18	-	5,488.49
Charge for the year	158.51	444.06	41.23	247.21	-	891.01
Disposals	(237.23)	-	-	(5.44)	-	(242.67)
Adjustments & transfers	-	-	-	-	-	-
At 31 March 1994	1,817.03	2,833.19	344.66	1,141.95	-	6,136.83
<b>Net book value</b>						
At 31 March 1994	947.30	5,204.04	427.98	513.09	3,728.90	10,821.31
At 01 April 1993	634.01	3,672.29	448.88	515.06	3,844.22	9,114.46

The amounts reflected under property includes land at a valuation of Rs. 31.25 million as referred to in Accounting Policy ( C ) 2.

The amounts reflected under projects represents the advance and progress payments made in respect of the fleet replacement programme of the Company.

## Notes to The Accounts

### 7(a). Fixed assets - COMPANY

	<u>Aircraft and Related equipment</u>					Total Rs. M
	Own Rs. M	Leased Rs. M	Property Rs. M	Equipment Rs. M	Projects Rs. M	
<b>Cost</b>						
At 01 April 1993	2,529.76	6,061.42	654.80	1,179.72	3,844.22	14,269.92
Additions	198.22	-	5.99	56.35	2,577.80	2,838.36
Disposals	(239.69)	-	-	(5.40)	-	(245.09)
Adjustments & transfers	276.04	1,975.81	14.34	181.11	(2,693.12)	(245.82)
At 31 March 1994	<u>2,764.33</u>	<u>8,037.23</u>	<u>675.13</u>	<u>1,411.78</u>	<u>3,728.90</u>	<u>16,617.37</u>
<b>Depreciation</b>						
At 01 April 1993	1,895.75	2,389.13	256.82	708.38	-	5,250.08
Charge for the year	158.51	444.06	36.24	228.90	-	867.71
Disposals	(237.23)	-	-	(5.39)	-	(242.62)
Adjustments & transfers	-	-	-	-	-	-
At 31 March 1994	<u>1,817.03</u>	<u>2,833.19</u>	<u>293.06</u>	<u>931.89</u>	<u>-</u>	<u>5,875.17</u>
<b>Net book value</b>						
At 31 March 1994	<u>947.30</u>	<u>5,204.04</u>	<u>382.07</u>	<u>479.89</u>	<u>3,728.90</u>	<u>10,742.20</u>
At 01 April 1993	634.01	3,672.29	397.98	471.34	3,844.22	9,019.84

The amounts reflected under property includes land at a valuation of Rs. 31.25 million as referred to in Accounting Policy ( C ) 2.

The amounts reflected under projects represents the advance and progress payments made in respect of the fleet replacement programme of the Company.

## Notes to The Accounts

### 8. Investment in subsidiary company

	COMPANY	
	1994 Rs. M	1993 Rs. M
Investment in Air Lanka Catering Services Ltd.		
At 01 April	30.40	30.40
Acquired in the year	-	-
At 31 March ( 384,000 shares of Rs. 100 each )	<u>30.40</u>	<u>30.40</u>

The Company holds 60% of the issued share capital of Air Lanka Catering Service Limited (ALCS).  
The Company's shareholding in ALCS as at 31 March 1994 is included in these accounts at cost.

## Notes to The Accounts

### 9. Net current assets / (liabilities)

	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
<b>Current assets :</b>				
Stocks	1,124.98	792.70	1,091.25	765.59
Debtors - trade	1,321.16	1,373.03	1,268.56	1,312.60
Debtors - other	209.34	159.81	209.34	159.81
Debtors - staff	79.63	64.47	73.06	63.29
Advances and deposits	480.66	501.85	472.94	493.86
Cash and bank balances	2,177.62	2,631.10	2,026.22	2,528.30
Total current assets	<u>5,393.39</u>	<u>5,522.96</u>	<u>5,141.37</u>	<u>5,323.45</u>
<b>Current liabilities</b>				
Bank overdraft (Secured)	575.74	978.97	573.93	978.97
Bank and other loans	546.31	367.58	546.31	367.58
Finance leases	620.43	857.88	620.43	857.88
	<u>1,742.48</u>	<u>2,204.43</u>	<u>1,740.67</u>	<u>2,204.43</u>
Trade creditors	2,869.36	2,649.36	2,835.71	2,635.59
Amounts due to subsidiary company	-	-	56.11	61.12
Other creditors	123.16	49.40	101.46	28.83
Sales in advance of carriage	2,319.74	2,075.59	2,319.74	2,075.59
Total current liabilities	<u>7,054.74</u>	<u>6,978.78</u>	<u>7,053.69</u>	<u>7,005.56</u>
<b>Net current assets / (liabilities)</b>	<u>(1,661.35)</u>	<u>(1,455.82)</u>	<u>(1,912.32)</u>	<u>(1,682.11)</u>

The balance shown under Sales in advance of carriage represents approximately 10.5 weeks of average sales ( 8.9 in 1993). This balance includes a provision for revenue adjustments which the management considers adequate based on past experience.

The balances shown under Debtors ( trade, other and staff ) are net of provisions for bad and doubtful debts amounting to Rs. 165.71 million ( Rs. 165.97 million in 1993 ).



# Notes to The Accounts

## 10. Share capital

Authorised	COMPANY	
	1994 Rs. M	1993 Rs. M
Ordinary Shares of Rs.100 each (141,250,000 Shares)	14,125.00	15,000.00
Preference Shares of Rs.100 each (8,750,000 Shares)	875.00	-
	15,000.00	15,000.00
<b>Issued and fully paid</b>		
<u>Ordinary Shares of Rs.100 each</u>		
At 01 April (73,694,713 Shares)	7,369.47	7,369.47
Allotment of shares on 15 April 93 for which advances were received during 1992-93 (4,378,750 Shares)	437.88	-
Written off against accumulated losses in accordance with the capital restructuring programme undertaken by the company for which sanction by the court has been obtained (35,360,000 Shares)	(3,536.00)	-
At 31 March (42,713,463 Shares)	4,271.35	7,369.47
<u>Cumulative Preference Shares of Rs.100 each (Coupon rate not specified)</u>		
At 01 April	-	-
Allotment of shares on 15 April 93 for which advances were received during 1992-93 (8,750,000 Shares )	875.00	-
At 31 March	875.00	-
	5,146.35	7,369.47

## Notes to The Accounts

### 11. Profit and loss account

	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
Profit / (loss) for the year	252.28	178.64	247.85	127.61
Profit and loss account at 01 April				
As previously reported	(5,546.02)	(5,703.91)	(5,690.72)	(5,797.58)
Accumulated losses written off in accordance with the capital restructuring programme undertaken by the company	3,536.00	—	3,536.00	—
Prior year adjustments	—	(20.75)	—	(20.75)
As restated	(2,010.02)	(5,724.66)	(2,154.72)	(5,818.33)
Profit and loss account at 31 March	<u>(1,757.74)</u>	<u>(5,546.02)</u>	<u>(1,906.87)</u>	<u>(5,690.72)</u>

### 12. Capital reserve

	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
At 01 April				
Additions	* 275.56	275.56	267.56	267.56
At 31 March	-	-	-	-
	<u>275.56</u>	<u>275.56</u>	<u>267.56</u>	<u>267.56</u>

\*Includes a reserve on consolidation of Rs. 8M

### 13. Revenue reserve

	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
At 01 April				
Additions/transfers during the year	0.63	41.93	-	-
At 31 March	-	(41.30)	-	-
	<u>0.63</u>	<u>0.63</u>	<u>-</u>	<u>-</u>

# Notes to The Accounts

## 14. Other reserves

	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
At 01 April				
Additions during the year	22.43	15.80	22.43	15.80
Charge for the year	4.27	8.41	4.27	8.41
At 31 March	(2.94)	(1.78)	(2.94)	(1.78)
	<u>23.76</u>	<u>22.43</u>	<u>23.76</u>	<u>22.43</u>

## 15. Deferred items

	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
Exchange equalisation (Note a)	647.63	653.27	647.63	653.27
Deferred expenditure (Note b)	48.94	71.61	48.94	71.61
	<u>696.57</u>	<u>724.88</u>	<u>696.57</u>	<u>724.88</u>

### (a) Exchange equalisation

	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
At 01 April				
Exchange loss on translation of foreign currency loans and finance leases - see Accounting Policy G(iii)	653.27	499.35	653.27	499.35
Charge for the year	131.67	240.01	131.67	240.01
At 31 March	(137.31)	(86.09)	(137.31)	(86.09)
	<u>647.63</u>	<u>653.27</u>	<u>647.63</u>	<u>653.27</u>

### (b) Deferred expenditure

	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
At 01 April				
Additions during the year	71.61	108.85	71.61	108.85
Charge for the year	58.35	47.96	58.35	47.96
At 31 March	(81.02)	(85.20)	(81.02)	(85.20)
	<u>48.94</u>	<u>71.61</u>	<u>48.94</u>	<u>71.61</u>

## Notes to The Accounts

### 16. Long-term loans

The Company has loan obligations to banks and other institutions which are denominated in US dollars and in Japanese Yen. The balance outstanding as at 31st March 1994 in respect of loans denominated in Japanese Yen was JPY 866.65 million (US Dollars 8.44 million).

	GROUP		COMPANY	
	USD M	Rs. M	USD M	Rs. M
At 01 April 1993	59.46	2,818.57	59.46	2,818.57
Additions during the year	12.96	621.39	12.96	621.39
Repayments during the year	(4.47)	(209.31)	(4.47)	(209.31)
Restatements	0.95	133.52	0.95	133.52
<b>At 31 March 1994</b>	<b>68.90</b>	<b>3,364.17</b>	<b>68.90</b>	<b>3,364.17</b>

The future payments under these loans are as follows:

	1994		1993	
	USD M	Rs. M	USD M	Rs. M
Bank loans payable				
Within one year	4.69	228.88	0.90	42.66
Between :				
- One and two years	10.60	517.54	3.13	148.14
- two and three years	12.71	620.72	8.98	425.87
- three and four years	12.71	620.72	12.71	602.64
- four and five years	8.03	391.84	12.71	602.64
- after five years	2.11	103.18	13.31	631.26
	<b>50.85</b>	<b>2,482.88</b>	<b>51.74</b>	<b>2,453.21</b>
Other loans payable				
Within one year	6.50	317.43	1.93	91.34
Between :				
- One and two years	3.69	180.04	1.93	91.34
- two and three years	0.87	42.65	1.93	91.34
- three and four years	0.87	42.65	1.93	91.34
- four and five years	0.87	42.65	-	-
- after five years	5.25	255.87	-	-
	<b>18.05</b>	<b>881.29</b>	<b>7.72</b>	<b>365.36</b>
<b>Total long term loans</b>	<b>68.90</b>	<b>3,364.17</b>	<b>59.46</b>	<b>2,818.57</b>
Amount due within one year included under current liabilities	(11.19)	(546.31)	(2.83)	(134.00)
	<b>57.71</b>	<b>2,817.86</b>	<b>56.63</b>	<b>2,684.57</b>

Loans are repayable on various dates up to the year 2004 at varying interest rates which ranged from 3.69 percent to 8.98 percent per annum during the year. The outstanding balance of USD 68.90 M (Rs. 3,364.17 M) is guaranteed by the Government of Sri Lanka.

## Notes to The Accounts

### 17. Obligations under finance leases

The Company has commitments under finance lease agreements expiring in 1994, 2004 and in 2005 in respect of aircraft and aircraft spare engines.

	GROUP		COMPANY	
	USD M	Rs. M	USD M	Rs. M
At 01 April 1993	60.95	2,889.48	60.95	2,889.48
Additions during the year	34.08	1,611.84	34.08	1,611.84
Repayments during the year	(18.92)	(916.13)	(18.92)	(916.13)
Restatements	-	131.06	-	131.06
At 31 March 1994	<u>76.11</u>	<u>3,716.25</u>	<u>76.11</u>	<u>3,716.25</u>

The future payments under these finance leases, which are US Dollar denominated are as follows.

	1994		1993	
	USD M	Rs. M	USD M	Rs. M
Within one year	12.71	620.43	18.10	857.88
Between :				
- One and two years	3.96	193.70	10.97	519.96
- two and three years	4.33	211.47	2.07	97.99
- three and four years	4.74	231.31	2.25	107.12
- four and five years	5.18	252.87	2.47	117.11
- after five years	45.19	2,206.47	25.09	1,189.42
	<u>76.11</u>	<u>3,716.25</u>	<u>60.95</u>	<u>2,889.48</u>
Amount due within one year included under current liabilities	(12.71)	(620.43)	(18.10)	(857.88)
	<u>63.40</u>	<u>3,095.82</u>	<u>42.85</u>	<u>2,031.60</u>

The future payments of interest charges relating to these finance leases are as follows.

	1994	
	USD M	Rs. M
Within one year	5.60	273.60
Between :		
- One and two years	4.83	236.06
- two and three years	4.54	221.58
- three and four years	4.18	204.19
- four and five years	3.81	185.85
- after five years	12.84	627.17
	<u>35.80</u>	<u>1,748.45</u>

The Government of Sri Lanka has guaranteed the obligations of the Company under the finance lease agreements up to a limit of US Dollars 30.82 million ( Rs. 1,504.98 million).

## Notes to The Accounts

### 18. Deferred liabilities

	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
At 01 April	109.72	71.74	95.23	62.22
Payments during the year	(4.41)	(4.85)	(4.04)	(2.64)
Charge for the year	<u>23.43</u>	42.83	<u>21.18</u>	35.65
At 31 March	<u>128.74</u>	109.72	<u>112.37</u>	95.23

### 19. Commitments

(a) Outstanding commitments for capital expenditure at 31 March 1994 are as follows :—

	Group Rs.M	Company Rs.M
Contracts placed	13,712.85	13,712.85
Authorised but not contracted for	15.01	15.01
	<u>13,727.86</u>	<u>13,727.86</u>

Amount shown under contracts placed includes the price of three Airbus A340-300 aircraft on order.

Outstanding commitments for capital expenditure as at 31 March 1994 are expected to be crystallised during the year 1994/95.

(b) At 31 March 1994, the Company had commitments under Operating leases to make payments in the subsequent years as follows:

	USD.M	Rs.M
Leases expiring:		
Within one year	4.54	221.67
After 1 year	-	-
	<u>4.54</u>	<u>221.67</u>

## Notes to The Accounts

### 20. Loans granted to employees

Staff debts outstanding as at 31 March 1994 amounting to Rs. 79.63 M include loans granted to employees in excess of Rs. 20,000. Particulars of such loans are as follows;

Group	No. of employees	Amount in Rs.
Balance as at 01 April 1993	24	2,102,476
Loans granted during the year	17	1,137,095
Loans recovered during the year	(5)	(837,869)
Balance as at 31 March 1994	36	2,401,702
Company	No. of employees	Amount in Rs.
Balance as at 01 April 1993	13	1,559,556
Loans granted during the year	5	630,095
Loans recovered during the year	-	(410,658)
Balance as at 31 March 1994	18	1,778,993

## Notes to The Accounts

### 21. Taxation

#### Sri Lanka taxation

The Company has signed an agreement under Section 17 of the Greater Colombo Economic Commission Law No. 4 of 1978 which exempts it from the payment of income tax, corporate tax and tax on dividends and royalties for an initial period of seven years from 01 September 1979, subsequently extended for a period of three years from 01 August 1986, and thereafter a period of five years from 01 August 1989. The Board of Investment of Sri Lanka has further extended the tax exemption period to end in the year of assessment 1998/1999.

The subsidiary, Air Lanka Catering Services Limited has signed an agreement under Section 17 of the Greater Colombo Economic Commission Law No. 4 of 1978 which exempts it from the payment of income tax, corporate tax and tax on dividends and royalties for an initial period of five years from 01 April 1980, subsequently extended for a period of two years and thereafter for another three years. This exemption has been further extended for a period of five years from 01 April 1991.

#### Overseas taxation

The Company is liable to tax on its overseas operations in countries where there are no double tax treaties at present.

However, there is no liability in the current year due to the carry forward tax losses available to the Company, except as stated in Note 28 (b).

### 22. Director's interest

Air Lanka has the right to nominate four Directors to the Board of Air Lanka Catering Services Limited, with whom the company has a contract for catering. The nominee Directors as at 31 March 1994 were:

Deshamanya Gen. D S Attygalle  
Mr. R Paskaralingam

Mr. D S J Pelpola

Mrs. R L Nanayakkara

The nominee Directors as at date are:

Deshamanya Gen. D S Attygalle

Mr. L Fernando

Mr. N Jayamanne

Mr. A S Jayawardena

Mr. R Balapatabendi (Alternate Director)

### 23. Post balance sheet events

(a) After the year end the Company has finalised a financing package in respect of 02 A340 - 300 aircraft with a consortium of foreign financial institutions. The total external borrowing to be obtained is US\$ 209 million (Rs. 10,205 million), and the repayment period ranges from 5 - 12 years.

The government of Sri Lanka has guaranteed the obligations of the Company under the financing agreements up to a limit of US\$ 74 million (Rs. 3,613.23 million).

The government of Sri Lanka has also guaranteed the obligations of the Company in respect of any interest payments outstanding under the said financing agreement.

(b) The Company has taken delivery of one A340 - 300 aircraft on 19 September 1994.

(c) At an Extraordinary General Meeting of the Shareholders of the Company, a special resolution was passed unanimously, in terms of the provisions of article 10(iv) of the Articles of Association of the Company, for the issued and fully paid Share Capital to be reduced from Rs. 5,146,346,300 divided into 51,463,463 shares of Rs. 100/= each to Rs. 2,991,346,300 divided into 29,913,463 shares of Rs. 100/= fully paid up.

This capital reduction will be effective, after sanction by the court and would be applied against accumulated losses, to enable the Company to complete the capital restructuring programme which was undertaken.



## Notes to The Accounts

### 24. Comparative amounts

Certain comparative amounts have been reclassified to conform with the current year's presentation.

### 25. Aircraft rotatable spares

(Rs. 811.50 million - Book value)

Aircraft rotatable spares were physically verified at the year end. These spares were valued as follows:

(i) Purchases prior to 01 April 1991 - using the cross rate arrived at by dividing the Sri Lanka Rupee book value of rotatable spares as at 31 March 1991 by the aggregate US Dollar value of individual rotatable spares as at that date.

(ii) Purchases after 01 April 1991 - at cost.

The method of valuing rotatable spares purchased prior to 01 April 1991 is a departure from Sri Lanka Accounting Standard No. 18 which requires fixed assets to be valued at historical rupee values. This method was nevertheless adopted, in order to establish individual rupee costs which were previously not available.

### 26. Aircraft non-rotatable spares

(Rs. 752.22 million)

Aircraft non-rotatable spares were physically verified during the year under a continuous verification programme. These spares were valued as follows:

(i) Purchases prior to 01 April 1992 - using the weighted average US Dollar rates available in the perpetual inventory records and converted into Sri Lanka Rupees by using a cross rate.

The cross rate was arrived at by dividing the Sri Lanka Rupee book value of the non-rotatable spares as at 31 March 1992 by the aforesaid US Dollar value.

(ii) Purchases after 01 April 1992 at cost.

The method of valuing non-rotatable spares purchased prior to 01 April 1992 is a departure from Sri Lanka Accounting

Standard No. 5 which requires inventories to be valued at cost or net realisable value whichever is lower.

The Directors, however, consider this appropriate in order to establish individual rupee costs which were previously not available.

### 27. Aircraft engine overhaul

Aircraft engine maintenance cost is provided for in these accounts on the basis of actual hours flown, at an estimated cost per flying hour established at the commencement of the Financial year.

### 28. Contingencies

(a) No provision has been made in the accounts in respect of contingent liabilities arising in the normal course of business of the Company, in respect of legal actions or other claims being undertaken against the Company. This contingent liability is estimated by the management at Rs. 181.89 M.

(b) No provision has been made in the Accounts in respect of a potential tax liability of OMR 319,547 (Rs. 38.39 M) and SAR 6,011,109 (Rs. 75.98 M) in respect of income arising in Oman and Saudi Arabia respectively. Once the double tax treaties are brought into force, it is anticipated that this matter will be resolved in favour of the Company.

### 29. Related party transactions

The Company has entered into a contract with M/s Indo Pacific Business & Management Consultants (Pte.) Ltd. Singapore, for consultancy services. Mr. A C Mahajan who is employed on a contractual basis as Chief Marketing Officer is also a member of the team of Consultants of the said firm.

Other than the above, there were no other related party transactions during the year.

## Statement of Changes in Financial Position

Source of funds :	Note	GROUP		COMPANY	
		1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
Profit / (loss)	A	252.28	137.38	147.36	12.72
Adjustment for items not involving the movement of funds	B	1,269.09	1,010.25	1,173.79	902.19
Funds generated from operations		1,521.37	1,147.63	1,321.15	914.91
Funds awaiting allotment		-	1,312.87	-	1,312.87
Long term loans		621.39	1,245.76	621.39	1,245.76
Finance leases		1,611.84	1,576.02	1,611.84	1,576.02
Short term loans		-	247.95	-	247.95
Duty Free Product Support reserve		4.27	8.41	4.27	8.41
Proceeds from disposal of fixed assets		32.62	1.59	32.59	0.45
Income from investments		-	-	100.49	114.93
		<u>3,791.49</u>	<u>5,540.23</u>	<u>3,691.73</u>	<u>5,421.30</u>
<b>Application of funds</b>					
Purchase of fixed assets		193.85	303.04	185.94	274.04
Investment in projects		2,358.94	3,428.69	2,358.94	3,428.69
Investment		-	-	-	-
Deferred expenditure		58.35	47.96	58.35	47.96
Duty Free Product Support reserve		2.94	1.78	2.94	1.78
Long term loans		209.31	130.88	209.31	130.88
Short term loans		233.57	20.39	233.57	20.39
Dividend payment to minority interests		67.19	91.26	-	-
Deferred liabilities		4.04	2.64	4.04	2.64
Finance leases		916.13	629.03	916.13	629.03
		<u>4,044.32</u>	<u>4,655.67</u>	<u>3,969.22</u>	<u>4,535.41</u>
<b>Working capital</b>					
Net increase	C	<u>(252.83)</u>	<u>884.56</u>	<u>(277.49)</u>	<u>885.89</u>

## Notes to the Statement of Changes in Financial Position

Notes	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
<b>A) Profit / (loss) per accounts</b>	<b>252.28</b>	<b>178.64</b>	<b>247.85</b>	<b>127.61</b>
Prior year non-cash adjustments	-	0.04	-	0.04
Income from associate company	-	(41.30)	(100.49)	(114.93)
	<u>252.28</u>	<u>137.38</u>	<u>147.36</u>	<u>12.72</u>
 <b>B) Adjustments for items not involving- - the movement of funds</b>				
Depreciation	891.01	610.27	867.71	590.02
Amortisation of deferred items	303.58	257.25	303.58	257.25
Profit on disposal of fixed assets	(30.14)	(1.59)	(30.12)	(0.45)
Minority interest	70.14	83.98	-	-
Aircraft rotatable spares	-	-	-	-
General provisions	34.50	60.34	32.62	55.37
	<u>1,269.09</u>	<u>1,010.25</u>	<u>1,173.79</u>	<u>902.19</u>
 <b>C) Increase/ (decrease) in components of working capital</b>				
Stocks	332.28	290.23	325.66	304.67
Debtors	(42.25)	279.14	26.70	366.06
Advance payments and deposits	93.28	(39.16)	(20.92)	(41.97)
Creditors and accruals	(476.80)	(854.31)	(511.89)	(923.38)
Net liquid funds	(159.34)	1,208.66	(97.04)	1,180.51
	<u>(252.83)</u>	<u>884.56</u>	<u>(277.49)</u>	<u>885.89</u>

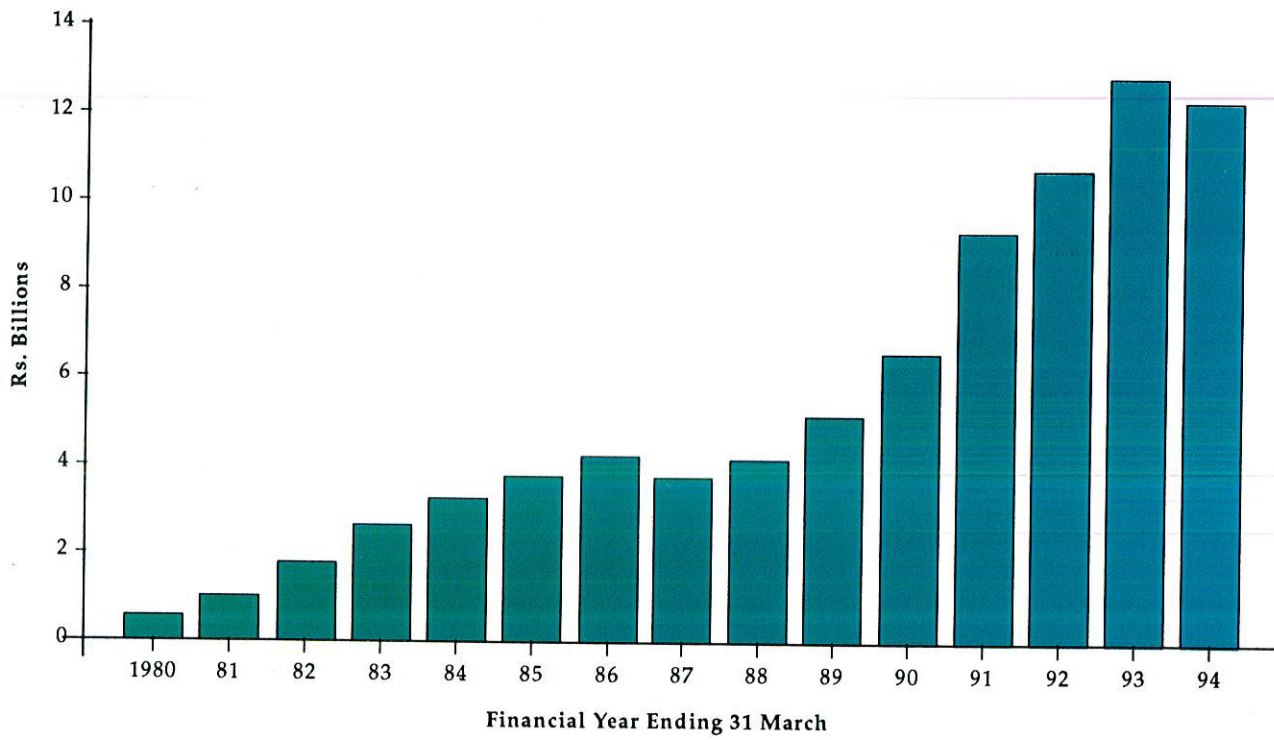
## Statement of Value Added

Value added	GROUP		COMPANY	
	1994 Rs. M	1993 Rs. M	1994 Rs. M	1993 Rs. M
Total revenue	12,800.43	13,244.15	12,456.05	12,945.44
Less: Purchases of goods and services	10,010.74	10,936.45	9,938.86	10,943.81
Value added by the Company	2,789.69	2,307.70	2,517.19	2,001.63
Add: Surplus on sale of fixed assets	30.14	1.59	30.12	0.45
Investment income	178.94	86.26	168.10	81.02
Non operating revenue	90.61	12.04	189.84	72.30
<b>Total value added</b>	<b>3,089.38</b>	<b>2,407.59</b>	<b>2,880.85</b>	<b>2,155.40</b>
<b>Distribution of value added :</b>				
To employees- as remuneration	1,280.61	1,135.13	1,169.95	1,038.20
To overseas governments- as corporation and other taxes	29.65	33.92	29.65	33.92
To suppliers of capital- as interest	565.69	365.65	565.69	365.65
Minority Interest	70.14	83.98	-	-
Retained for re-investment and future growth				
Depreciation	891.01	610.27	867.71	590.02
Retained profits	252.28	178.64	247.85	127.61
<b>Total value added</b>	<b>3,089.38</b>	<b>2,407.59</b>	<b>2,880.85</b>	<b>2,155.40</b>

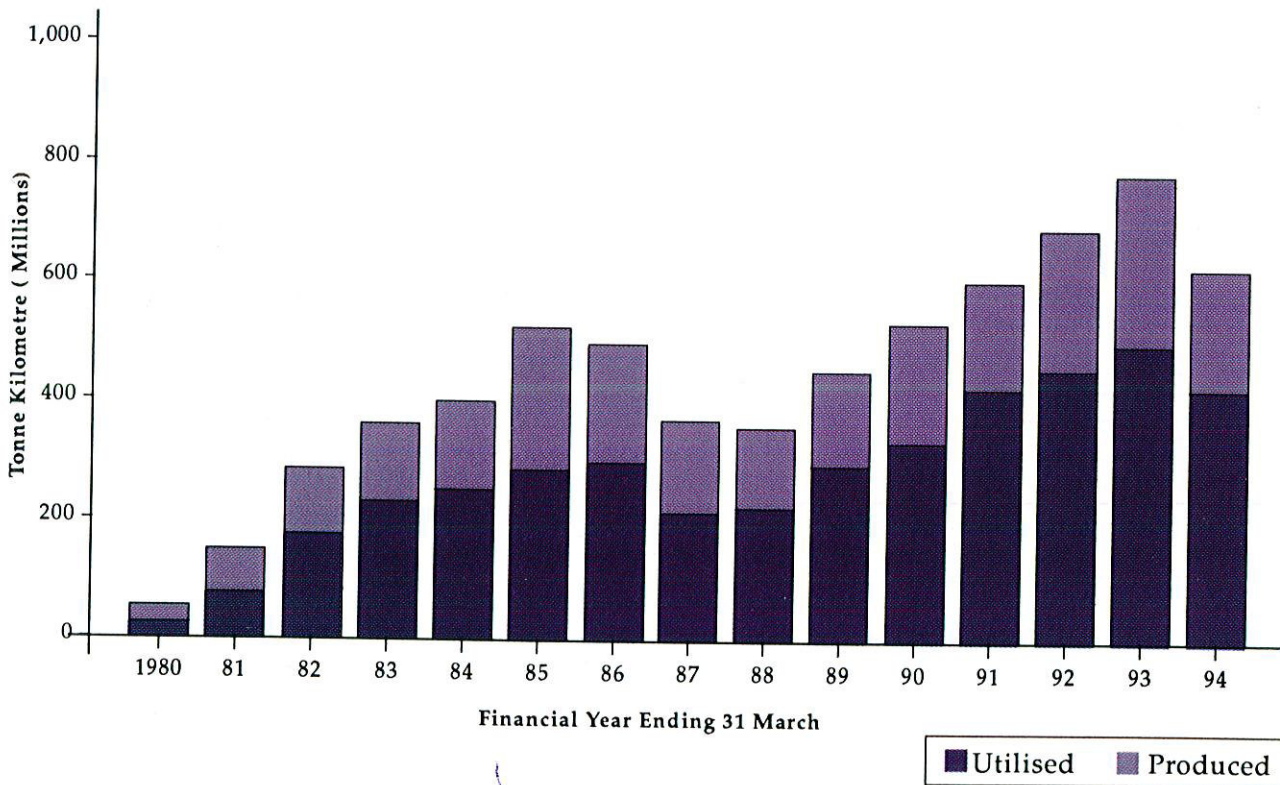
Value added is a measure of wealth created. This statement shows the value added and its distribution by way of payments to employees, local and overseas governments and to providers of capital. It also indicates the proportion retained for re-investment and future growth.

# Graphical Review

## Revenue Growth

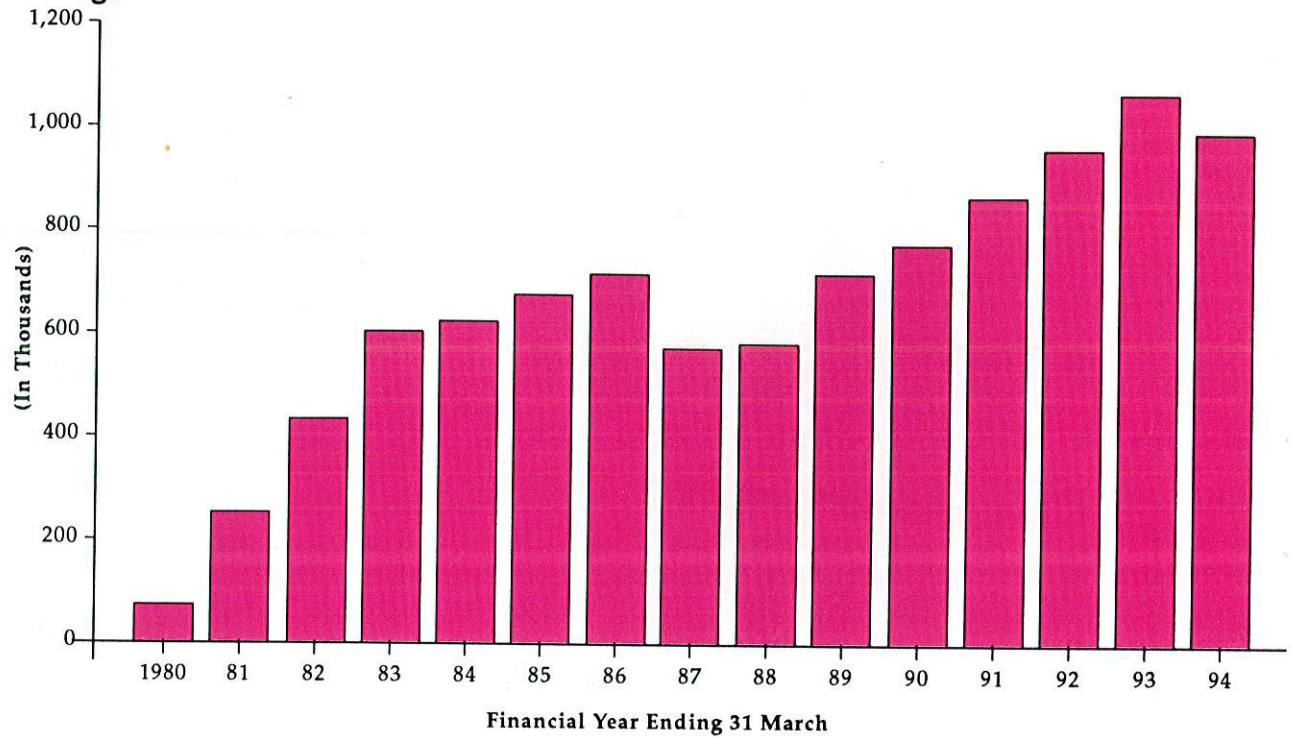


## Capacity

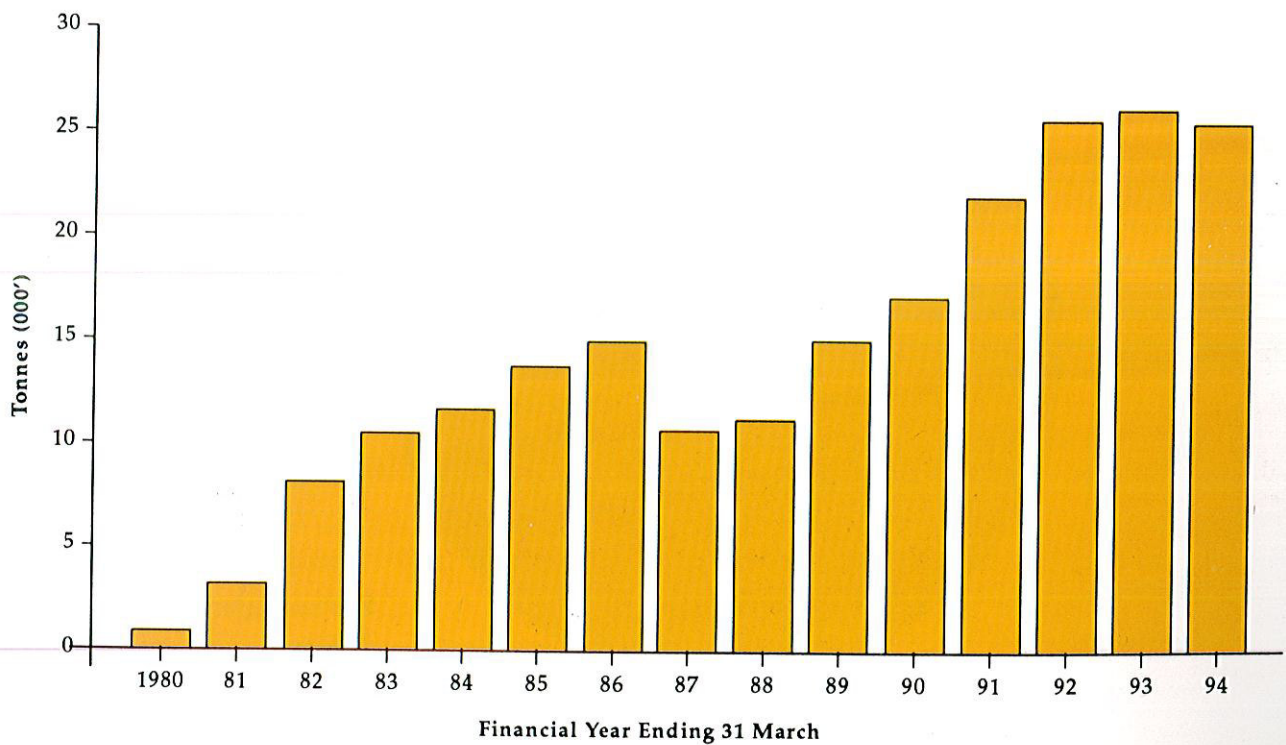


# Graphical Review

## Passenger Carriage

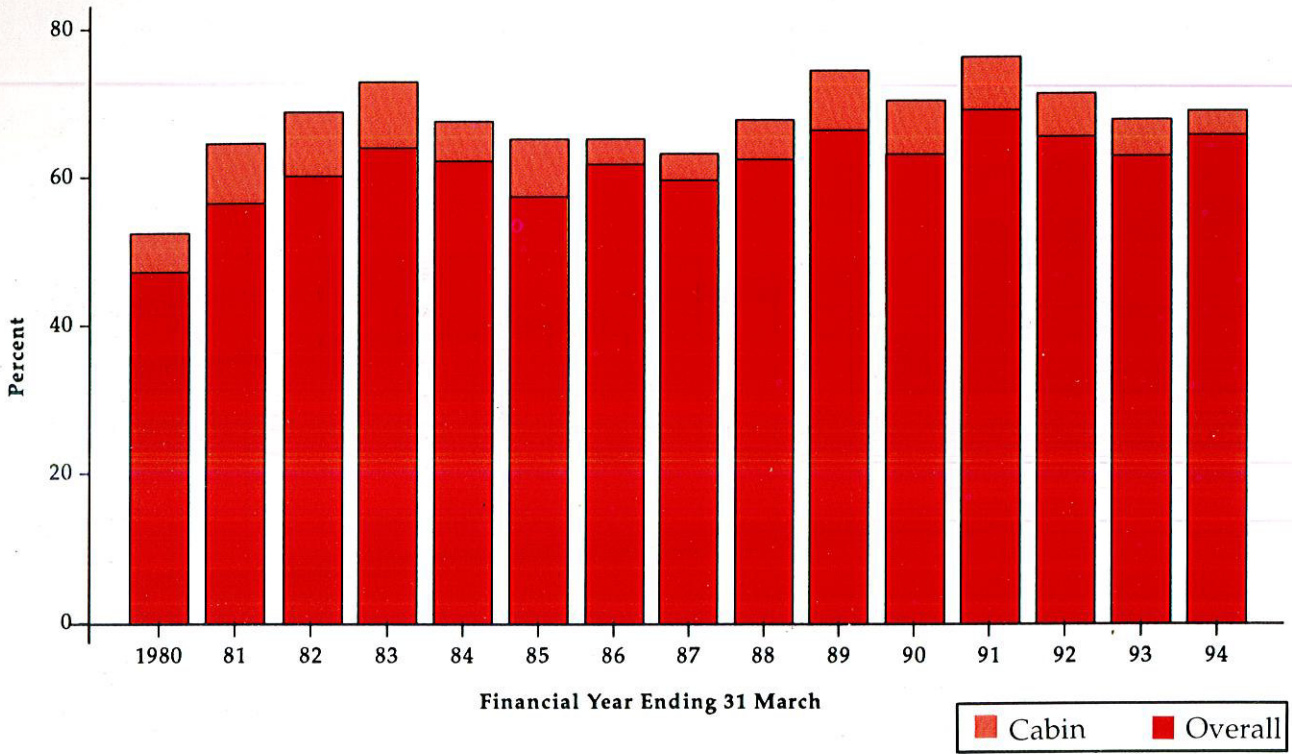


## Cargo Carriage

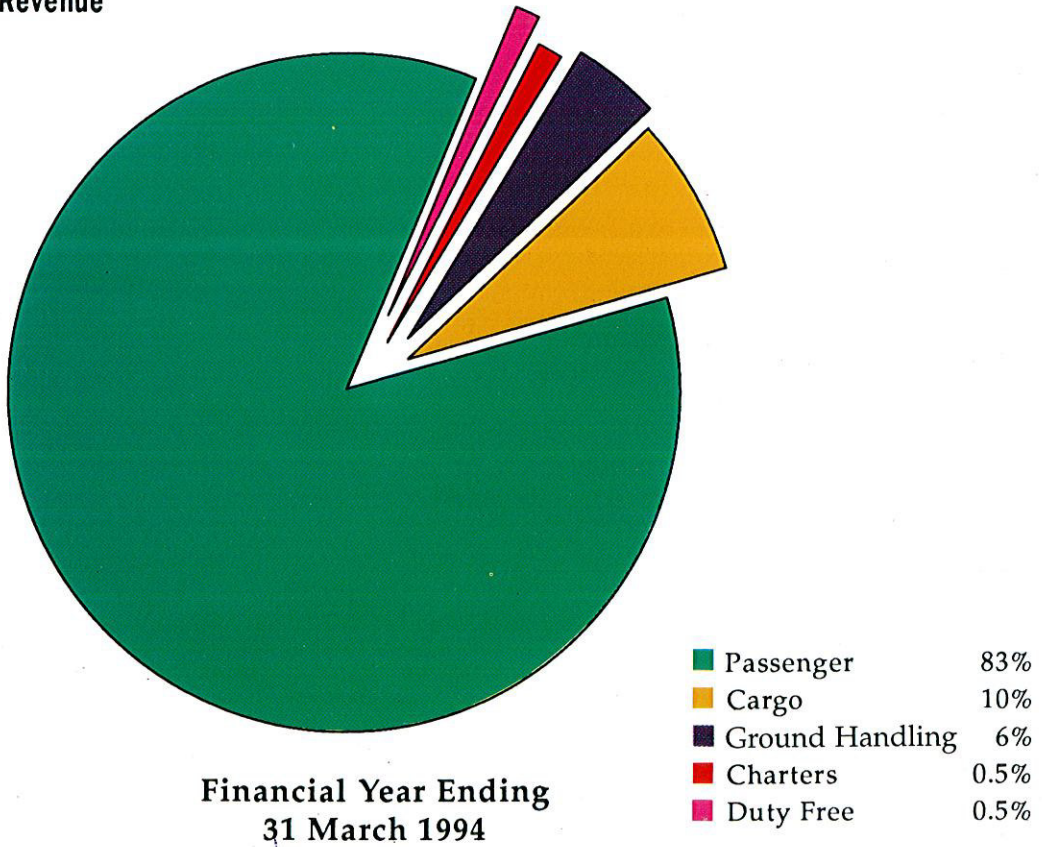


# Graphical Review

## Load Factors

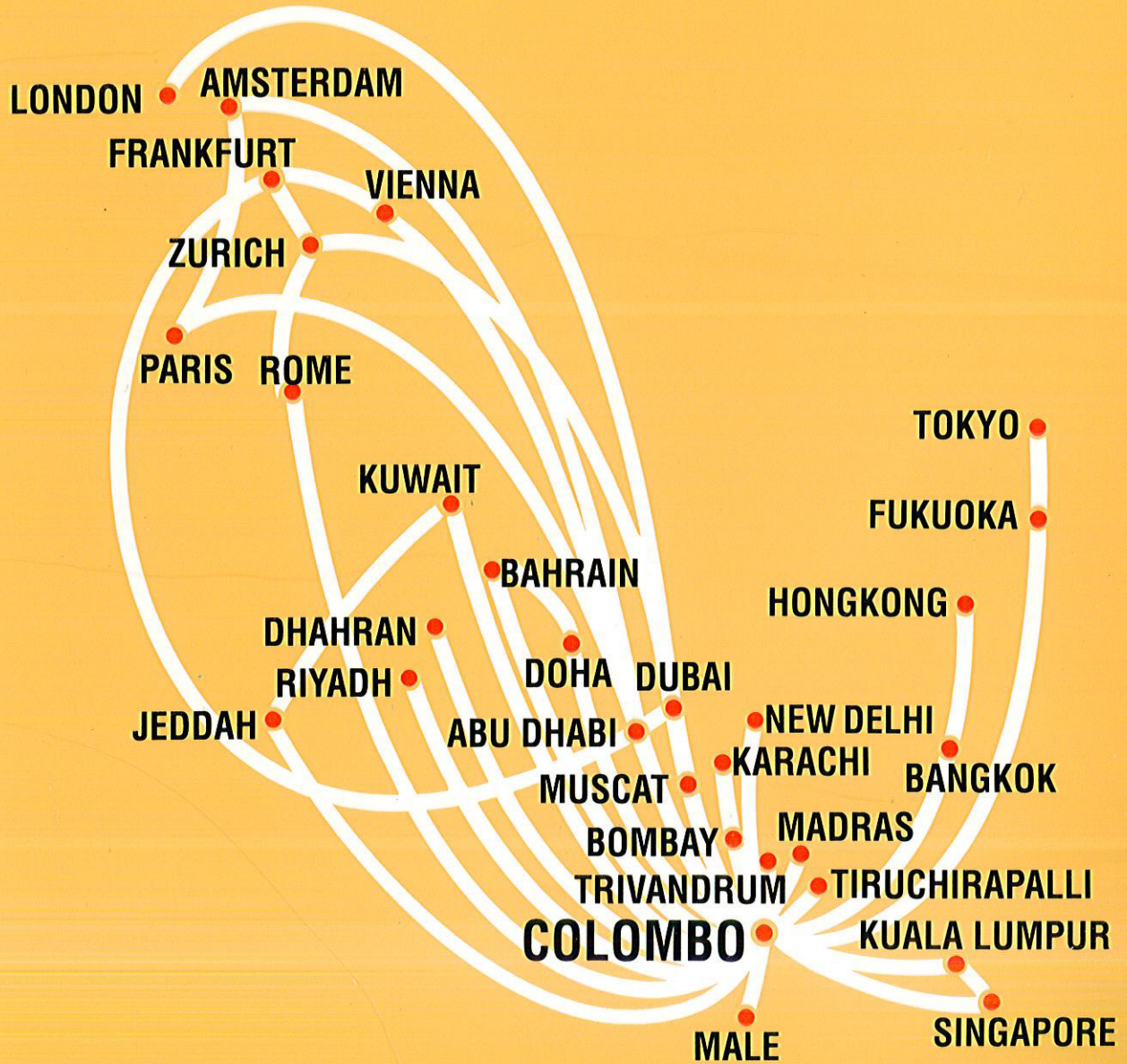


## Composition of Revenue



Financial Year Ending  
31 March 1994

# Air Lanka Route Network



**AIRLANKA**   
*It's a taste of Paradise*



# Air Lanka Offices & General Sales Agents

## AUSTRALIA

**Adelaide:** World Aviation Systems (Aust) Pty Ltd., Avion House, 249-251 Pulteney Street, Adelaide 5000, South Australia.  
Tel: (G) 08-2321411 Tlx: AA88302 CONIT  
Fax: 08-224-0439

**Brisbane:** World Aviation Systems (Aust) Pty Ltd., Level 6, Concorde House, 217 George Street, Brisbane QLD 4000, Australia.  
Tel: 07 867-7134 Fax: 221-3049

**Canberra:** World Aviation Systems (Aust) Pty Ltd., 32 Lonsdale St., Braddon A.C.T. 2601, Australia.  
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Fax: 272-5720 272-5700

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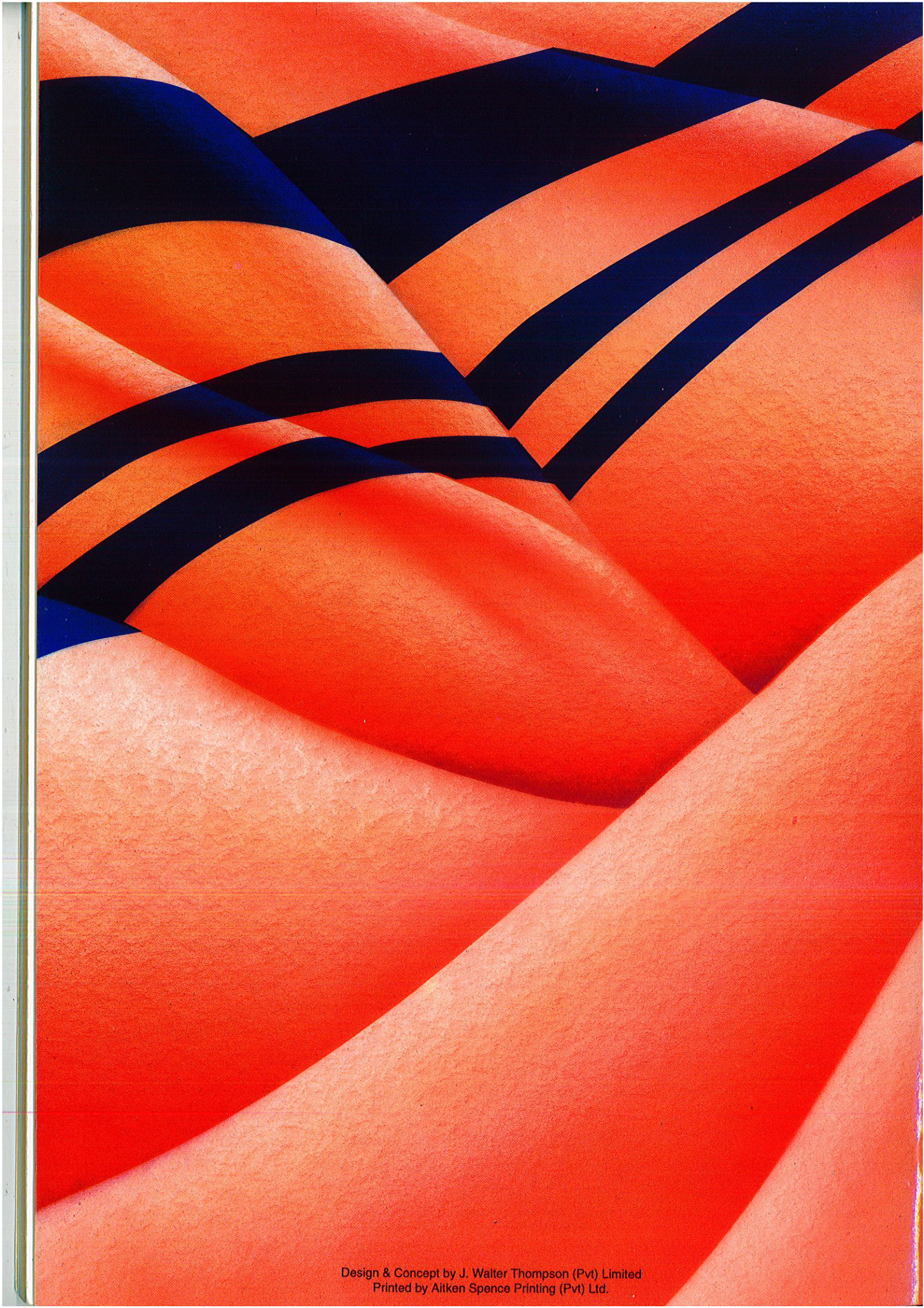
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(S) - Sales Office  
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