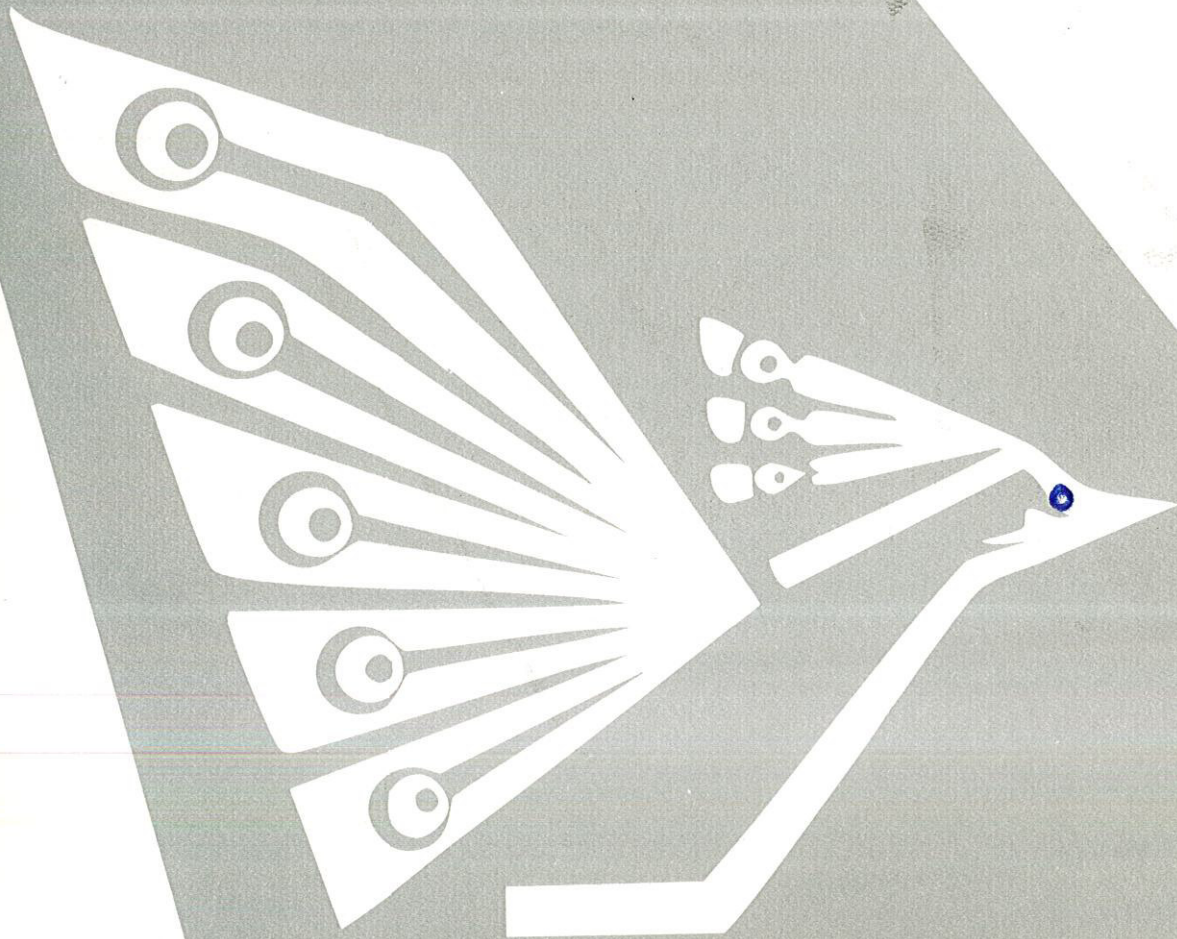


# Annual Report 1997



# Corporate Information

## **Legal Form**

Public Limited Liability Company

## **Directors**

Mr. D H S Jayawardena - Chairman

Mr. K Balapatabendi PC

Mr. B C Perera

Mr. W P S Jayawardena

Mr. Nihal Jayamanne PC

Mr. J M S Brito

Mr. H Rajapakse

Mr. S D Saparamadu

## **Company Secretary**

Mrs. M R Peries

## **Registered Office**

37, York Street,

Colombo 1.

Sri Lanka

## **Auditors**

Ernst & Young

Chartered Accountants,

PO Box 101

Colombo 10.

## **Principal Bankers**

Bank of Ceylon



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## OUR MISSION

The use of modern aircraft, a wide route network, a high level of training, and consistently high standards of in-flight service, have combined to establish the recognition of Air Lanka among modern airlines committed to unchallenged excellence in service.

We are proud to be Sri Lanka's national carrier that serves the national interest and is known for its high quality of personalised and efficient service.

We are committed to our mission - to be the preferred flag carrier in South Asia through customer satisfaction and cost effective operations.



## Chairman's Statement

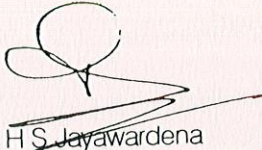
Overall, the year ending 31 March 1997 was a disappointing year for Air Lanka. Tourist traffic to Sri Lanka remained slack, forcing the airline to cut back its services by 3.3%. It was only during the second half of the year that demand for air transport registered a recovery. Unfortunately this was not adequate to compensate for extremely weak demand that was experienced during the first quarter of the financial year.

The year under review also saw a sharp rise in jet fuel prices causing Air Lanka's expenditure on aviation fuel to exceed the previous year's level by 28%. Inflationary pressures, debt service costs and the appreciation of the US Dollar against the Sri Lankan Rupee added to the difficulties faced by the airline.

As the travel industry looks forward to a period of improving fortunes and modest growth, Air Lanka is on a course leading to achieving financial viability in the shortest possible time.

We will be striving to deliver products and services which are competitive in the world's market. Continued focus on quality of service, commitment to cost control and effective usage of resources will help us face the challenging future.

The task before both Management and Staff of Air Lanka is therefore quite clear - a renewed effort and dedication to duty will make Air Lanka the pride of Asian skies.



D H S Jayawardena



# Highlights

		GROUP		COMPANY	
		1997	1996	1997	1996
			(Restated)		(Restated)
<b>FINANCIAL</b>					
Operating revenue	Rs. M	16,005.27	15,175.68	15,619.30	14,807.92
Operating expenditure	Rs. M	14,271.58	13,420.93	14,116.87	13,253.64
Operating profit	Rs. M	1,733.69	1,754.75	1,502.43	1,554.28
Net profit / (loss)	Rs. M	(391.13)	(1,171.21)	(447.72)	(1,212.22)

## TRAFFIC

Capacity offered	ASK millions			5,525.10	5,602.21
	ATK millions			746.78	772.27
Passengers carried	Thousands			1,196	1,149
Cargo carried	Tonnes			35,039	35,409
Passenger load factor	%			72.45	70.17
Overall load factor	%			69.91	66.66
Break-even load factor	%			67.40	63.10

## STAFF AND PRODUCTIVITY

Average number of staff	Nos.	5,670	5,593	4,965	4,880
Revenue per employee	Rs.	2,822,799	2,694,899	3,145,881	3,034,410

## AIRCRAFT FLEET AS AT 31 MARCH 1997

AIRCRAFT TYPE	ON FINANCE LEASES	OWNED
Airbus A340 - 300	3	
Airbus A320 - 200	2	
Lockheed Tristar L 1011 - 500		2
Lockheed Tristar L 1011 - 100		1
Lockheed Tristar L 1011 - 50		1
	---	---
	5	4
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# Review of Operations

The company registered a net loss of Rs. 447.72 million during the year 1996/97, compared with a net loss of Rs. 1,212.22 million recorded in 1995/96. A decrease in the loss of Rs. 764.50 million or 63.1% from 1995/96. Comparative figures of 1995/96 and current year 1996/97 are based on the changed Accounting Policies, in accordance with the Sri Lanka Accounting Standards.

The Group net loss for the year ended 31st March 1997 amounted to Rs. 391.13 million, a decrease of Rs. 780.08 million or 66.6% from the previous year.

## REVENUE

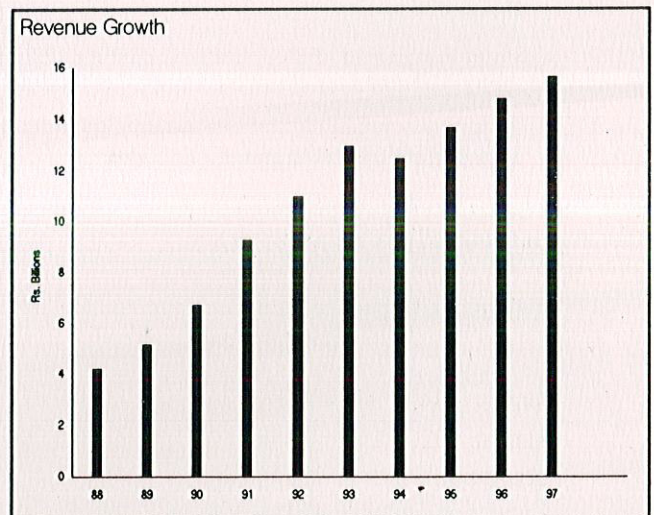
Total operating revenue amounted to Rs. 15,619.30 million, up by Rs. 811.38 million or 5.5% from 1995/96.

The revenue of the group in 1996/97 was Rs. 16,005.27 million, an increase of Rs. 829.59 million or 5.5% from the previous year.

Revenue from airline operations increased by Rs. 696.37 million or 5.1% to Rs. 14,407.45 million.

Passenger revenue excluding charter revenue totalled Rs. 11,899.32 million an increase of 5.2% from 1995/96. Revenue from cargo carriage increased by 4.7% to Rs. 2,022.01 million.

Revenue from charter operations increased by Rs. 38.98 million or 34% to Rs. 153.55 million, while ground handling revenue increased by 10.8% or Rs. 105.79 million to Rs. 1,081.58 million.





*Composition of Revenue*

	%
Passenger	78
Cargo	13
Charter	1
Ground Handling	7
Duty Free Sales	1

Duty Free Sales Increased by Rs. 9.22 million or 7.6% to Rs. 130.27 million.

The European routes continued to be the largest contributor to revenue from airline operations with 38.1% of the total. South East Asian and Middle East routes contributed 23.2% and 21.5% respectively while Regional routes contributed 15.8%. Balance 1.4% was made up by South African routes.

**EXPENDITURE**

In 1996/97 the Company's operating expenditure totalled Rs. 14,116.87 million reflecting an increase of 6.5% from 1995/96.

A significant cost increase was registered in Aviation Fuel and Oil charges (Rs. 623.20 million or 26.8%). This is attributable to unprecedented upward trend of fuel prices during the year.

*Composition of Expenditure*

	Rs.M	%
Staff	1,853.44	13
Fuel	2,947.21	21
Aircraft Maintenance	1,899.82	14
Route	4,524.75	32
Aircraft & related equip. depreciation	1,580.84	11
Others	1,310.31	9
Total	14,116.8	100

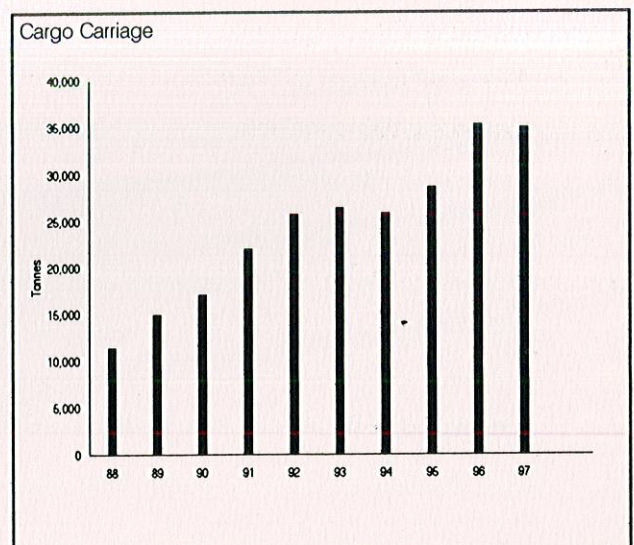
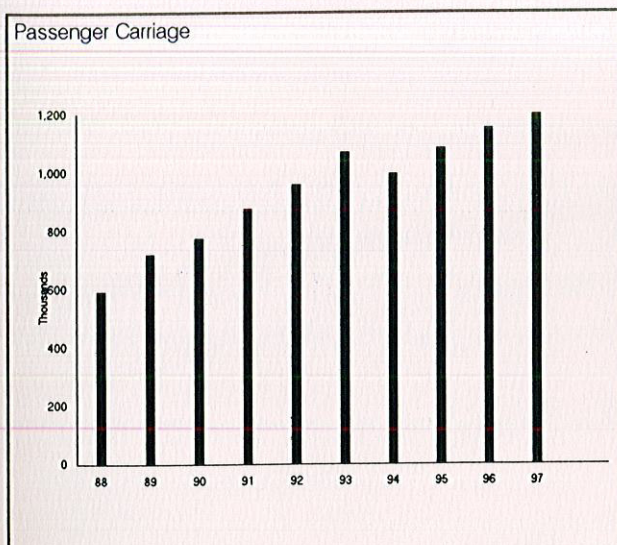
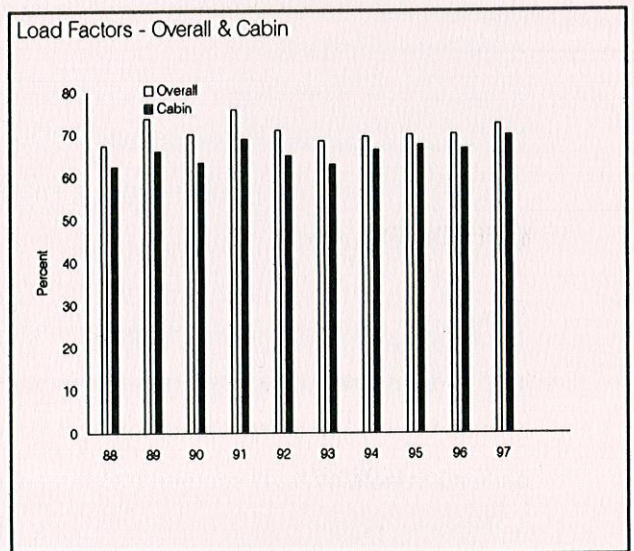
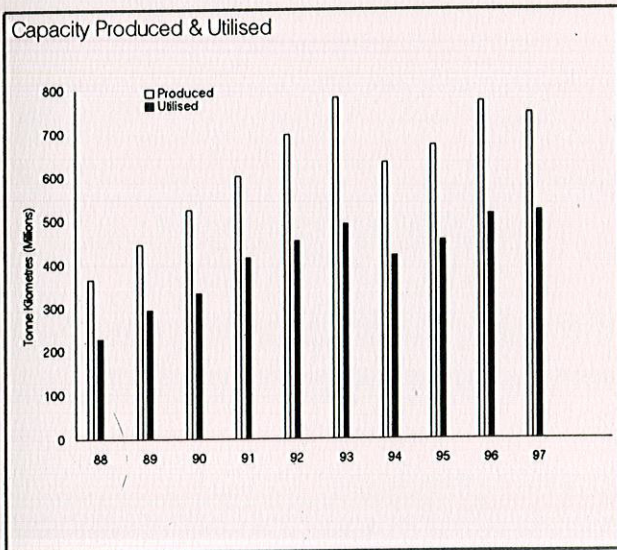


## CAPACITY AND TRAFFIC GROWTH

In 1996/97 saw a decrease of 3.3% in total capacity production from 772.27 million tonne kilometers to 746.78 million tonne kilometers. This was principally due to cut back of services to European Region.

Traffic rose by 1.4% against a 3.3% decrease in capacity. This resulted in an increase in the overall load factor by 3.25 percentage points to 69.91%. The number of passengers carried increased by 4.1% to reach 1.2 million in 1996/97 compared to 1.15 million in the previous year. Cargo carriage has shown a marginal decrease from 35,409 tonnes to 35,039 tonnes.

Passenger seat factor rose 2.28 percentage points to 72.45%. Seat kilometers offered decreased 1.4% to 5,525.10.





## YIELD / UNIT COST / BREAK-EVEN LOAD FACTOR

Compared to 1995/96 unit yield increased by 3.4% to Rs. 27.4 per load tonne kilometer.

Unit cost increased 10.2% to Rs. 18.4 per capacity tonne kilometer. As a result Break-even load factor increased to 67.4% from 63.1%. The gap between overall and break-even load factors narrowed to 2.51 percentage points from 3.56 percentage point a year ago.

## FINANCIAL POSITION

Shareholder's funds decreased by Rs. 342.20 million or 13.1% to Rs. 2,277.02 million as at 31st March 1997.

The company's Liquid Assets rose by Rs. 538.58 million to Rs. 5,332.65 million.

The Group Liquid Assets as at 31st March 1997 was Rs. 5,526.47 million, an increase of Rs. 409.01 million from the previous year.

Total Assets of the company fell by Rs. 1,003.30 million or 3.5% to Rs. 28,017.67 million.

<i>Total Assets</i>	%
Aircraft and Related Equipment	67
Property and Other Equipment	2
Current Assets	31

The total assets of the Group were Rs. 28,400.86 as at 31st March 1997, a decrease of Rs. 1,100.94 million or 3.7% from 1995/6.

## CASH FLOW

In the year 1997 the Company's net cash generation from operations decreased by Rs. 714.75 million or 19.5% to Rs. 2,949.04 million.

Net cash used in investing activities dropped to Rs. 77.39million compared with Rs. 507.41million in the previous year.

Repayment of long term loans and leases amounted to Rs. 2,333.07million.



Operating , investing and financing activities contributed to a net cash inflow of Rs. 538.58million during the year, resulting in a year end cash balance of Rs. .5,332.65million as at 31 March 1997.

The group cash balance increased by Rs. 409.01 million or 8% to Rs. 5,526.47million as at 31 March 1997.

## HUMAN RESOURCES

The total number of personnel employed by the company as at 31st March 1997 stood at 4,965 compared to 4,880 at 31st March 1996.

Functional analysis:

	Number of Staff	%
Flight Deck Crew	132	2.7
Cabin Crew	464	9.3
Engineering & Maintenance	1,317	26.5
Marketing & Sales - Colombo	695	14.0
Marketing & Sales - Overseas	197	4.0
Airport Services - Colombo	811	16.3
Airport Services - Overseas	85	1.7
Security	313	6.3
Others	951	19.2
Total	4,965	100.0

Air Lanka was chosen the 'Best Company in Transport Business in 1996' by the Chartered Institute of Transport (Sri Lanka). This award ceremony is held annually by the Chartered Institute of Transport (Sri Lanka) in connection with National Transport Day organised by the Ministry of Transport. In the previous year Air Lanka won the Chartered Institute of Transport's award for Customer Services.

In the year ended 31 March 1997, the Air Lanka Centre for Training which has IATA accreditation provided training for 1,484 employees including overseas staff. In addition 137 external students received instruction, of whom 117 attended the IATA accredited programmes.



Air Lanka actively encourages staff participation in sports and supports 18 different types of sports through its Sports Council. Its sportsmen and sportswomen continued to win acclaim for the airline at different national and international meets in disciplines such as athletics, badminton, swimming, pistol shooting and karate.

## **ROUTE DEVELOPMENT**

During the year under review, Air Lanka's route network covered 29 cities in 21 countries. The airline continued to deploy its long haul Airbus A340-300 aircraft on non-stop services to London, Paris, Amsterdam, Zurich and to Tokyo.

## **FLIGHT OPERATIONS**

A record number of over 25 technical crew were upgraded to higher ranks during the year under review. Among them were nine First Officers who were upgraded to the rank of Captain on the Airbus A320 and Lockheed Tristar L1011 fleet.

In its bid to provide comprehensive in-house training (with the exception of flight simulator training) for its technical crew, Air Lanka has contracted with Airbus Industrie for VACBI (Visually Aided Computer Based Instruction) training equipment which will enable the Flight Operations department to conduct ground school training modules for the airline's fleet (Airbus A320 s and Airbus A340 s).

All Air Lanka's flight despatchers are fully licensed professionals. Air Lanka in collaboration with the Department of Civil Aviation regularly conducts the Flight Operations Officers' Licensing Course and intends to hold the sixth course soon.

## **ENGINEERING AND MAINTENANCE**

Air Lanka was honoured by the aviation engine manufacturer CFM International for the completion of 100,000 hours of smooth operation of the CFM 56 engines on the airline's recently inducted Airbus A340 fleet, during the year under review.

The Engineering and Maintenance department extends its services to most scheduled and non-scheduled carriers operating to Colombo. Air Lanka's engineers now have the capability of technical handling / certification



of Airbus A310, A320, A340, L1011, Boeing 767 and MD11 aircraft types. The Department was also involved in the training of a batch of engineers from Qantas in Airbus A340 maintenance during the year.

Despatch reliability of Air Lanka's fleet during the year under review averaged 97% for the Airbus A340 aircraft, 99% for the Airbus A320 aircraft and 95.4% for the Lockheed Tristar aircraft. These levels are on par with the world average for fleets of similar aircraft.

## **MARKETING SERVICES**

In May 1996, Air Lanka entered into a code share agreement with British Midland (BD). Consequently Air Lanka passengers travelling from Colombo to UK, will obtain easy connections via London Heathrow to five BD destinations - Belfast, Edinburgh, Glasgow, Leeds and Teeside. Reciprocally, British Midland will promote Air Lanka on the London/Colombo route. In addition, Air Lanka has revenue pooling agreements with Indian Airlines and Pakistan International Airlines, a joint venture agreement with the Malaysian Airlines and royalty agreements with Royal Jordanian Airlines and Aeroflot .

A major service enhancement was the establishment of the Market Development Programme in Sri Lanka on 01st January 1997, similar to yield improvement programmes for the airline trade in other countries.

During the year under review, Air Lanka Launched 'Air Lanka Holidays Maldives' the first in a series of special holiday programmes. Air Lanka hopes to extend this programme to its other destinations, particularly India and Far East, in the near future.

## **SERENDIB CLUB**

In keeping with its ideal to consistently upgrade its product and service, Air Lanka introduced several enhancements to its frequent flyer programme, Serendib Club, during the year under review. The new facilities include extra free baggage allowance, free unaccompanied passenger baggage, an active member rewards scheme and discounts for members at several top-of-the-line product and service establishments in Colombo.

A special feature of the enhanced package is the introduction of Serendib Premium, a programme within Serendib Club for loyal First and Business Class frequent flyers. Serendib Premium seeks to reward this elite group of Serendib Club members with several additional privileges such as First Class check-in and lounge facilities, supplementary card for spouse and 10% discount on duty free purchases on board Air Lanka.



## **COMMUNICATION SERVICES**

During the year under review, the Communications Services department completed the installation of a Local Area Network (LAN) for the Engineering and Maintenance department. At present the department is in the process of extending this network to the Flight Operations and Administration buildings using fibre optic links.

In the forthcoming financial year the Communication Services department plans to install more Local Area Networks in the Marketing and Sales departments with plans to extend these networks into a Wide Area Network (WAN) with dedicated gateways.

In the year ended 31 March 1997, the Communication Services department began the installation of a closed circuit television system at the Baggage Sorting and Baggage Make-up areas of the Bandaranaike International Airport. This facility will contribute towards the provision of better customer service.

The number of channels that Air Lanka has obtained from Sri Lanka Telecom Limited, to operate its private telecommunications network was increased by 25% to facilitate the needs of internal users and provide more streamlined service to passengers.

## **INTERNATIONAL RELATIONS**

During the period under review, bilateral air services negotiations were limited. The Government's plans to restructure the airline and divest upto 40% of its ownership to a strategic investor resulted once again in a period of consolidation rather than expansion. However, where circumstances required it, bilateral negotiations were held at the request of Air Lanka. The seat 'quota' to India was increased following bilateral talks with the Indian Aeronautical Authorities, while better utilisation of existing rights was achieved after bilateral negotiations with Saudi Arabia. Negotiations were also held with the South Korean authorities to explore possibilities of Air Lanka operating to Seoul.

## **SUBSIDIARY COMPANY**

The quality of our service is further enhanced by the in-flight catering services of Air Lanka Catering Services Limited, which is a joint operation by Air Lanka and Thai Airways International. Air Lanka Catering Services is also the supplier of catering services to other airlines operating to Colombo.



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# Directors' Report

The Directors have pleasure in submitting their Report and audited Accounts for the year ended 31 March 1997. The Accounts are set out on pages 20 to 47.

## 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 Bandaranaike 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 Bandaranaike 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:-

Mr. D H S Jayawardena

*Chairman*

Mr. K Balapatabendi PC

Mr. B C Perera

Mr. W P S Jayawardena

Mr. Nihal Jayamanne PC

*Executive Director*

Mr. J M S Brito

*Executive Director*

Mr. H Rajapakse

Mr. S D Saparamadu



The Company's Chairman/MD as at 31 March 1997 was Mr. W T Jayasinghe who resigned from the Board with effect from 30 June 1997. Mr. D H S Jayawardena was appointed as the Chairman of the Company with effect from 15 July 1997 together with the following additional directors to the Board while the other directors continued to hold office.

Mr. J M S Brito  
Mr. H Rajapakse  
Mr. S D Saparamadu

Particulars of interests of Directors in contracts and proposed contracts having been declared by the Directors are in note 23 to the accounts.

## **ACCOUNTS**

The Consolidated profit for the year ended 31 March 1997, before interest and other similar charges was Rs. 2,720.66 million. Consolidated net loss for the year, after interest and similar charges, deferred expenditure, extraordinary items, taxation and minority interests amounted to Rs. 391.13 million.

## **RESERVES**

There were no material transfers to or from reserves or provisions during the year ended 31 March 1997, 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 22 to 27.

## **PROPERTY, PLANT AND EQUIPMENT**

Movements of property, plant and equipment are shown in note 8 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 17 and 18 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.

31st October 1997

Registered Office:

37 York Street

Colombo 01



# Report of the Auditors

We have examined the Balance Sheet of Air Lanka Limited as at 31st March 1997, the Consolidated Balance Sheet of the Company and of its Subsidiary and the related Statements of Profit and Loss Account and Cash Flow for the year then ended, read together with the accounting policies and notes, exhibited on pages 20 to 47 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.

The Company acquired five new aircraft on a re-fleeting programme consisting of two A320 - 200 and three A340 - 300 aircraft at a cost of US\$ 387.90 M (Rs.. 18,871.39 M). This was funded substantially by borrowings from a consortium of financial institutions. The amount outstanding on such borrowings as at 31st October 1997 is US\$ 292.97 M (Rs.. 17,416.95 M).

The financial projections for the next 5 year period prepared by the Company on 15th September 1997 indicate that the internally generated cash flows are sufficient to service such borrowings. High financial gearing of the Company due to increased external borrowings can result in a substantial impact on its liquidity & hence its ability to service the debts, in the event there is a decline in profits & cash flows.

The Government of Sri Lanka as the principal shareholder of the Company has initiated a programme leading to the restructuring and privatisation of the company(see Note 24).

In our opinion, so far as it appears from our examination, proper books of account have been maintained by the Company and proper returns adequate for the purpose of our audit have been received from stations not visited by us 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 1997 and of its Loss and Cash flow 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 23 to the accounts.

In our opinion, so far as it appears from our examination, the Consolidated Balance Sheet, Statements of Profit and Loss Account and Cash flow 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 1997 and of its Loss and Cash Flow for the year then ended.

Signed Ernst & Young  
Chartered Accountants  
Colombo

31st October 1997.



# PROFIT AND LOSS ACCOUNT

for the year ended 31 March

	Note	GROUP		COMPANY	
		1997 Rs. M	Restated 1996 Rs. M	1997 Rs. M	Restated 1996 Rs. M
REVENUE	1	16,005.27	15,175.68	15,619.30	14,807.92
OPERATING PROFIT	2	1,733.69	1,754.75	1,502.43	1,554.28
Other income	3	986.97	645.49	1,040.29	698.51
		2,720.66	2,400.24	2,542.72	2,252.79
Interest and similar charges	4	(2,872.03)	(3,367.31)	(2,872.03)	(3,367.31)
		(151.37)	(967.07)	(329.31)	(1,114.52)
Deferred expenditure written off	5	(110.40)	(48.87)	(110.40)	(48.87)
Profit / (Loss) before taxation		(261.77)	(1,015.94)	(439.71)	(1,163.39)
Taxation	6	(24.49)	(59.38)	(8.01)	(48.83)
Profit / (Loss) after taxation		(286.26)	(1,075.32)	(447.72)	(1,212.22)
Minority interest		(104.87)	(95.89)	-	-
<b>PROFIT/ (LOSS) FOR THE YEAR</b>		<b>(391.13)</b>	<b>(1,171.21)</b>	<b>(447.72)</b>	<b>(1,212.22)</b>
PROFIT/(LOSS) BROUGHT FORWARD		(2,301.74)	(1,108.93)	(2,514.64)	(1,302.42)
Profit/(Loss) Available for Appropriation		(2,692.87)	(2,280.14)	(2,962.36)	(2,514.64)
APPROPRIATIONS					
Dividends					
- Interim		-	-	-	-
- Proposed		-	-	-	-
Bonus issue		-	(21.60)	-	-
		-	(21.60)	-	-
<b>UNAPPROPRIATED PROFIT/(LOSS)</b>					
<b>CARRIED FORWARD</b>	12	<b>(2,692.87)</b>	<b>(2,301.74)</b>	<b>(2,962.36)</b>	<b>(2,514.64)</b>

The accounting policies and notes on pages 22 to 47 form part of these accounts.



# BALANCE SHEET

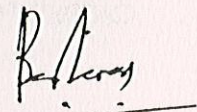
as at 31 March

	Note	GROUP		COMPANY	
		1997 Rs. M	Restated 1996 Rs. M	1997 Rs. M	Restated 1996 Rs. M
Fixed assets	8	19,296.98	20,906.02	19,217.72	20,836.32
Work in progress		0.47	0.30	-	-
Investment in subsidiary	9	-	-	30.40	30.40
Net current assets/(liabilities)	10	429.48	(151.97)	(87.12)	(586.16)
		<b>19,726.93</b>	<b>20,754.35</b>	<b>19,161.00</b>	<b>20,280.56</b>
<b>FINANCED BY:</b>					
Issued share capital	11	5,146.35	5,146.35	5,146.35	5,146.35
Profit and loss account	12	(2,692.87)	(2,301.74)	(2,962.36)	(2,514.64)
Capital reserve	13	297.16	297.16	267.56	267.56
Revenue reserve	14	0.63	0.63	-	-
Other reserves	15	-	-	-	-
		<b>2,751.27</b>	<b>3,142.40</b>	<b>2,451.55</b>	<b>2,899.27</b>
Less: Deferred items	16	(174.53)	(280.05)	(174.53)	(280.05)
Shareholder's funds		<b>2,576.74</b>	<b>2,862.35</b>	<b>2,277.02</b>	<b>2,619.22</b>
Minority Interests		210.65	182.56	-	-
Long term loans	17	964.65	1,803.87	964.65	1,803.87
Obligations under finance leases	18	15,654.69	15,666.35	15,654.69	15,666.35
Deferred Liabilities	19	320.20	239.22	264.64	191.12
		<b>19,726.93</b>	<b>20,754.35</b>	<b>19,161.00</b>	<b>20,280.56</b>

For and on behalf of the Board



D.H.S. Jayawardena  
Chairman  
Colombo, 31st October 1997



B.C. Perera  
Director

The accounting policies and notes on pages 22 to 47 form part of these accounts.



# Accounting Policies

## A) ACCOUNTING CONVENTION

(I) 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. No adjustments have been made for the effects of inflation other than for revaluation and restatement of certain assets as stated below.

(II) Certain comparative amounts have been restated to reflect prior year adjustments and certain others have been reclassified to conform to the current year's presentation.

## B) CHANGES IN ACCOUNTING POLICIES

### (I) Conversion of Foreign Currencies

Accounting for gains and losses arising from the translation of long term foreign currency borrowings as at balance sheet date has been changed with effect from financial year 1996/97 to be in compliance with the Sri Lanka Accounting Standard No. 21

In the previous years, gains and losses arising from translation of long term foreign currency borrowings as at balance sheet date which finance specific fixed assets were recorded in an exchange equalisation account and amortised as currency gains / losses over the period during which the foreign currency liability is outstanding.

The change in the said Accounting Policy has resulted in a reduction of profits for the current year by Rs.897.23 million (a reduction of Rs 1,330.75 million for 1995/96).



## **( II ) Provision for Revenue Adjustment**

With effect from financial year 1996/97 actual revenue adjustments are dealt with in the Profit and Loss Account.

In the previous years a provision was made in the accounts for anticipated revenue adjustments.

The adoption of the new accounting policy has resulted in an increase in profits for the year 1996/97 by Rs.77.27 million (Rs. 88.29 million for 1995/96).

## **( III ) Duty Free Merchandising Support Fund**

With effect from financial year 1996/97, the method of accounting for receipts in respect of merchandising support fund and related expenditure has been changed from reserve basis to recognition in the Profit and Loss Account as and when they arise.

Adoption of this policy has resulted in an increase in profits of Rs.5.73 million (an increase of Rs.0.66 million for 1995/96).

## **C) 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.



## D) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 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.

Cost of property plant & equipment 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 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.



## **E) DEPRECIATION**

Depreciation is provided on all property plant & equipment (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.

All assets, with the exception of Buildings, Fixtures and Fittings, Engineering Tools and Aircraft rotatable spares, are depreciated from the date of their purchase. Buildings, Fixtures and Fittings, Engineering Tools and Aircraft rotatable spares are depreciated commencing from the financial year immediately following the year of purchase.

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.

## **F) 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.

## **G) STOCKS AND CONSUMABLES**

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 a first-in-first-out basis.



## H) 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) Gains and losses arising from the translation of long-term foreign currency borrowings as at balance sheet date are dealt with in the Profit and Loss account as currency losses.

(iii) All monetary assets and other liabilities denominated in foreign currencies as at balance sheet date are translated at the exchange rates ruling as at 31 March 1997. Gains and losses arising from the translation are dealt with in the Profit and Loss Account as exchange differences.

## I) DEBTORS

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

## J) 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.

Airframe and Aircraft engine overhaul 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.

## K) 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.

Actual revenue adjustments are dealt with in the Profit and Loss Account.

#### **L) DEFERRED EXPENDITURE**

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

#### **M) BORROWING COSTS**

Borrowing costs amounting to Rs.588.5 million incurred on long term loans obtained to meet pre delivery payments in respect of new aircraft have been capitalised as part of the cost of such aircraft.

Exchange losses which are regarded as an adjustment to borrowing costs, amounting to Rs.258.66 million on long-term loans obtained to meet pre-delivery payments in respect of new aircraft have been capitalised as part of the cost of such aircraft , as permitted by Sri Lanka Accounting Standard No. 20.

#### **N) INCOME FROM INVESTMENTS**

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

#### **O) POST BALANCE SHEET EVENTS**

All material events occurring after the Balance Sheet date are considered and where necessary adjustments made in these financial statements.



# NOTES TO THE ACCOUNTS

## 1. Revenue

	GROUP		COMPANY	
	1997	1996	1997	1996
	Rs. M	Rs. M	Rs. M	Rs. M
Airline operations - Note 1 (a)	14,392.53	13,696.92	14,407.45	13,711.08
Ground handling	1,081.58	975.79	1,081.58	975.79
Duty free sales	130.27	121.05	130.27	121.05
Flight catering	400.89	381.92	-	-
	<u>16,005.27</u>	<u>15,175.68</u>	<u>15,619.30</u>	<u>14,807.92</u>

### 1(a). Revenue from airline operations comprises :

	COMPANY	
	1997	1996
	Rs. M	Rs. M
Scheduled services :		
Passenger	11,899.32	11,314.83
Excess baggage	258.22	262.42
Cargo	2,022.01	1,931.12
Mail	74.35	88.14
	<u>14,253.90</u>	<u>13,596.51</u>
Non scheduled services :	153.55	114.57
	<u>14,407.45</u>	<u>13,711.08</u>



# NOTES TO THE ACCOUNTS

## 2. Operating profit /(loss)

	GROUP		COMPANY	
	1997	1996	1997	1996
	Rs. M	Rs. M	Rs. M	Rs. M
Airline operations	671.14	809.54	671.14	809.54
Ground handling	785.56	705.95	785.56	705.95
Duty free sales	45.73	38.79	45.73	38.79
Flight catering	231.26	200.47	-	-
	<b>1,733.69</b>	<b>1,754.75</b>	<b>1,502.43</b>	<b>1,554.28</b>

	GROUP		COMPANY	
	1997	1996	1997	1996
	Rs. M	Rs. M	Rs. M	Rs. M

Operating profit has been arrived at after charging :

Depreciation on owned fixed assets	740.60	735.20	718.32	713.06
Depreciation on leased fixed assets	1,061.52	1,061.52	1,061.52	1,061.52
	<b>1,802.12</b>	<b>1,796.72</b>	<b>1,779.84</b>	<b>1,774.58</b>
Auditors' remuneration	1.12	0.96	0.82	0.81
Directors' emoluments	9.90	8.21	1.26	1.43
Aircraft spares - scrapped	5.66	11.01	5.66	11.01
Provision for slow moving stocks	85.27	0.73	85.27	0.73



# NOTES TO THE ACCOUNTS

## 3. Other income

	GROUP		COMPANY	
	1997	1996	1997	1996
	Rs. M	Rs. M	Rs. M	Rs. M
Profit/(loss) on disposal of property, plant & equipment	(2.65)	(6.50)	(4.21)	(6.50)
Exchange differences	478.81	252.14	453.18	224.70
Interest	281.65	272.21	263.38	251.86
Dividend from subsidiary company	-	-	99.83	102.41
Other items	229.16	127.64	228.11	126.04
	<u>986.97</u>	<u>645.49</u>	<u>1,040.29</u>	<u>698.51</u>

## 4. Interest & similar charges

	GROUP		COMPANY	
	1997	1996	1997	1996
	Rs. M	Rs. M	Rs. M	Rs. M
Interest charges :				
On bank and other loans	(184.43)	(218.05)	(184.43)	(218.05)
On lease finances	(1,350.10)	(1,416.62)	(1,350.10)	(1,416.62)
	<u>(1,534.53)</u>	<u>(1,634.67)</u>	<u>(1,534.53)</u>	<u>(1,634.67)</u>
Currency losses :				
On bank and other loans	(139.55)	(230.58)	(139.55)	(230.58)
On lease finances [see note 16 (a)]	(300.72)	(171.31)	(300.72)	(171.31)
On lease finances due to change in Accounting Policy [see note 16 (a)]	(897.23)	(1,330.75)	(897.23)	(1,330.75)
	<u>(1,337.50)</u>	<u>(1,732.64)</u>	<u>(1,337.50)</u>	<u>(1,732.64)</u>
	<u>(2,872.03)</u>	<u>(3,367.31)</u>	<u>(2,872.03)</u>	<u>(3,367.31)</u>



# NOTES TO THE ACCOUNTS

## 5. Deferred expenditure written off

	GROUP		COMPANY	
	1997	1996	1997	1996
	Rs. M	Rs. M	Rs. M	Rs. M
Crew training and conversion	(3.02)	(7.34)	(3.02)	(7.34)
Computer systems development	(13.11)	(13.36)	(13.11)	(13.36)
Aircraft structural modifications	(94.27)	(28.17)	(94.27)	(28.17)
	(110.40)	(48.87)	(110.40)	(48.87)

## 6. Taxation

	GROUP		COMPANY	
	1997	1996	1997	1996
	Rs. M	Rs. M	Rs. M	Rs. M
Taxes on income for the year	16.48	10.55	-	-
Taxes on interest income on deposits - pending appeal	5.34	27.17	5.34	27.17
Taxes over provided in 1994-95	-	(1.00)	-	(1.00)
Penalty on taxes in 1994-95 and 1995-96 - pending appeal	-	22.66	-	22.66
Penalty on taxes in 1996/97 - pending appeal	2.67	-	2.67	-
	24.49	59.38	8.01	48.83

## 7. Prior Year Adjustments

	GROUP		COMPANY	
	1997	1996	1997	1996
	Rs. M	Rs. M	Rs. M	Rs. M
Accumulated exchange losses [see Accounting Policy B (I)]	(1,549.06)	(218.31)	(1,549.06)	(218.31)
Transfer from Revenue Adjustment [see Accounting Policy B (II)]	632.23	543.94	632.23	543.94
Net income received in respect of Duty Free Merchandising Support Fund [see Accounting Policy B (III)]	35.34	34.68	35.34	34.68
	(881.49)	360.31	(881.49)	360.31

(The comparative figures for 1995/96 have been restated to conform to the changes in the accounting policies.)



# NOTES TO THE ACCOUNTS

## 8. Property plant & equipment - GROUP

	Aircraft and Related equipment		Property	Equipment	Projects	Total
	Owned	Leased				
	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M
<b>Cost</b>						
At 01 April 1996	8,437.41	18,871.39	774.31	1,870.13	5.75	29,958.99
Additions	32.38	-	0.90	145.01	21.85	200.14
Disposals	(30.76)	-	-	(31.69)	-	(62.45)
Adjustments & transfers	26.25	-	-	(6.00)	(21.65)	(1.40)
At 31 March 1997	8,465.28	18,871.39	775.21	1,977.45	5.95	30,095.28
<b>Depreciation</b>						
At 01 April 1996	5,268.37	1,818.46	427.66	1,538.48	-	9,052.97
Charge for the year	519.32	1,061.52	41.35	179.93	-	1,802.12
Disposals	(20.20)	-	-	(31.41)	-	(51.61)
Adjustments & transfers	(2.06)	-	-	(3.12)	-	(5.18)
At 31 March 1997	5,765.43	2,879.98	469.01	1,683.88	-	10,798.30
<b>Net book value</b>						
At 31 March 1997	2,699.85	15,991.41	306.20	293.57	5.95	19,296.98
At 01 April 1996	3,169.04	17,052.93	346.65	331.65	5.75	20,906.02

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

Land & Buildings occupied by Air Lanka at Bandaranaike International Airport is vested by the Government of Sri Lanka in Airport & Aviation Services (Sri Lanka) Limited. Air Lanka pays a monthly rental of Rs. 7.3 million to Airport & Aviation Services (Sri Lanka) Limited for occupation of such land and buildings.



# NOTES TO THE ACCOUNTS

## 8 (a). Property plant & equipment - COMPANY

	Aircraft and Related equipment		Property	Equipment	Projects	Total
	Owned	Leased				
	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M
<b>Cost</b>						
At 01 April 1996	8,437.41	18,871.39	676.80	1,598.66	5.75	29,590.01
Additions	32.38	-	0.90	113.17	21.85	168.30
Disposals	(30.76)	-	-	(26.29)	-	(57.05)
Adjustments & transfers	26.25	-	-	(6.00)	(21.65)	(1.40)
At 31 March 1997	8,465.28	18,871.39	677.70	1,679.54	5.95	29,699.86
<b>Depreciation</b>						
At 01 April 1996	5,268.37	1,818.46	366.09	1,300.77	-	8,753.69
Charge for the year	519.32	1,061.52	36.36	162.64	-	1,779.84
Disposals	(20.20)	-	-	(26.01)	-	(46.21)
Adjustments & transfers	(2.06)	-	-	(3.12)	-	(5.18)
At 31 March 1997	5,765.43	2,879.98	402.45	1,434.28	-	10,482.14
<b>Net book value</b>						
At 31 March 1997	2,699.85	15,991.41	275.25	245.26	5.95	19,217.72
At 01 April 1996	3,169.04	17,052.93	310.71	297.89	5.75	20,836.32

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

Land & Buildings occupied by Air Lanka at Bandaranaike International Airport is vested by the Government of Sri Lanka in Airport & Aviation Services (Sri Lanka) Limited. Air Lanka pays a monthly rental of Rs. 7.3 million to Airport & Aviation Services (Sri Lanka) Limited for occupation of such land and buildings.



# NOTES TO THE ACCOUNTS

## 9. Investment in subsidiary company

	COMPANY	
	1997 Rs. M	1996 Rs. M
Investment in Air Lanka Catering Services Ltd.		
At 01 April (600,000 shares of Rs. 100 each)	30.40	30.40
At 31 March (600,000 shares of Rs. 100 each)	30.40	30.40

A bonus issue of 9 : 16 was made by Air Lanka Catering Services Limited (ALCS) during the year 1995/96. As a consequence, the Company received 216,000 shares of Rs.100 each, based on its holding of 60% of the issued share capital of ALCS.

The Company's shareholding in ALCS as at 31 March 1997 is included in these accounts at cost. The difference between cost of shareholding and its nominal value is recognised in the Consolidated Capital Reserve - ( See note 13 ).



# NOTES TO THE ACCOUNTS

## 10. Net current assets / (liabilities)

	GROUP		COMPANY	
	1997 Rs. M	1996 Rs. M	1997 Rs. M	1996 Rs. M
<b>Current assets :</b>				
Stocks	1,458.40	1,558.13	1,415.11	1,517.19
Debtors - trade	1,405.89	952.24	1,324.13	886.40
Debtors - other	256.52	503.94	256.52	501.11
Debtors - staff	12.41	8.82	8.60	5.07
Advances and deposits	212.82	297.48	201.53	292.70
Cash and bank balances	5,757.84	5,275.17	5,563.66	4,951.78
<b>Total current assets</b>	<b>9,103.88</b>	<b>8,595.78</b>	<b>8,769.55</b>	<b>8,154.25</b>
<b>Current liabilities</b>				
Bank overdraft	231.37	157.71	231.01	157.71
Bank and other loans	262.21	582.82	262.21	582.82
Finance leases	1,176.53	1,000.62	1,176.53	1,000.62
	1,670.11	1,741.15	1,669.75	1,741.15
Trade creditors	3,195.61	3,602.43	3,167.46	3,568.28
Provision for airframe and aircraft engine overhaul *	1,600.55	1,126.69	1,600.55	1,126.69
Amounts due to subsidiary company	-	-	242.32	56.42
Income tax payable	175.42	167.41	175.42	167.41
Other creditors and Provisions	178.68	147.71	147.14	118.10
Sales in advance of carriage *	1,854.03	1,962.36	1,854.03	1,962.36
<b>Total current liabilities</b>	<b>8,674.40</b>	<b>8,747.75</b>	<b>8,856.67</b>	<b>8,740.41</b>
<b>Net current assets / (liabilities)</b>	<b>429.48</b>	<b>(151.97)</b>	<b>(87.12)</b>	<b>(586.16)</b>

\* Balance shown under sales in advance of carriage represents approximately 6.8 weeks of average sales [7.6 in 1996].

The balances shown under Debtors (trade, other and staff) are net of provisions for bad and doubtful debts amounting to Rs.148.53 million [Rs.158.63 million in 1996].

A specific provision of Rs.93.75 million has been made with respect to slow moving stocks [a general provision of Rs.10.37 million in 95/96].



# NOTES TO THE ACCOUNTS

## 11. Share capital

	COMPANY	
	1997 Rs. M	1996 Rs. M
<b>Authorised</b>		
Ordinary Shares of Rs.100 each (141,250,000 Shares)	14,125.00	14,125.00
Preference Shares of Rs.100 each (8,750,000 Shares)	875.00	875.00
	<u>15,000.00</u>	<u>15,000.00</u>
<b>Issued and fully paid</b>		
Ordinary Shares of Rs.100 each		
At 01 April (42,713,463 Shares)	4,271.35	4,271.35
At 31 March (42,713,463 Shares)	<u>4,271.35</u>	<u>4,271.35</u>
Cumulative Preference Shares of Rs.100 each (Coupon rate not specified)		
At 01 April (8,750,000 Shares)	875.00	875.00
At 31 March (8,750,000 Shares)	<u>875.00</u>	<u>875.00</u>
	<u>5,146.35</u>	<u>5,146.35</u>

## 12. Profit and loss account

	GROUP		COMPANY	
	1997 Rs. M	1996 Rs. M	1997 Rs. M	1996 Rs. M
Profit / (loss) for the year	(391.13)	(1,171.21)	(447.72)	(1,212.22)
Profit and loss account at 01 April				
As previously reported	(1,420.25)	(1,469.24)	(1,633.15)	(1,662.73)
Prior year adjustment [see note 7 ]	(881.49)	360.31	(881.49)	360.31
As restated	<u>(2,301.74)</u>	<u>(1,108.93)</u>	<u>(2,514.64)</u>	<u>(1,302.42)</u>
Bonus Issue	-	(21.60)	-	-
Profit and loss account at 31 March	<u>(2,692.87)</u>	<u>(2,301.74)</u>	<u>(2,962.36)</u>	<u>(2,514.64)</u>



# NOTES TO THE ACCOUNTS

## 13. Capital reserve

	GROUP		COMPANY	
	1997	1996	1997	1996
	Rs. M	Rs. M	Rs. M	Rs. M
At 01 April	297.16	275.56	267.56	267.56
Additions	-	21.60	-	-
At 31 March	297.16	297.16	267.56	267.56

Capital reserve represents;

*The Group:*

- a) Difference between the book value and the restated value of fleet and property - Rs. 267.56 million (See Accounting Policies D1 & D2).
- b) Reserve on consolidation - Rs. 8.00 M ( See note 9 ).
- c) Bonus Issue - Rs. 21.60 M ( See note 9 ).

*The Company:*

- a) Difference between the book value and the restated value of fleet and property - Rs. 267.56 million (See Accounting Policies D1 & D2).

## 14. Revenue reserve

	GROUP		COMPANY	
	1997	1996	1997	1996
	Rs. M	Rs. M	Rs. M	Rs. M
At 01 April	0.63	0.63	-	-
Additions/transfers during the year	-	-	-	-
At 31 March	0.63	0.63	-	-

## 15. Other reserves

	GROUP		COMPANY	
	1997	1996	1997	1996
	Rs. M	Rs. M	Rs. M	Rs. M
At 01 April	35.34	34.68	35.34	34.68
Additions during the year	17.22	14.81	17.22	14.81
Charge for the year	(17.22)	(14.81)	(17.22)	(14.81)
Prior year adjustment [ see note 7 ]	(35.34)	(34.68)	(35.34)	(34.68)
At 31 March	-	-	-	-

Other reserves represent merchandising support contributions from vendors of duty-free products sold on board.



# NOTES TO THE ACCOUNTS

## 16. Deferred items

	GROUP		COMPANY	
	1997	1996	1997	1996
	Rs. M	Rs. M	Rs. M	Rs. M
Exchange equalisation (Note a)	-	-	-	-
Deferred expenditure (Note b)	174.53	280.05	174.53	280.05
	174.53	280.05	174.53	280.05

### (a) Exchange equalisation

	GROUP		COMPANY	
	1997	1996	1997	1996
	Rs. M	Rs. M	Rs. M	Rs. M
At 01 April	1,549.06	218.31	1,549.06	218.31
Exchange loss on translation of foreign currency borrowings	1,197.95	1,502.06	1,197.95	1,502.06
Charge for the year [see note 4]	(300.72)	(171.31)	(300.72)	(171.31)
Charge due to change in Accounting Policy B (1) [see note 4]	(897.23)	(1,330.75)	(897.23)	(1,330.75)
	(1,197.95)	(1,502.06)	(1,197.95)	(1,502.26)
Prior year adjustment [see note 7]	(1,549.06)	(218.31)	(1,549.06)	(218.31)
At 31 March	-	-	-	-

### (b) Deferred expenditure

	GROUP		COMPANY	
	1997	1996	1997	1996
	Rs. M	Rs. M	Rs. M	Rs. M
At 01 April	280.05	31.21	280.05	31.21
Additions during the year	4.88	297.71	4.88	297.71
Charge for the year	(110.40)	(48.87)	(110.40)	(48.87)
At 31 March	174.53	280.05	174.53	280.05



# NOTES TO THE ACCOUNTS

## 17. Long-term loans

The Company has loan obligations to banks and other institutions which are denominated in US dollars.

	GROUP		COMPANY	
	USD M	Rs. M	USD M	Rs. M
At 01 April 1996	44.04	2,386.69	44.04	2,386.69
Additions during the year	-	-	-	-
Repayments during the year	(22.97)	(1,299.37)	(22.97)	(1,299.37)
Restatements	-	139.54	-	139.54
At 31 March 1997	21.07	1,226.86	21.07	1,226.86

The future payments under these loans are as follows:

	1997		1996	
	USD M	Rs. M	USD M	Rs. M
Bank loans payable :				
Within one year	-	-	6.25	338.75
Between :				
- One and two years	-	-	6.25	338.75
- two and three years	-	-	1.56	84.69
- three and four years	-	-	-	-
- four and five years	-	-	-	-
- after five years	-	-	-	-
	-	-	14.06	762.19
Other loans payable				
Within one year	4.51	262.21	4.50	244.07
Between :				
- One and two years	2.10	122.47	4.50	244.07
- two and three years	2.10	122.46	4.50	244.07
- three and four years	2.10	122.46	4.10	222.39
- four and five years	2.10	122.46	2.10	113.98
- after five years	8.16	474.80	10.28	555.92
	21.07	1,226.86	29.98	1,624.50
Total long term loans	21.07	1,226.86	44.04	2,386.69
Amount due within one year included under current liabilities	(4.51)	(262.21)	(10.75)	(582.82)
	16.56	964.65	33.29	1,803.87

Loans are repayable on various dates upto the year 2007. The outstanding balance of USD 21.07 M (Rs. 1,226.86 M) is guaranteed by the Government of Sri Lanka.

Conversion rate - 1 US Dollar = Rs. 58.2300 (Rs. 54.2000 in 1996).



# NOTES TO THE ACCOUNTS

## 18. Obligations under finance leases

The Company has commitments under finance lease agreements expiring from 2004 to 2007 in respect of Airbus A320 and A340 Aircraft.

	GROUP		COMPANY	
	USD M	Rs. M	USD M	Rs. M
At 01 April 1996	307.51	16,666.97	307.51	16,666.97
Additions during the year	-	-	-	-
Repayments during the year	(18.46)	(1,033.70)	(18.46)	(1,033.70)
Restatements	-	1,197.95	-	1,197.95
At 31 March 1997	289.05	16,831.22	289.05	16,831.22

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

	1997		1996	
	USD M	Rs. M	USD M	Rs. M
Within one year	20.20	1,176.53	18.46	1,000.62
Between :				
- One and two years	22.11	1,287.44	20.20	1,095.10
- two and three years	24.19	1,408.59	22.11	1,198.34
- three and four years	26.48	1,541.70	24.19	1,311.10
- four and five years	28.97	1,686.94	26.48	1,435.00
- after five years	167.10	9,730.02	196.07	10,626.81
	289.05	16,831.22	307.51	16,666.97
Amount due within one year included under current liabilities	(20.20)	(1,176.53)	(18.46)	(1,000.62)
	268.85	15,654.69	289.05	15,666.35

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

	USD M	Rs. M
Within one year	21.53	1,253.72
Between :		
- One and two years	19.92	1,160.17
- two and three years	18.17	1,057.84
- three and four years	16.18	942.18
- four and five years	14.05	818.21
- after five years	31.71	1,846.29
	121.56	7,078.41

The Government of Sri Lanka has guaranteed the obligations of the Company under the finance lease agreements up to a limit of US Dollar 87.53 million (Rs. 5,096.87 million).

Conversion rate - 1 US Dollar = Rs. 58.2300 (Rs. 54.2000 in 1996).



# NOTES TO THE ACCOUNTS

## 19. Deferred liabilities

	GROUP		COMPANY	
	1997	1996	1997	1996
	Rs. M	Rs. M	Rs. M	Rs. M
At 01 April	239.22	180.39	191.12	162.15
Payments during the year	(12.07)	(7.18)	(10.01)	(6.90)
Charge for the year	93.05	66.01	83.53	35.87
At 31 March	<u>320.20</u>	<u>239.22</u>	<u>264.64</u>	<u>191.12</u>

Deferred liabilities represent provision for gratuity payable to qualified employees based in Sri Lanka and at overseas stations.  
(See Accounting policy J)

## 20. Commitments

Outstanding commitments for capital expenditure at 31 March 1997 are as follows :

	GROUP	COMPANY
	Rs. M	Rs. M
- Contracts placed	194.39	190.01
- Authorised but not contracted for	103.47	103.47
	<u>297.86</u>	<u>293.48</u>

Outstanding commitments for capital expenditure as at 31 March 1997 are expected to be crystallised during the year 1997/98.



# NOTES TO THE ACCOUNTS

## 21. Loans granted to employees

Staff debts outstanding as at 31 March 1997 amounting to Rs. 12.41 m for the Group (Rs.8.6 m for the company) are inclusive of loans granted to employees in excess of Rs. 20,000. Particulars of such loans are as follows;

	No. of employees	Amount in Rs.
<b>GROUP</b>		
Balance as at 01 April 1996	47	1,704,047
Loans granted during the year	73	2,656,173
Loans recovered during the year	29	(1,560,509)
Balance as at 31 March 1997	91	2,799,711
<b>COMPANY</b>		
Balance as at 01 April 1996	31	1,310,665
Loans granted during the year	50	1,951,333
Loans recovered during the year	13	(716,989)
Balance as at 31 March 1997	68	2,545,009

## 22. 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. In August 1994 the Board of Investment of Sri Lanka granted flagship status to the Company, extending the tax exemption period upto 31 March 1998.

With effect from 01 April 1998 the Company has the option either to pay tax under the normal basis, such basis being the provisions of the Inland Revenue Act, or to pay tax on a deemed profit where the turnover is deemed to be the profit and tax payable to be computed at 2% of turnover, for a period of 15 years.



# NOTES TO THE ACCOUNTS

## 22. Taxation continued.

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 which was further extended for a period of five years, ended in August 1995. Effective from 20th August 1995, the Company now pays a tax on turnover at 2% flat. This tax is paid instead of income tax and is applicable until the year 2006.

### *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.

## 23. Directors' interest and related party transactions

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 1997 were:

Mr. W T Jayasinghe  
Mr. K Balapatabendi PC  
Mr. B C Perera  
Mr. Nihal Jayamanne PC

The nominee Directors as at date are:

Mr. D H S Jayawardena  
Mr. K Balapatabendi PC  
Mr. B. C. Perera  
Mr. Nihal Jayamanne PC



# NOTES TO THE ACCOUNTS

## 24. Post balance sheet events

During the financial year 1994/95, the Government of Sri Lanka as the principal shareholder of the Company initiated a programme leading to the restructuring and privatisation of the Company.

Towards this end the Government of Sri Lanka has retained the services of Messrs. Simat Helliesen & Eichner, Chase Manhattan Bank and the People's Merchant Bank to provide advisory services.

The programme intends to broaden the capital base of the company and to sell upto 40% of the capital to a strategic partner. The Government also intends issuing 9% of the equity to the employees of the Company, while retaining a 51% controlling interest.

It is envisaged that the privatisation programme will be concluded during the course of the financial year 1997/98.

Since the Balance Sheet date, there have been no other events which could materially affect the state of affairs of the Company as shown by the accounts at that date, the profit for the year then ended, or any of the figures in the Accounts or notes thereto.

## 25. Aircraft rotatable spares - (Rs. 1,414.78 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.



# NOTES TO THE ACCOUNTS

## 26. Aircraft non-rotable spares - (Rs. 1,060.21 million)

Aircraft non-rotable 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-rotable 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-rotable 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. Contingencies

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. 236.50 M.



# CASH FLOW STATEMENT

	Note	GROUP		COMPANY	
		1997 Rs.M	1996 Rs.M	1997 Rs.M	1996 Rs.M
<b>Cash flows from operating activities</b>					
Cash generated from operations	A	4,497.10	5,485.10	4,403.14	5,147.76
Interest paid		(1,444.09)	(1,411.67)	(1,444.09)	(1,411.67)
Income taxes paid		(14.41)	(72.50)	-	(65.40)
Dividends paid		(76.78)	(68.54)	-	-
Duty free product reserve		-	-	-	-
Deferred liabilities paid		(12.07)	(7.18)	(10.01)	(6.90)
		(1,547.35)	(1,559.89)	(1,454.10)	(1,483.97)
Cash flow before extraordinary item		2,949.75	3,925.21	2,949.04	3,663.79
Extraordinary item		-	-	-	-
<b>Net cash from operating activities</b>		<b>2,949.75</b>	<b>3,925.21</b>	<b>2,949.04</b>	<b>3,663.79</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(205.33)	(328.44)	(173.32)	(312.63)
Proceeds from disposal of property, plant & equip.		2.54	0.52	0.98	0.52
Dividend received		-	-	99.83	102.41
Deferred expenditure		(4.88)	(297.71)	(4.88)	(297.71)
<b>Net cash used in investing activities</b>		<b>(207.67)</b>	<b>(625.63)</b>	<b>(77.39)</b>	<b>(507.41)</b>
<b>Cash flows from financing activities</b>					
Proceeds from long-term loans		-	279.36	-	279.36
Proceeds from finance leases		-	-	-	-
Repayment of long-term loans		(1,299.37)	(1,117.29)	(1,299.37)	(1,117.29)
Repayment of finance leases		(1,033.70)	(766.04)	(1,033.70)	(766.04)
<b>Net cash used in financing activities</b>		<b>(2,333.07)</b>	<b>(1,603.97)</b>	<b>(2,333.07)</b>	<b>(1,603.97)</b>
Net Increase in cash and cash equivalents		409.01	1,695.61	538.58	1,552.41
Cash and cash equivalents at beginning of period		5,117.46	3,421.85	4,794.07	3,241.66
<b>Cash and cash equivalents at end of period</b>		<b>5,526.47</b>	<b>5,117.46</b>	<b>5,332.65</b>	<b>4,794.07</b>



# Notes to the Cash Flow Statement

## A) Reconciliation of net profit to cash generated from operating activities

	GROUP		COMPANY	
	1997	1996	1997	1996
	Rs.M	Rs.M	Rs.M	Rs.M
Net loss before taxation, extraordinary items and after Minority interest	(366.64)	(1,111.83)	(439.71)	(1,163.39)
Adjustments for:				
Minority interest	104.87	95.89	-	-
Provision for gratuity	93.05	66.01	83.53	35.87
Loss on disposal of property, plant and equipment	8.31	17.51	9.87	17.51
Depreciation	1,802.12	1,796.72	1,779.84	1,774.58
Foreign exchange loss	1,337.50	1,732.64	1,337.50	1,732.64
Investment income	-	-	(99.83)	(102.41)
Interest expense	1,534.53	1,634.67	1,534.53	1,634.67
Deferred expenses	110.40	48.87	110.40	48.87
Other non cash items	1.22	2.51	1.22	2.51
(Increase)/decrease in trade and other receivables	(125.16)	568.45	(105.50)	551.03
(Increase)/decrease in inventories	99.73	(157.38)	102.08	(151.25)
Increase/(decrease) in trade payables	(102.83)	791.04	89.21	767.13
<b>Cash generated from operations</b>	<b>4,497.10</b>	<b>5,485.10</b>	<b>4,403.14</b>	<b>5,147.76</b>



# TEN YEAR REVIEW - COMPANY

		1988	1989	1990
<b>PROFIT AND LOSS ACCOUNT</b>				
Operating revenue	Rs. Million	4,190.34	5,144.31	6,704.95
Operating expenditure	Rs. Million	4,139.44	4,713.94	6,405.91
Net profit/(loss)	Rs. Million	(374.64)	(128.43)	163.17
<b>BALANCE SHEET</b>				
Share capital	Rs. Million	6,510.47	7,369.47	7,369.47
Fixed assets	Rs. Million	4,063.57	3,979.55	3,497.75
Current assets	Rs. Million	1,383.21	1,962.62	2,666.08
Total assets	Rs. Million	5,520.95	6,035.80	6,246.56
Current liabilities	Rs. Million	1,886.51	2,158.64	2,945.89
<b>YIELD/UNIT COST</b>				
Overall yield	Rs. tkm	15.6	16.4	18.8
Unit cost	Rs. tkm	10.3	10.2	11.9
Break-even load factor	%	66.0	62.4	63.1
Revenue per RPK	Rs./RPK	1.5	1.6	2.0
<b>PRODUCTION</b>				
Passenger capacity	ASK Millions	2,930.09	3,401.17	3,945.39
Overall capacity	ATK Millions	366.70	446.20	524.53
<b>TRAFFIC</b>				
Passengers carried	Nos.	591	720	775
Passengers carried	RPK Millions	1,974.00	2,510.06	2,769.50
Passenger load factor	%	67.40	73.80	70.20
Cargo carried	Tonnes	11,462	14,995	17,177
Cargo load carried	RTK Millions	47.39	64.35	77.06
Overall load carried	RTK Millions	228.90	294.60	332.8
Cargo load factor	%	45.58	51.43	47.13
Overall load factor	%	62.40	66.00	63.45
<b>STAFF</b>				
Average strength	Nos.	3,638	3,535	3,603
Revenue per employee	Rs.	1,151,825	1,455,250	1,860,935
Capacity per employee	Tonne-km	100,797	126,223	145,581
Load carried per employee	Tonne-km	62,919	83,338	92,367
<b>FLEET</b>				
Aircraft in service at year end	Nos.	6	5	6

## GLOSSARY OF TERMS USED

*Available Seat Kilometres (ASK)*

- The product of seats offered for sale and the distance over which they are carried.

*Available Tonne Kilometres (ATK)*

- This is the measure of transport production. The ATK produced by a flight are the capacity for payload of the aircraft measured in tonnes multiplied by the distance flown.

*Revenue Passenger Kilometres (RPK)*

- The product of passengers carried and the distance over which they are carried.



# TEN YEAR REVIEW - COMPANY

1991	1992	1993	1994	1995	1996	1997
9,226.19	10,936.03	12,945.44	12,456.05	13,651.28	14,807.92	15,619.30
8,821.99	10,571.89	12,390.28	11,747.81	12,154.46	13,253.64	14,116.87
201.06	218.36	127.61	188.60	431.74	(1,212.22)	(447.72)
7,369.47	7,369.47	7,369.47	5,146.35	5,146.35	5,146.35	5,146.35
3,231.25	5,723.71	9,019.84	10,742.20	22,318.81	20,836.32	19,217.72
3,354.33	2,554.93	5,323.45	5,054.09	7,175.43	8,154.25	8,769.55
6,609.58	8,309.04	14,373.69	15,826.69	29,524.64	29,020.97	28,017.67
3,710.71	4,614.17	7,005.56	7,142.16	8,858.31	8,740.41	8,856.67
20.9	22.8	24.9	27.6	27.8	26.5	27.4
14.4	15.1	15.5	18.1	17.6	16.7	18.4
68.7	66.4	62.1	65.6	63.1	63.1	67.4
2.1	2.4	2.5	2.8	2.9	2.9	3.0
4,539.59	5,307.55	6,137.90	5,145.36	5,405.55	5,602.21	5,525.10
600.66	698.37	782.71	632.15	672.27	772.27	746.78
878	958	1,067	994	1,081	1,149	1,196
3,445.91	3,772.02	4,203.25	3,576.75	3,786.56	3,931.26	4,003.19
75.91	71.07	68.48	69.51	70.06	70.17	72.45
22,090	25,819	26,518	25,957	28,748	35,409	35,039
92.13	105.49	108.63	107.38	119.77	166.23	164.43
414.8	453.44	492.20	419.37	454.19	514.81	522.09
53.05	51.95	48.28	50.81	52.15	61.56	61.94
69.05	64.93	62.88	66.34	67.56	66.66	69.91
3,678	4,181	4,531	4,442	4,584	4,880	4,965
2,508,480	2,615,649	2,857,082	2,804,154	2,978,028	3,034,410	3,145,881
163,312	167,034	172,746	142,312	146,656	158,252	150,409
112,768	108,453	108,629	94,410	99,082	105,494	105,153
6	8	9	8	9	9	9

## GLOSSARY OF TERMS USED

### Revenue Tonne Kilometres (RTK)

- The product of passenger and cargo carried in tonnes and the distance over which they are carried.

### Load Factor

- The percentage relationship of revenue load to capacity provided.

The passenger load factor relates RPK to ASK while the overall load factor relates RTK to ATK.

### Break-even Load Factor

- The load factor required to equate revenue from scheduled airline operations with operating costs.



