SriLankan
Airlines

Annual Report 2001/2002

Contents

# Chairman's Review

On behalf of the Board of Directors, I have pleasure in presenting SriLankan Airlines' Annual Report and Audited Accounts for the financial year ended 31st March 2002.

We have made a significant change in our reporting style this year. The Managing Director's review takes the form of question and answer, addressing issues that are of interest to a wide cross-section of the public.

The Chief Executive Officer in his statement spells out the main challenges we face, and the means by which we will meet them and grow our business into the future. His statement also lays emphasis on the airline's non-financial wealth.

In the past year we continued to live in the shadow of crisis - the terrorist attack on the Colombo Airport on July 24th and the incidents in the US in September. The effects of these events on the aviation world were catastrophic. We now learn that worldwide, over 200,000 jobs in the industry were axed. Over 800 aircraft were grounded to save costs and reduce capacity in the face of dwindling demand. The aggregate losses sustained by all airlines affiliated to IATA is reported to be in the region of USD 15 billion.

In a business heavily influenced by high cyclical demand, intense competition and extremely tight profit margins and pricing leeway, airlines have struggled mightily just to stay afloat.

SriLankan has done extremely well to survive a disastrous year. We are also pleased to have recorded a net profit albeit a marginal figure of Rs. 1.4 billion. We earned a revenue of Rs. 29.4 billion for 2001/2, which was a drop of 3.6% against the Rs. 30.4 billion we earned in the previous year. However, we were able to reduce cost of sales by 13% over last year achieving Rs. 27.8 billion against Rs. 31.9 billion for 2000/01.

Of course we need to qualify these achievements by noting a capacity reduction of 21% due to the loss of four aircraft in the airport attack, and the extraordinary income.

In a national context, SriLankan continues to play a major role directly, in the sectors of tourism and trade.

SriLankan also plays an important role not only as the national carrier, but also in the country's economy. The airline accounts for approximately 4% of Sri Lanka's GDP.

Our airline makes a major contribution to Sri Lanka's foreign exchange earnings. SriLankan Airlines generated Rs. 21.9 billion in foreign currency earnings, this year. Drawing a conclusion from results published in the Central Bank's Annual Report for 2001, this figure exceeds the total receipts from tourism (Rs. 19 billion) and total Foreign Direct Investments (FDI) for the year (USD 82 million or Rs. 7.9 billion).

These are certainly thought provoking results.

The way ahead for the airline will be influenced by many factors. Here at home, the very real prospect of peace from internal strife augurs well for the country. Development in tourism, trade and the economy of Sri Lanka can only mean good times ahead for the airline. We must be ready to serve a resurgent nation in exemplary fashion.

It is encouraging to report that we will bring Germany back on line for our winter schedule. New markets in China plus extension of our reach in India via the new destination Bangalore are measures we feel will yield rich dividends for the airline.

## Chairman's Review

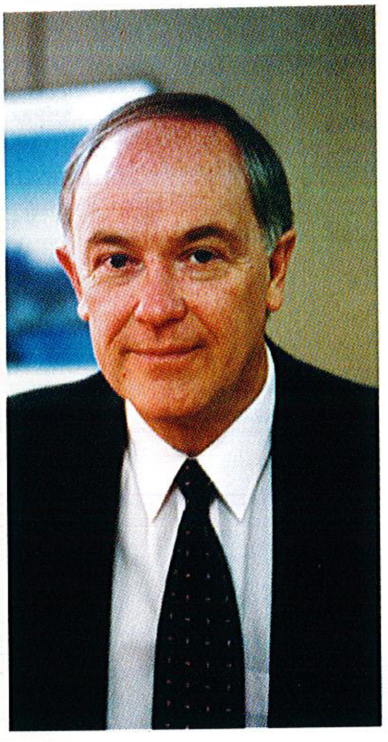
Whilst our focus this year will be on recovering from the disasters of the year gone by, and putting the airline back on track towards a stable financial position, we hope to strengthen our role as the national carrier of Sri Lanka, approach the question of open skies with an open mind, and strengthen key areas of the airline within a prudent course of expansion.

The future is one of great challenge. It will take a tremendous effort from us all to grow our business in such an environment. I am confident that the airline has the people and resources to prevail over adversity.

I conclude by thanking all staff for their great dedication and effort over a very difficult year. I also extend my appreciation to my colleagues on the Board for their contribution and assistance.

**D S J Pelpola**
*Chairman*

## An Interview with the Managing Director



The fresh approach to our Annual Report this year is an apt break with a traditional style, when we look at SriLankan today, in the aftermath of an extremely difficult year. The airline has emerged leaner, stronger and more resilient than before - change has spread far and wide across the gamut of our operations.

In keeping with this spirit of change, my contribution to this report will seek to answer concerns that have reached the airline from many quarters. I believe this is the right time to place before our employees, shareholders and the public, a proper response to these concerns in the interests of greater understanding and appreciation of SriLankan Airlines and all we seek to achieve.

### Q Why is SriLankan against an 'open skies' policy?

A We are not against an 'open skies' policy at all and would welcome such a move by the Government of Sri Lanka, providing that it is based upon reciprocity. We do not believe however that the introduction of an 'open skies' regime in Sri Lanka alone, will lead to a large increase in foreign airlines operating to Colombo. Today for example there are 57 bilateral air services agreements signed between Sri Lanka and other countries, yet only 15 of these are used by foreign airlines.

### Q Why have you deviated from the original business plan presented before privatisation?

A The original business plan was developed during the latter part of 1997 and presented to the Government of Sri Lanka in January 1998, just prior to the privatisation process taking effect. It set out the objectives for the airline for the ten year period up to 2008 and described the implementation strategies that would be used by the Emirates management team. The plan itself was the starting point, it was never meant to be 'cast in stone', but would be revised from time to time with Board approval to meet the changing conditions both domestically and internationally, in the aero-political, financial and economic environment.

### Q Is Emirates trying to make SriLankan a regional airline?

A With our current route network stretching from Tokyo in the East, to London in the West, and 27 destinations in between, I believe we can describe ourselves as a truly international airline. Certainly, we had to reduce our route network following the tragic events of last year, but our ambition remains the same - profitable, sustainable growth with additional routes and aircraft being added when economic conditions are favourable.

### Q Emirates and SriLankan compete on the same route network. Isn't this in conflict with the spirit of a partnership?

A On the contrary, the benefits that result by both SriLankan Airlines and Emirates both operating on certain routes are many. By jointly marketing both products our customers have more choice, tickets are interchangeable, we are able to offer more destinations and better connections through our twin hubs of Colombo and Dubai and we are far stronger jointly to face the competitive actions of other airlines.

# An Interview with the Managing Director

**Q They say that SriLankan is spending huge sums of money to purchase IT systems from Emirates. What do you have to say?**

A It is true that the company has invested heavily on Information Technology. In 1998, we had but a handful of personal computers, none of the in-house IT systems were Y2K compliant and the systems that were supplied by third parties did not communicate very well with each other. We developed an IT strategy for the airline, using the expertise and experience of Emirates. Today, we have one of the most advanced IT infrastructures in Sri Lanka, providing an integrated approach to our business requirements. Any system that has been supplied by Emirates has, in accordance with the shareholders' agreement, been approved by the Board of SriLankan Airlines.

**Q Is it true that SriLankan was forced to absorb an Emirates placed order for Airbus A330s?**

A No it is not true. As part of the original business plan agreed with the Government of Sri Lanka, Emirates would acquire on behalf of the company, six Airbus A330-200 aircraft at very favourable terms which they enjoyed being a launch customer with Airbus for this aircraft type. These aircraft were ordered in addition to the original order placed by Emirates for their own needs, and it is worth noting that subsequently, Emirates have placed further orders with Airbus for A330s to meet their increasing demand for capacity.

**Q There have been suggestions that the company has been indiscriminately selling off assets and re-leasing them back without a net advantage. How would you explain?**

A The company has faced exceptionally difficult trading conditions during the last couple of years and so, with Board approval, aircraft and engines were sold and leased back to conserve cash, to raise funds for working capital and protect against ownership risk. To amply justify this decision our two Airbus A320s were sold for US$ 26 million each, in December 2000, today those aircraft are valued at a little more than US$ 16 million.

**Q It is said that SriLankan is exploiting its position as the sole provider of ground handling services at BIA by charging exorbitant prices and thus discouraging other airlines from flying to Colombo. What do you have to say?**

A The basic charges applied by the company today for ground handling services at Bandaranaike International Airport, have not been increased at all from those being applied before April 1998, when Emirates assumed management control. Where we have provided additional services to our customers, like for example, a baggage reconciliation system, then charges have been introduced to cover the cost, but these have not significantly increased the overall charges. Indeed volume discounts are now offered to airlines based upon frequency which were never offered before.

**Q Does the airline enjoy government subsidies?**

A Since privatisation, the company has neither asked for nor received any subsidies or funding from the Government of Sri Lanka.

**Q What has Emirates done for SriLankan?**

A Against a background of an ongoing security situation and the continuing difficult economic conditions within Sri Lanka, I feel that the company has made quite remarkable progress in achieving most of the objectives set out in the original business plan. We have developed into an award winning international airline, equipped with a modern all Airbus fleet with state-of-the-art on board facilities, first class levels of service delivery and an on-time performance that is probably the

## An Interview with the Managing Director

best in the region. Stand alone profitability for the airline has so far eluded us, but I am confident that if the peace initiatives, being pursued by the Government of Sri Lanka, continue to make progress then a positive bottom line will be achieved in the near future.

Q **Why did SriLankan link Male directly with other key destinations?**

A Following the attack by terrorists on the Bandaranaike International Airport last July, many countries increased the level of their security advisories on Sri Lanka, warning their nationals not to visit the country. This resulted in an immediate and catastrophic decline in the number of visitors to Sri Lanka, as well as passengers using Colombo as a transit point. In order to survive, the airline had to seek new markets rapidly whilst doing its best to protect existing ones. The Maldives provided us with an excellent opportunity to provide non-stop services between Male and Europe and Japan, whilst continuing to serve our home market where demand was weak.

Q **Is it correct that SriLankan's role as the national carrier has been marginalized since the partnership with Emirates?**

A On the contrary, I believe that SriLankan Airlines has strengthened its position as the national carrier. As a result of powerful advertising campaigns in the international media, effective promotions in overseas markets and major industry awards success, we are gaining worldwide recognition as the leading airline in South Asia.

Q **What have you done to promote Sri Lanka as a tourist destination?**

A We have actively co-operated with the Sri Lankan Tourist Board, the local travel trade and overseas tour operators in the promotion of Sri Lanka. We have participated in numerous exhibitions and trade shows overseas, sponsored visits of the media and travel agents to Sri Lanka. We have established our own leisure business unit, trading as SriLankan Holidays, marketing a complete range of holiday programmes, ranging from stopover packages to special interest tours.

We have spent over Rs. 500 million over the last two years in promoting the country and our airline.

Q **Is there anything else you would like to add?**

A The last four years have been a most challenging period for the company especially the events of the last 12 months. But we have survived all of this when some other well known airlines went out of business and I believe we have emerged fitter, leaner and more determined than ever, to take advantage of the opportunities that lie ahead. Once again our staff have performed magnificently and I am sure that with their continued dedication and support we can look to the future with considerable optimism.

Timothy Clark

**Tim Clark**
*Managing Director*

## Chief Executive Officer's Review

Life in the world of aviation can never be the same again, after the events of 2001, at home in Sri Lanka and in the USA. Whilst some airlines tragically went under, for most of the rest, including SriLankan, it was crunch time!

For many in our line of business, the way ahead held great similarity - cost containment and revenue optimisation. Routes were shed and selected line offices closed, yields in the remaining markets were driven harder than ever, job layoffs were effected and aircraft were grounded. Aircraft acquisitions were rescheduled and capital and operational expenditure were cut to the marrow.

At SriLankan, we tread roughly the same path, except that circumstances forced a fleet reduction, and in terms of employees no one lost their job - we offered a generous voluntary retirement scheme instead. We have had to cope, not only with the global downturn across the aviation industry, but also with the decimation of half our fleet in the terrorist attack on the Bandaranaike International Airport (BIA) in July 2001.

These events radically changed the way we looked at our business.

### ANOTHER FIELD OF VISION

This spirit of change, and the manner in which we at SriLankan are managing it within a most challenging environment, has brought home to us more than ever, the vast resources of wealth and knowledge that involves our people, our customers and our technology and business processes. This wealth is not to be found in bottom lines, or rows of neatly arranged figures.

The need to recognise these resources has led us to break with tradition in terms of the structure of this Annual Report.

The salient financial information for the year 2001/02 will appear in the segment titled "Financial Review".

My review will seek to place before you the fundamental challenges facing the airline today, the initiatives we are taking and the resources we possess to meet them, and push on into the future.

This process of reporting begins with a clear definition of why we exist.

SriLankan is a company engaged in the transportation by air, of passengers and cargo internationally, using Colombo as its home base. We are the national carrier of Sri Lanka. Through our core business activity, we seek to position and promote our products and services within local and international markets. In our role as national carrier, we provide means of access by air for passengers and cargo to and from Sri Lanka, and also play a significant role in the country's tourism sector.

Of course, we expect to derive commercial success from our business activities, whilst fulfilling the expectations of our customers, employees, partners and shareholders.

Given the parlous state of the industry and an inclement business climate, this will be no easy task.

We face some major challenges in taking SriLankan into a healthy and stable future.

### PURSUING PROFITS - AN EXTREMELY ARDUOUS TREK

A simply phrased goal, but one that poses an immense challenge to the airline. With an initial history of regular subsidy from the Treasury, SriLankan has managed its business affairs for almost a decade now, without tapping the financial resources of the state. We have the challenge of achieving true profitability without recourse to state aid.

We have the challenge of evolving frugal business practices towards cost containment and a more driven approach to bettering yields and optimising revenue. We seek for

## Chief Executive Officer's Review

SriLankan an integrity in terms of the value of our product - we seek to shed the view that we are a "budget" airline!

We have the challenge of achieving and maintaining profitability in an environment of open competition and with an open skies policy a distinct possibility.

It is pertinent to note here that SriLankan Airlines is not averse to an open skies policy. However, we feel that such a policy cannot be beneficial to country and airline unless it fully embodies reciprocity.

EARNING MORE FROM LESS - CULTIVATING PRODUCTIVITY

If the tragic events of 2001 taught us anything, they taught us to "do more with less"!

In hindsight, it may perhaps be true to say that we expanded too quickly. Buoyed by a very real chance of peace in the country and an expected resurgence in terms of business, we expanded rather ambitiously.

When on the 24th of July 2001, within a matter of a few hours we had lost almost half our fleet in a terrorist attack on the BIA, it was back to the drawing board. The resultant enforced capacity restrictions, and the pruning of our route network, among other contingency measures, saw us through some grim weeks and months.

Looking forward, we face the challenge of finding ways to make do with the resources we have in hand, to drive business further; to maintain a profitable operation and create a platform for cautious expansion.

BUILDING THE BASICS FOR A STABLE FUTURE

If one was to sum up the year gone by in a word, that word would be - survival. We faced up to a great challenge; we were strong enough and resilient enough and committed enough to come through the crisis and close the year with a small profit - a remarkable achievement!

The past 12 months were spent in survival mode. I believe the next will focus on recovery.

The challenge ahead will be to remain strong, maintain the momentum we have shown over the past year, push forward where we can and keep building all the time - building the company's net worth; our knowledge and technological resources; revenues; yields; our business relationships and a great team into an even better one.

GROWING OUR BUSINESS WITHIN THE NARROWEST CONFINES

This perhaps is one of the greatest challenges of all. With an operation pruned to the very basics, we face the

# Chief Executive Officer's Review

challenge of not standing still; of seeking out opportunities to grow our business within strict limitations on fleet, manpower and financial resources.

Seeking growth in such a scenario challenges us to think "out of the box" and to be innovative.

In a nutshell, we have to pursue growth without large-scale expansion.

year, our staff displayed a resilience and commitment in the face of dire crisis that is deserving of the highest tribute. None of our plans would work if they were not driven with zeal and passion by our people.

**Employees by Number of Years of Service**

| Number of Years | Number of Staff |
|---|---|
| Less than 1 year | 97 |
| 1 to 5 years | 1,253 |
| 6 to 10 years | 1,364 |
| 11 to 15 years | 449 |
| 16 to 20 years | 596 |
| Over 20 years | 290 |

SriLankan's own Human Resource Development Centre conducts a wide range of courses that run the gamut of technical and administrative knowledge requirements. Their training personnel are tasked with providing our employees with the skills, competencies and attitudes necessary to fulfil their roles in international aviation. The number of training man days reached 11,305 for the year under review.

Now let's look at some of the initiatives and resources we have brought to bear on these areas of endeavour. They are presented through three vital aspects of our business: People, Customers and Technology.

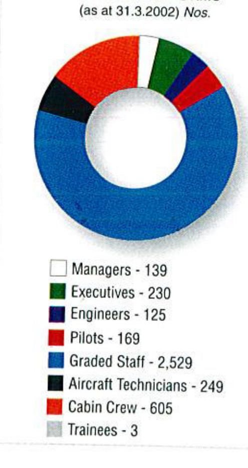
SHOULDERS TO WHEELS - THE PEOPLE OF SRILANKAN

There are many clichés used to describe the value of human resources to a business institution. At SriLankan, our people have made these sayings redundant. Over the past

As one would expect of an international airline, our staff constitute some of the most skilled and qualified people in the business.

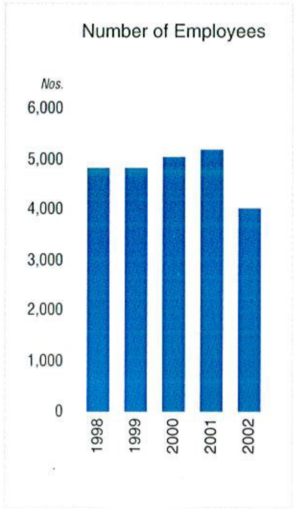
Over the years, we've built a strong employee base, employing sophisticated interview and recruitment processes, such as psychometric testing and assessment centre techniques. This has enabled us to acquire the "right" people with the "right" skills and attitude for the tasks ahead.

Employee Mix by Professional Skills
(as at 31.3.2002) *Nos.*



## Chief Executive Officer's Review

One of the most important tasks undertaken by HR has been the conduct of a Voluntary Severance Scheme (VSS). A sensitive issue at the best of times, the company's need to drive productivity and cost containment had to be tempered at all times with understanding and empathy in large measure. Thanks to a stable and cordial relationship with our labour unions, the VSS was completed amicably.




(beyond standard increment levels) and promotions are tied to performance and ability alone.

Our HR division also contributes at national level, through participation at career fairs, offering expertise to universities, the Central Bank, the Ceylon Chamber of Commerce and other institutions.

Our employees are encouraged to contribute to the social fabric of the

reduced by 21%, with 1,048 employees choosing to avail themselves of the VSS. Our total staff strength stands at 4,049.

Recruitment has been pared down quite radically.

SriLankan's new, "lean" workforce has performed extremely well. Empowered by more proactive work processes as a result of a company-wide systems and a focussed approach to core business, they've helped to push yields up by 15% in rupee terms over the previous year and more importantly, they've begun to enhance their contribution to the company. Revenue per employee reached Rs. 7.2 million in 2002, up from Rs. 5.8 million recorded the previous year.

We've developed a "meritocracy" at SriLankan where increases in salary participants at religious, cultural and sporting events on the company calendar.

The crisis at the BIA last year saw our people rise to truly great heights. From operational staff at the Airport, to the administrative staff in Colombo, everyone pitched in to help us tide over a period of unimaginable disaster.

# Chief Executive Officer's Review

The airline has emerged stronger and more resilient than ever, thanks to a team any airline would be proud of.

**Employees by Age Distribution**

| Age | Number of Staff |
|---|---|
| 18 to 25 years | 519 |
| 26 to 35 years | 1,667 |
| 36 to 45 year | 1,323 |
| 46 to 55 years | 517 |
| 56 to 60 years | 19 |
| Over 60 years | 4 |

our strivings we lose focus on the customer, we are bound to fail.

In the air, on ground and through the "ether" (we mean the internet), SriLankan has adopted a customer first approach - and it is showing dividends.

On board our all-Airbus fleet, passengers can look forward to the introduction of a choice of main choices in Economy Class. We've included a vegetarian selection within the main choices too, which has helped save costs by doing away with the practice of uplifting contingency vegetarian meal selections.

We also have in place a system to link seat allocations with special meal requests which, within certain parameters, helps enhance customer satisfaction.

## FOR WHOM WE EXIST - THE CUSTOMER

"You're our world" - SriLankan's advertising tag line embodies the essence of what it means to be a service organisation. One of the greatest areas of change at SriLankan in recent times has been the gradual re-orientation of people and processes to become more customer-focussed. Pursuit of success in a business sense may consist of surmounting the challenges we've identified; but if in

16 interactive games to complement 18 video and 22 audio channels of entertainment. Added to this is the forward/downward camera offering a spectacular view of the aircraft's flight path.

Inflight entertainment has been improved with the addition of Tamil and Malayalam movies.

Our menu selection offers four main choices in Business Class and three

An incentive driven Duty Free service offers our customers great inflight shopping, and with the assistance of our partner Emirates, our duty free sales persons have won cars and gold bars among some top value prizes. Not surprisingly, revenue from Duty Free sales has soared over the past five years to top Rs.190 million for 2001/02.

On ground, we offer customers a spread of offices in Colombo, Kurunegala, Kandy, Badulla

## Chief Executive Officer's Review

Dambulla, Anuradhapura, Ratnapura and Galle in Sri Lanka, and an international network of representation in 28 other destinations from Europe to the Far-East.

Passengers using Colombo Airport can now expect special check-in facilities for families with young kids and an 8-hour special early check-in for "early birds". We are working with relevant authorities towards incorporating the airport departure tax within SriLankan Airlines' ticketing, with the aim of reducing the number of points of check a passenger need go through, on departure at BIA.

Our Airport Services division, like so many other divisions of SriLankan, has re-organised its functions to provide our customers a better and more efficient service. Together with our partner Emirates, we've looked at airport handling across the system in terms of volumes of traffic and frequency of flights against staff and infrastructure deployed by both airlines in common destinations. It made great sense for both airlines to apply basic economies of scale in selected destinations, which has now yielded a process whereby a single airline, either SriLankan or Emirates will handle the schedule of both airlines. This has yielded substantial cost savings for both airlines.


We look forward to welcoming Malaysian Airlines, Oman Air and Czech Airlines to Colombo Airport shortly. SriLankan will be honoured to service their flights as ground handler. Together with the freighter services of El Al and China Airlines, we view these new operations not just as business opportunities, but a welcome boost to the tourism and freight sectors of Sri Lanka.

Customers for SriLankan's Cargo services are beneficiaries of vastly improved IT empowered handling. IT upgrades in the sphere of cargo constituted the single largest project for our IT Department this year, which involved the replacement of the existing system with a state-of-the-art internet based facility. Thus SriLankan Cargo launched its own website and another - SriLankan SkyChain website. The latter enables consignees and shippers to book and track shipments throughout the network, among other facilities. This site offers the added advantage of providing data and tracking of cargo through the Colombo Airport, irrespective of the inward or outward carrying airline, benefiting the cargo industry as a whole. SkyChain offers state-of-the-art facilities which few other airlines in the world can match.

Another initiative has been the setting up of a Cargo Hub Unit in Colombo, to

## Chief Executive Officer's Review

process transhipment cargo. This unit was set up as a result of the increase in the volume of this type of cargo. The new unit now sits between imports and exports in the delivery chain, and ensures prompt handling of transhipments. Results have proved to be excellent. As a consequence to the setting up of the new unit and the improvement in service, shippers using Colombo as a hub have begun to display much greater confidence in Sri Lanka as a hub, because their cargo is moving reliably and on schedule, to onward destinations.

As for other sectors too, SriLankan Cargo records benefits from re-organisation. Through the Quality Circle concept, staff have begun to put forward many initiatives that have streamlined work procedures, specifically involving forwarders and shippers more closely in despatch processes, which is now directly contributing to productivity.

A long term goal for SriLankan Cargo will be to work closely with the Department of Customs and other regulatory authorities in Sri Lanka, to set up a system linking all parties concerned, in a manner that will enable the customer of the future to process a wider range of formalities in the import/export chain, via the computer in his office.

Our Commercial division is probably the most direct interface between our customer and the airline. They convey our product to the market and are responsible for measuring how well we are doing in satisfying the customer.

SriLankan's revamped website was launched on 1st May 2001. Further improvements were made to the site, incorporating improved e-mail booking facilities, and RoomsNet - a special programme to enable booking of hotel rooms in Sri Lanka, by transit passengers.

When the airport disaster struck, our emergency website became operational within 90 minutes. Within these 90 minutes, we had displayed up to date information on the situation, details of the changes to our flight schedules and the names and contact numbers of hotels where passengers were accommodated until their travel could be provided. The web became a prime crisis management tool for the airline. Between 24th and 27th July 2001, our site recorded 800,000 hits which really was an extraordinary volume.


Another direct result of the airport incident was the withdrawal of SriLankan's flights to Frankfurt, Berlin, Rome, Milan, Stockholm, Karachi, Dhaka and Sydney. The airline walked a tightrope - we had to make cut backs, and we had to protect markets at the same time. What we did was to provide and build up "gateways" like Switzerland in Europe, from whence

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we could serve countries like Germany and Italy, where operations had been withdrawn.

The German experience is interesting, not just for the furore it created amongst the local trade. Despite the lack of direct connections, we found that a segment of the German market was still flying to Sri Lanka via Switzerland, paying a higher fare than before. This opened our eyes to the opportunities that lay ahead to push for better yields, which has resulted in us deciding to recommence direct operations to Germany this winter, making our marketing pitch to the higher fare paying passenger.

In the face of an increasing number of travel advisories being issued by foreign governments advising against travel to Sri Lanka, we had to take critical decisions on our route network. One such decision was to operate non-stop twice weekly to the Maldives, from London, Zurich and Tokyo, and run a weekly service from Paris to the Maldives and back, to protect our European and Far Eastern markets even though by so doing, we added an additional stop en-route to and from Colombo. However, we face a challenge to contain costs and enhance profits on these services to and from the Maldives.

We've added additional frequencies to Kuala Lumpur and Jakarta, and will be operating to Bangalore, by the time this report goes to print. Bodh Gaya, a major pilgrimage destination in India is due to be introduced this winter.

One of the most encouraging aspects of the past 12 months has been the initiatives launched by SriLankan in India. Faced with empty seats post-July 24th, we joined up with members of the local travel trade to launch a marketing promotion on the concept of "buy one get one free". This offer included the airline seat, accommodation and excursions. Targeted at the market in Mumbai and Delhi, it was irresistible! It kick started interest within India to view Sri Lanka as a prime holiday destination, and opened up several opportunities for the Indian business sector to consider Sri Lanka as an attractive proposition for the MICE market particularly.

Over 8,500 passengers travelled to Sri Lanka from India on our promotional offer, and this success has prompted us to offer a similar package to the Middle East.

After the initial price offer, we have been able to sustain interest and numbers, despite gradual price increases.

This is an excellent example of what can be accomplished if we work together.

The choice of India as the country to launch such a project in, was not accidental. The market opportunity has been sitting on our doorstep for some time. However, constraints on seat capacity prevented us from launching the scheme earlier.

We also offered a 3 night/4 day free holiday in Sri Lanka on the airline's account to passengers travelling beyond Sri Lanka on our network. Called "Bonanza", the package helped create a greater awareness of the beauties of Sri Lanka as a holiday destination, as opposed to merely a transit point. Over 3,400 passengers enjoyed the benefits of this package.

Another product offer to our customers is the launch of SriLankan Adventure Holidays and SriLankan Exotica Holidays, two programmes that cater to travellers seeking special interest tours such as water sports, hiking, white water rafting as well as pilgrimages, archaeological and photographic experiences.

This type of tourism is far more sustainable, and attracts a higher spending tourist.

Our excellent frequent flyer programme Skywards, a joint venture with our partner Emirates and a host of top airlines, hotels and other service partners has gone from strength to strength since its introduction in May 2000. Our membership base for 2002 exceeded the previous year by 100%.

In terms of emerging markets, the Government of Sri Lanka has just concluded agreements with China, ratifying Sri Lanka as a preferred choice destination for Chinese travelling overseas. We are exploring code-sharing opportunities with some Chinese airlines to operate via Bangkok/Hong Kong. However, our ultimate goal is to bring China directly online with Colombo.

Despite the trauma of the year gone by, we have remained steadfast in our commitment to building Colombo as a hub. The essence of building Colombo into a major hub for passengers and cargo is frequency of operation to and from the feeder destinations. To this end we have cautiously been building up our flight schedules. With a fleet essentially at half strength, we were still able to accomplish this through better daily utilisation rates for our existing aircraft.

Our A340s fly an average of 15.6 hours per day, which is 15% above the manufacturer's Fleet Average. The A330s fly on average, 13.5 hours per day, which is 20% above manufacturer's Fleet Average. The A320 does an average of 6 hours per day, though we plan to increase this to around 10 hours per day. Our utilisation rates for the A340s and A330s are the second highest in the world and the highest amongst scheduled carriers.

And we accomplish all this without compromising safety or reliability. SriLankan is Airbus' fleet leader when it comes to embodiment of service modifications, and total compliance with service modifications and bulletins. In fact we are more up to date than most other carriers.

However, establishing Colombo as a hub must necessarily be a joint endeavour with the Government and the tourist trade in the country, where a concerted effort to upgrade all aspects of the product must be addressed by all parties.

At the end of the day however, how are our efforts at serving the customer actually perceived? How well do we know our customer?

We have been developing and conducting passenger surveys both internally and via external organisations for some time now, across samples of our different customer bases and in different areas of service across the airline.

These indicate an overwhelming endorsement of SriLankan's product.

Another clear indication of our ability to attract passengers, and the success of our sales and marketing functions, has been our seat factors, which have for the last 6 months constantly been above target. In March 2002, we achieved a seat factor of 85% which was the highest ever recorded in our 23 year history.

To all at SriLankan, these results serve as a barometer indicating what things we've got right, and where we are lacking.

### OF SUPPORT STRUCTURES, THE BACK ROOM AND GOING HIGH TECH

I have referred to the re-organisation that has swept across the entire company, aided in no small measure by our IT programmes. People at SriLankan today are empowered through this process and are more proactive and informed when it comes to performing their duties within the environment of an international airline.

For example, the re-organisation within our Engineering division saw staff reduced from 1,300 to 648. This was achieved by re-deploying non-technical support units to other departments, whilst the Voluntary Severance Scheme accounted for the balance.

Still, A320 aircraft refurbishment and reconfiguration to new corporate specifications, the first "C" checks of our A330 fleet handled by our engineers and improved technical despatch reliability levels were accomplished. Productivity scored again!

This is the story across most departments of the airline.

The purchase of a new Lamp Blank Laminator provided us with the capability of laminating aircraft interiors in-house, at 10% of the overseas cost, with the opportunity of earning revenue by offering our services to other airlines. Currently Emirates is using this facility.

Perhaps the single most powerful catalyst of change at SriLankan has been our Information Technology. It has pervaded every area of activity in the company, and continues to help us grow and improve.

IT helped Flight Operations to change Flight Planning systems to SITA's GraFlite programme resulting in improved functionality, accuracy, efficiency and savings.

The facilities provided to Cargo have already been mentioned - they are state-of-the-art measures, second to none.

Another programme that enjoys a commonality across the areas of Inflight Services and Flight Operations is CETEC. This is a crew scheduling system that encompasses the flight deck crew as well as cabin crew, dealing as it does with the different parameters applicable to two quite different areas. For example cockpit crew are rostered taking into account their licences, medicals and training schedules. Cabin crew are rostered according to different parameters such as special language capabilities on specific routes.

Airport Services uses an IT based system called NOMAD, to track and manage the deployment of 1,200 Unit Load Devices (ULDs) across the system.

In the Commercial arena, C-View is a very sophisticated programme shared with our partner Emirates, which is integrated with several other programmes to track network performance. A Revenue Target System was also introduced to generate the Revenue Budgets of the airline.

An evaluation of various Flight Check Modules is ongoing with IT, the implementation of which will aid in the maintenance of cabin factors at optimum levels.

Our overseas offices in London, Dubai, Chennai and Bangkok were connected to the Corporate Network, allowing staff in these locations to enjoy identical IT facilities to their counterparts at Head Office. More offices are to be linked up in the coming months.

Likewise new ticket offices in Anuradhapura, Badulla and Ratnapura were also networked and IT equipped.

We've used the technology to team up with mobile phone service providers and TV to offer flight schedule information.

Internally, the IT department is concentrating on automating manual processes that will enable staff to handle back room functions and internal business processes more efficiently.

Over the past 3 years, 2,500 staff received IT training. There are 1,972 PCs systemwide and 69 Network Services. There are 2,600 log-on IDs and with the qualifying factor that some PCs have more than one user given the 24 hour nature of certain sectors of the airline, this still constitutes an extremely high PC to Employee ratio.

SriLankan's Information Technology infrastructure is one of the most advanced in the aviation world, and is certainly one of the best IT platforms in the country.

The way ahead for IT will be in the greater usage of the internet as a vehicle for the airline's functions of distribution, communication and marketing.

Some other organisational changes that exemplify our drive to cut costs and pursue profitability/productivity are the co-operation we received from the flight deck crew, who trained to fly two aircraft within the single primary validity of their licence. This enabled us to indulge in Mixed Fleet Flying, achieving greater flexibility in crew scheduling and helping to cope with a reduced cadre of pilots. Thirty nine first officers and twenty one captains underwent this training.

## SRILANKAN AND SRI LANKA

We take our role as the national carrier of Sri Lanka extremely seriously. Elsewhere in this Report, the Chairman has given details of our comparative performance with other sectors of revenue generation for the country, and SriLankan Airlines, in that context has proved an excellent contributor to the nation.

Our involvement with the promotion of tourism, as a highly visible entity of truly international stature makes us a good "ambassador" for the country.

Our advertising and promotional campaigns are largely linked with our home base; our products particularly in the leisure business sector are fully Sri Lanka-oriented.

Thus when we were voted the "Best Airline in Central Asia" for the second year running by SKYTRAX Research of UK, it was reaffirmation that we had truly taken our airline, deliberately synonymous with our country, to great heights once again - this was no flash in the pan! We were proud that yet again a Sri Lankan enterprise had received international recognition.

## THE FUTURE

The first goal for SriLankan, is recovery - we can achieve this through cost containment, revenue optimisation, maintaining our current operations with cautious expansion, and remaining productive.

We will still be operating in a climate of recession. The global tourism scenario does not look good. Tourism

## Chief Executive Officer's Review

demand fell 4.4% last year and is set to reduce by approximately another 3% in 2002.

I believe that SriLankan should look to give our customers a more integrated product towards providing a total travel and holiday experience. We have a responsibility as the national carrier to lead the way and be a catalyst for change. I'd like to see our service develop to a point where our staff will be more proactive when meeting customers, and also be in a position to offer a product that covers every aspect of travel, not just a ticket. The whole travel experience begins with the idea of a journey. We should be able to facilitate the entire process thereafter, through our website, offices and products offering advice and services on destinations, travel options, ground packages - in fact everything a traveller will ever need for the experience of a lifetime!

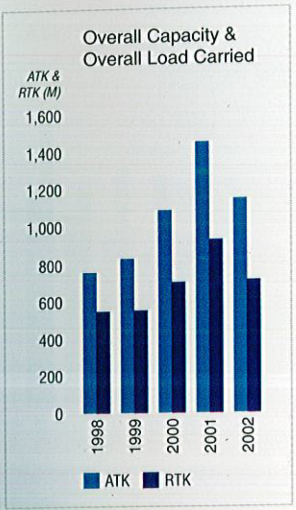
We have made a good start to the new financial year. Our cabin factors are averaging the mid-70s and projections are they will climb further. Our punctuality rate is good; 78% on schedule, with that figure rising to 82% for departures within 15 minutes of scheduled time. Passenger carriage is as per target; but we need to push those yields for all they're worth!

We are upbeat about the future. We have benefited and will continue to do so through the expertise and technical know how of our strategic partner Emirates. The knowledge that they stand as strongly as ever behind us gives us great courage.

But it will really be all of us, the staff and management of SriLankan, who will struggle and toil, and persevere to the end - I have no doubt that if we remain as committed as we were last year, there is no challenge we cannot meet and overcome.

**Peter Hill**
*Chief Executive Officer*

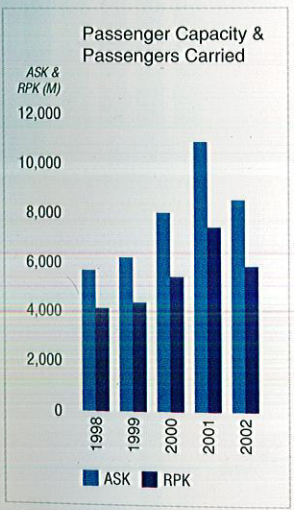
# Financial Review




## CAPACITY AND TRAFFIC

The year 2001/2002 saw a 21.0% decline in capacity production, from 1,454.78 million tonne kilometres in 2000/2001 to 1,148.73 million tonne kilometres. Seat kilometres also fell 21.4% to 8,556.92. This decline was due to the curtailment of operations following the loss of four aircraft operated by the Company during the attack on Bandaranaike International Airport, Colombo on 24th July 2001.

Total traffic carriage fell 23.7%. The number of passengers carried during the year decreased to 1.62 million from 1.89 million carried in the previous year. Cargo carriage decreased from 58,618 tonnes to 46,067 tonnes. The reduction in passenger and cargo carriage is principally due to the cessation of operations to a number of destinations following the 24th July incident, and the reduced demand for air travel consequent to the tragic events in the United States in September 2001.




Passenger seat factor increased 0.13 percentage points to 68.51% while the overall load factor averaged 61.96%, 2.15 percentage points below last year due to decline in cargo carriage during the year.

## REVENUE

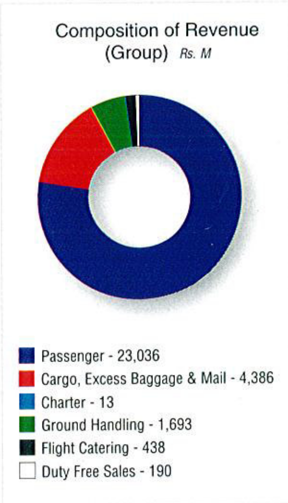
Total operating revenue of the Company amounted to Rs. 29,352.91 million, down Rs.1,084.18 million or 3.6% from 2000/01.

The revenue of the Group in 2001/2002 was Rs. 29,755.81 million, down by Rs. 1,255.14 million or 4.1% from the previous year.

**Composition of Revenue**

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2002** | | 2001 | | **2002** | | 2001 | |
| | ***Rs. M*** | ***%*** | *Rs. M* | *%* | ***Rs. M*** | ***%*** | *Rs. M* | *%* |
| Passenger | **23,036** | **77** | 23,087 | 74 | **23,036** | **78** | 23,087 | 76 |
| Cargo, Excess Baggage & Mail | **4,386** | **15** | 5,073 | 16 | **4,421** | **15** | 5,073 | 16 |
| Charter | **13** | **–** | 7 | – | **13** | **–** | 7 | – |
| Ground Handling | **1,693** | **6** | 2,102 | 7 | **1,693** | **6** | 2,102 | 7 |
| Flight Catering | **438** | **1** | 574 | 2 | **–** | **–** | – | – |
| Duty Free Sales | **190** | **1** | 168 | 1 | **190** | **1** | 168 | 1 |
| Total | **29,756** | **100** | 31,011 | 100 | **29,353** | **100** | 30,437 | 100 |

Passenger revenue excluding charter revenue totalled Rs. 23,036.34 million, a marginal decrease of 0.22% from 2000/01.




Revenue from cargo carriage decreased by 16.6% to Rs. 3,738.43 million.

Revenue from charter operations increased by Rs. 6.50 million or 94.6% to Rs. 13.37 million while ground handling revenue decreased by 19.5% or Rs. 409.37 million to Rs. 1,692.76 million. Ground handling revenue declined sharply between July 2001 and November 2001 as a result of the temporary cessation of operations to Colombo by a number of airlines immediately after the bombing of Colombo Airport.

Duty Free Sales increased by Rs. 22.24 million or 13.3% to Rs. 190.07 million.

## EXPENDITURE

In 2001/2002, the Company's total expenditure totalled Rs. 33,097.50 million, down 10.3% from 2000/01. At the Group level, total expenditure amounted to Rs. 32,960.57 million, reflecting a 10.7% reduction in expenditure.

# Financial Review

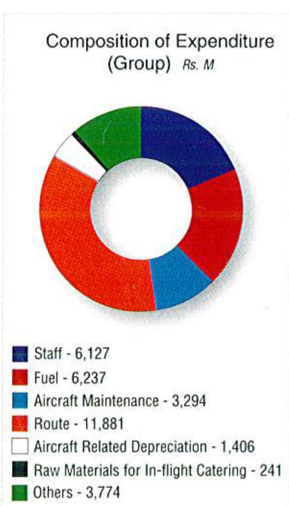
Aviation fuel costs declined 23.7% to Rs. 6,237.27 million as a result of the 22.4% reduction in aircraft utilization, and lower fuel prices.

Decline in route costs of the Company by 13.9% to Rs. 12,621.30 million is attributable to the reduced scale of operations since July 2001.

Staff costs of the Group increased by 3.5% to Rs. 6,127.09 million whilst at the Company level the increase was 4.6%. This increase was largely due to payment of a compensation package to employees who left on a voluntary severance scheme.

**Composition of Expenditure**

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2002** | | 2001 | | 2002 | | 2001 | |
| | ***Rs. M*** | *%* | *Rs. M* | *%* | ***Rs. M*** | *%* | *Rs. M* | *%* |
| Staff | **6,127** | **19** | 5,947 | 16 | **5,957** | **18** | 5,692 | 15 |
| Fuel | **6,237** | **19** | 8,173 | 22 | **6,237** | **19** | 8,173 | 22 |
| Aircraft Maintenance | **3,294** | **10** | 2,976 | 8 | **3,294** | **10** | 2,976 | 8 |
| Route | **11,881** | **36** | 13,872 | 38 | **12,621** | **38** | 14,653 | 40 |
| Aircraft Related Depreciation | **1,406** | **4** | 1,575 | 4 | **1,406** | **4** | 1,575 | 4 |
| Raw Materials for Inflight Catering | **241** | **1** | 350 | 1 | **–** | **–** | – | – |
| Others | **3,774** | **11** | 4,015 | 11 | **3,583** | **11** | 3,824 | 11 |
| Total | **32,960** | **100** | 36,908 | 100 | **33,098** | **100** | 36.893 | 100 |




## YIELD/UNIT COST/BREAKEVEN LOAD FACTOR

Compared to 2000/01, unit yield increased by 27.8% to Rs. 38.6 per load tonne kilometre. The increase was partly due to the depreciation of the Sri Lankan Rupee against foreign currencies. Rationalisation of the route network also helped improve passenger yields during the year.

Unit cost increased from Rs. 25.7 to Rs. 28.7 per capacity tonne kilometre due to higher insurance costs, depreciation of the Sri Lankan Rupee and the reduction in capacity production.

Breakeven load factor decreased from 85.2% to 74.3% as a result of the improvement in unit yield.

## FINANCIAL POSITION

For the year 2001/02, the Company registered a gross profit of Rs.1,593.83 million, reflecting a significant improvement in its operating performance. In the previous year, the Company recorded a gross loss of Rs.1,474.08 million.

Group gross profit was up 598.6% or Rs. 2,980.93 million to Rs. 2,482.94 million.

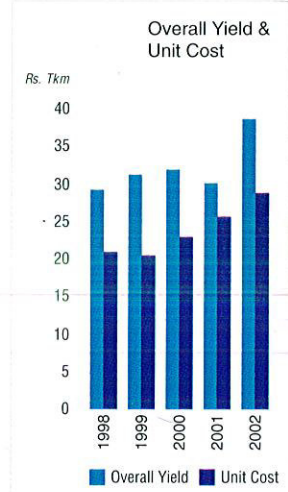
The net profit of the Company after extraordinary items reached Rs. 1,415.01 million.

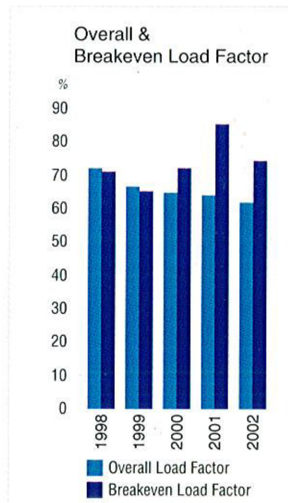
The Group net profit after extraordinary items was Rs. 2,095.03 million.

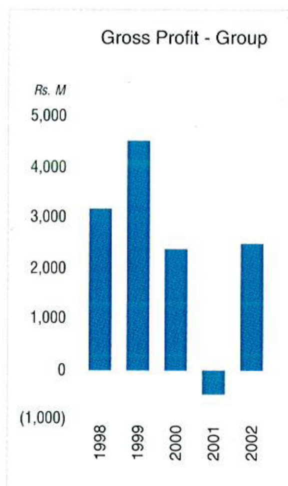
Total equity of the Company improved by Rs. 1,264.50 million or 34.1% as a result of the net profit recorded for the year. At the Group level, total equity improved by Rs.1,944.52 million or 80.2%, with the subsidiary registering a net profit of Rs. 680.02 million.

Cash and cash equivalents held by the Company as at 31st March 2002 was Rs. 3,157.90 million, reflecting an improvement of Rs. 1,786.70 over the previous year.

At the Group level, cash and cash equivalents increased by Rs. 1,796.68 million to reach Rs. 3,250.39 million as at 31st March 2002.



# Financial Reports

# Report of the Directors

The Directors have pleasure in submitting their Report and Audited Accounts for the year ended 31st March 2002. The Accounts are set out on pages 24 to 53.

**PRINCIPAL ACTIVITIES**

The principal activity of the Company 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.

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 the Company are listed below:

Mr. D S J Pelpola - *Chairman*
Mr. R C D De Silva
Mr. M P Haradasa
Mr. A L Gooneratne
Mr. T C Clark - *Managing Director*
Mr. G W Chapman
Mr. D E Mannion
Mr. P M Hill - *alternate to Mr. T C Clark*
Mr. M Flanagan - *alternate to Mr. G W Chapman*
Mr. Ghaith Al Ghaith - *alternate to Mr. D E Mannion*

Mr. S K Wickremesinghe who served as the Chairman from 7th June 1999 resigned from the Board on 18th January 2002.

Mr. D S J Pelpola was appointed Chairman on 18th January 2002.

Dr. P B Jayasundera, Director, who was on the Board from 17th December 1999, tendered his resignation on 14th May 2001. Mr. S E Captain was appointed to fill this vacancy with effect from 14th May 2001.

Messrs. W P S Jayawardena and K Balapatabendi resigned from the Board with effect from 14th December 2001 and 13th February 2002 respectively.

Messrs. R C D De Silva and M P Haradasa were appointed to the Board with effect from 13th February 2002.

Mr. S E Captain resigned from the Board effective 20th March 2002.

Mr. A L Gooneratne was appointed to the Board with effect from 20th March 2002.

SriLankan Catering (Pvt) Limited is the wholly owned subsidiary of SriLankan Airlines and the current directorate is as follows:

Mr. D S J Pelpola - *Chairman*
Mr. D E Mannion
Mr. R C D De Silva
Mr. M P Haradasa
Mr. D Nijhawan - *Alternate Director to Mr. D E Mannion*

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 loss for the year ended 31st March 2002, before interest and other similar charges, taxation and extraordinary items was Rs. 2,608.49 million. Consolidated net profit for the year, after interest and similar charges, taxation and extraordinary items amounted to Rs. 2,095.03 million.

**RESERVES**

There were no material transfers to or from reserves or provisions during the year ended 31st March 2002, other than those stated in the accounts and the notes thereto.

# Report of the Directors

## ACCOUNTING POLICIES

The principal accounting policies of the Company are set out on pages 28 to 35.

## PROPERTY, PLANT & EQUIPMENT

Movements of property, plant & equipment are shown in Note 10 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 Note 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
**Mildred Peries**
*Company Secretary*

15th June 2002

Registered Office:
# 22-01, East Tower,
World Trade Centre,
Echelon Square,
Colombo 01.

## Report of the Auditors

**TO THE MEMBERS OF SRILANKAN AIRLINES LIMITED**

We have audited the balance sheet of SriLankan Airlines Limited as at 31st March 2002, the consolidated balance sheet of the Company and of its Subsidiary as at that date and the related statements of income, cash flows and changes in equity for the year then ended, together with the accounting policies and notes as set out on pages 24 to 53 of this Annual Report.

**Respective Responsibilities of Directors and Auditors**

The Directors are responsible for preparing and presenting these financial statements in accordance with Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

**Basis of Opinion**

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting 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. We therefore believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, so far as appears from our examination, the Company maintained proper books of account for the year ended 31st March 2002 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 the explanations given to us, the said balance sheet and related statements of income, cash flows and changes in equity and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31st March 2002, its profit and cash flows for the year then ended.

In our opinion, the consolidated balance sheet and statements of income, cash flows and changes in equity and the accounting policies and notes thereto have been properly prepared and presented in accordance with the Companies Act No. 17 of 1982 and the Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at 31st March 2002, and the profit and cash flows for the year then ended of the Company and its Subsidiary dealt with thereby, so far as concerns the members of the Company.

Without qualifying our opinion on the financial statements of the Company, we draw attention to Notes 2.1.1(b), 2.1.4 (iii) and 10.5 (Group) to the financial statements.

(a) The Company has recorded a Net Profit after Extraordinary Items of Rs. 1,415.01 million during the year ended 31st March 2002 (2001 Net Loss - Rs. 6,507.95 million). However, before Extraordinary Items, the Company has incurred a loss of Rs. 5,683.60 million. Further, as at the balance sheet date the Company has recorded cumulative losses of Rs. 2,399.85 million (2001-Rs. 3,814.86 million), the current liabilities exceeded its current assets by Rs. 3,147.14 million (2001 - Rs. 4,411.94 million) and its total liabilities exceeded its total assets by Rs. 2,445.62 million (2001 - Rs. 3,710.12 million). These factors raise doubt that the Company will be able to continue as a going concern.

## Report of the Auditors

However, the remedial measures initiated by the management, more fully described in Note 2.1.1 (b) are expected to improve the financial position of the Company.

(b) The Company has departed from Sri Lanka Accounting Standard (SLAS 21), " The Effects of Changes in Foreign Exchange Rates" with regard to the treatment of foreign exchange losses on translation of loans and lease liabilities denominated in foreign currencies in financing specific property, plant & equipment, which as represented by the management of the Company are saleable only in foreign currency. Further, the matching of foreign currency debt repayments against foreign currency operating cash flows is a key foreign exchange risk management technique of the Company.

Thus, in accordance with SLAS 3, "Presentation of Financial Statements", Para 13 (Revised 1998), the Company has concluded that the departure from SLAS 21 provides a fair presentation of the financial position, financial performance and cash flows of the enterprise. The effect had SLAS 21 been adopted is given in Note 2.1.4(iii) to the financial statements.

**Directors' Interests in Contracts with the Company**

According to the information made available to us, the Directors' of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31st March 2002, except as stated in Note 23 to these financial statements.

**Ernst & Young**
*Chartered Accountants*
Colombo

15th June 2002

## Income Statement

| For the year ended 31st March | Note | Group 2002 Rs. M | Group 2001 Rs. M | Company 2002 Rs. M | Company 2001 Rs. M |
|---|---|---|---|---|---|
| **Revenue** | 3 | **29,755.81** | 31,010.95 | **29,352.91** | 30,437.09 |
| Cost of Sales | | **(27,272.87)** | (31,508.94) | **(27,759.08)** | (31,911.17) |
| Gross Profit | | **2,482.94** | (497.99) | **1,593.83** | (1,474.08) |
| Other Income | 4 | **596.27** | 3,792.22 | **432.68** | 3,643.61 |
| Distribution and Marketing Costs | | **(3,398.70)** | (3,524.52) | **(3,398.52)** | (3,524.52) |
| Administrative Expenses | | **(2,289.00)** | (1,874.46) | **(1,939.90)** | (1,457.67) |
| **Profit/(Loss) from Operating Activities** | 5 | **(2,608.49)** | (2,104.75) | **(3,311.91)** | (2,812.66) |
| Finance Costs | 6 | **(1,062.86)** | (1,525.81) | **(1,062.86)** | (1,525.81) |
| Amortization of Currency Losses | 17.1 | **(1,295.90)** | (2,205.47) | **(1,295.90)** | (2,205.47) |
| **Profit /(Loss) from Ordinary Activities before Tax** | | **(4,967.25)** | (5,836.03) | **(5,670.67)** | (6,543.94) |
| Income Tax Expense | 7 | **(36.33)** | 9.16 | **(12.93)** | 35.99 |
| **Profit/(Loss) from Ordinary Activities after Tax before Extraordinary Items** | | **(5,003.58)** | (5,826.87) | **(5,683.60)** | (6,507.95) |
| Extraordinary Items | 8 | **7,098.61** | – | **7,098.61** | – |
| **Net Profit/(Loss) for the year** | | **2,095.03** | (5,826.87) | **1,415.01** | (6,507.95) |
| Basic Earnings per Share before Extraordinary Items | 9 | **(97.23)** | (113.22) | **(110.44)** | (126.46) |
| Basic Earnings per Share after Extraordinary Items | 9 | **40.71** | (113.22) | **27.50** | (126.46) |
| Dividends per Share | | – | – | – | – |

The accounting policies and notes on pages 28 to 53 form an integral part of these financial statements.

## Balance Sheet

| As at 31st March | Note | Group 2002 Rs. M | Group 2001 Rs. M | Company 2002 Rs. M | Company 2001 Rs. M |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-Current Assets** | | | | | |
| Property, Plant & Equipment | 10 | **13,077.36** | 15,120.74 | **12,826.78** | 14,952.28 |
| Investment in Subsidiary | 11 | **–** | – | **70.40** | 70.40 |
| | | **13,077.36** | 15,120.74 | **12,897.18** | 15,022.68 |
| **Current Assets** | | | | | |
| Inventories | 12 | **1,993.73** | 2,063.54 | **1,949.84** | 1,993.74 |
| Trade and other Receivables | 13.1 | **6,764.27** | 7,939.19 | **6,564.59** | 7,681.13 |
| Cash and Bank Balances | 14.1 | **3,639.58** | 4,658.66 | **3,547.09** | 4,572.43 |
| | | **12,397.58** | 14,661.39 | **12,061.52** | 14,247.30 |
| **Total Assets** | | **25,474.94** | 29,782.13 | **24,958.70** | 29,269.98 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Capital and Reserves** | | | | | |
| Issued Capital | 15.2 | **5,146.35** | 5,146.35 | **5,146.35** | 5,146.35 |
| Reserves | 16 | **159.27** | 159.27 | **129.04** | 129.04 |
| Accumulated Profits/(Losses) | | **(464.40)** | (2,559.43) | **(2,399.85)** | (3,814.86) |
| | | **4,841.22** | 2,746.19 | **2,875.54** | 1,460.53 |
| Exchange Equalisation Reserve | 17.1 | **(5,321.16)** | (5,170.65) | **(5,321.16)** | (5,170.65) |
| **Total Equity** | | **(479.94)** | (2,424.46) | **(2,445.62)** | (3,710.12) |
| **Non-Current Liabilities** | | | | | |
| Interest Bearing Liabilities | 18 | **11,591.09** | 13,672.78 | **11,591.09** | 13,672.78 |
| Provisions and other Liabilities | 19 | **670.05** | 712.71 | **604.57** | 648.08 |
| | | **12,261.14** | 14,385.49 | **12,195.66** | 14,320.86 |
| **Current Liabilities** | | | | | |
| Trade and other Payables | 20 | **6,818.29** | 9,307.61 | **8,361.29** | 10,177.57 |
| Dividends Payable | | **16.56** | 16.61 | **0.39** | 0.44 |
| Income Tax Payable | | **389.39** | 376.49 | **377.48** | 364.56 |
| Provisions and other Liabilities | 19 | **3,630.26** | 2,553.30 | **3,630.26** | 2,553.30 |
| Bank Overdraft | 14.2 | **389.19** | 3,204.95 | **389.19** | 3,201.23 |
| Interest Bearing Liabilities | 18 | **2,450.05** | 2,362.14 | **2,450.05** | 2,362.14 |
| | | **13,693.74** | 17,821.10 | **15,208.66** | 18,659.24 |
| **Total Equity and Liabilities** | | **25,474.94** | 29,782.13 | **24,958.70** | 29,269.98 |

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the Board by:

*Director*

Timothy Cl...

*Director*

Colombo
15th June 2002

The accounting policies and notes on pages 28 to 53 form an integral part of these financial statements.

## Statement of Changes in Equity

*For the year ended 31st March 2002*

**GROUP**

| | Share Capital Rs. M | Capital Reserve Rs. M | Revenue Reserve Rs. M | General Reserve Rs. M | Exchange Equalisation Reserve Rs. M | Accumulated Profits/ (Losses) Rs. M | Total Rs. M |
|---|---|---|---|---|---|---|---|
| **Balance as at 31st March 2000** | 5,146.35 | 105.20 | 0.63 | 53.44 | (4,677.26) | 3,267.44 | 3,895.80 |
| **Net Gains and Losses not recognised in the Income Statement** | | | | | | | |
| Net Profit/(Loss) for the year | – | – | – | – | – | (5,826.87) | (5,826.87) |
| Transferred (to)/from during the year | – | – | – | – | (493.39) | – | (493.39) |
| **Balance as at 31st March 2001** | 5,146.35 | 105.20 | 0.63 | 53.44 | (5,170.65) | (2,559.43) | (2,424.46) |
| **Net Gains and Losses not recognised in the Income Statement** | | | | | | | |
| Net Profit/(Loss) for the year | – | – | – | – | – | 2,095.03 | 2,095.03 |
| Transferred (to)/from during the year | – | – | – | – | (150.51) | – | (150.51) |
| **Balance as at 31st March 2002** | **5,146.35** | **105.20** | **0.63** | **53.44** | **(5,321.16)** | **(464.40)** | **(479.94)** |

**COMPANY**

| | Share Capital Rs. M | Capital Reserve Rs. M | General Reserve Rs. M | Exchange Equalisation Reserve Rs. M | Accumulated Profits/ (Losses) Rs. M | Total Rs. M |
|---|---|---|---|---|---|---|
| **Balance as at 31st March 2000** | 5,146.35 | 75.60 | 53.44 | (4,677.26) | 2,693.09 | 3,291.22 |
| **Net Gains and Losses not recognised in the Income Statement** | | | | | | |
| Net Profit/(Loss) for the year | – | – | – | – | (6,507.95) | (6,507.95) |
| Transferred (to)/from during the year | – | – | – | (493.39) | – | (493.39) |
| **Balance as at 31st March 2001** | 5,146.35 | 75.60 | 53.44 | (5,170.65) | (3,814.86) | (3,710.12) |
| **Net Gains and Losses not recognised in the Income Statement** | | | | | | |
| Net Profit/(Loss) for the year | – | – | – | – | 1,415.01 | 1,415.01 |
| Transferred (to)/from during the year | – | – | – | (150.51) | – | (150.51) |
| **Balance as at 31st March 2002** | **5,146.35** | **75.60** | **53.44** | **(5,321.16)** | **(2,399.85)** | **(2,445.62)** |

The accounting policies and notes on pages 28 to 53 form an integral part of these financial statements.

# Cash Flow Statement

| *For the year ended 31st March* | Note | Group 2002 Rs. M | Group 2001 Rs. M | Company 2002 Rs. M | Company 2001 Rs. M |
|---|---|---|---|---|---|
| **Cash Flows from/(used in) Operating Activities** | | | | | |
| Net Profit/(Loss) before Income Tax Expense and Extraordinary Items | | **(4,967.25)** | (5,836.03) | **(5,670.67)** | (6,543.94) |
| Adjustments for: | | | | | |
| Depreciation | | **1,827.10** | 2,009.44 | **1,806.41** | 1,981.64 |
| Amortization of Pre-delivery Payments | | **135.45** | 0.19 | **135.45** | 0.19 |
| Amortization of Currency Losses | | **1,295.90** | 2,205.47 | **1,295.90** | 2,205.47 |
| (Profit)/Loss on sale of Property, Plant & Equipment | | **97.24** | (3,304.51) | **111.93** | (3,303.01) |
| Finance Costs | | **1,062.86** | 1,525.81 | **1,062.86** | 1,525.81 |
| Provision for Bad and Doubtful Debts | | **42.56** | 213.03 | **42.38** | 213.03 |
| Provision for Slow Moving Stocks | | **99.77** | 53.63 | **99.77** | 53.63 |
| Provision for Gratuity and Provision for Airframe and Aircraft Engine Overhauls | | **1,889.21** | 2,178.82 | **1,881.00** | 2,159.05 |
| Operating Profit/(Loss) before Working Capital Changes | | **1,482.84** | (954.15) | **765.03** | (1,708.13) |
| (Increase)/Decrease in Inventories | | **(165.38)** | (372.93) | **(191.29)** | (399.12) |
| (Increase)/Decrease in Trade and other Receivables | | **146.92** | 2,178.57 | **105.19** | 2,208.20 |
| Increase/(Decrease) in Trade and other Payables | | **(2,188.30)** | 2,257.09 | **(1,515.21)** | 3,062.04 |
| Cash Generated from Operations | | **(723.92)** | 3,108.58 | **(836.28)** | 3,162.99 |
| Finance Costs Paid | | **(707.01)** | (1,191.26) | **(707.01)** | (1,191.26) |
| Defined Benefit Plan Costs Paid and Airframe & Engine Overhaul Expenses Paid | | **(854.92)** | (2,202.14) | **(847.56)** | (2,170.94) |
| Income Tax Paid | | **–** | (26.80) | **–** | – |
| Cash Flow before Extraordinary Items | | **(2,285.85)** | (311.62) | **(2,390.85)** | (199.21) |
| **Cash Flow on Extraordinary Items** | | | | | |
| Extraordinary Items | | **7,098.61** | – | **7,098.61** | – |
| Adjustments for Non-Cash Items | | **938.11** | – | **938.11** | – |
| Net Cash Flows from/(used in) Operating Activities | | **5,750.87** | (311.62) | **5,645.87** | (199.21) |
| **Cash Flows from/(used in) Investing Activities** | | | | | |
| Acquisition of Property, Plant & Equipment | | **(532.17)** | (3,143.72) | **(423.61)** | (3,052.01) |
| Proceeds from sale of Property, Plant & Equipment | | **18.23** | 6,948.58 | **4.69** | 6,947.08 |
| Net Cash Flows from/(used in) Investing Activities | | **(513.94)** | 3,804.86 | **(418.92)** | 3,895.07 |
| **Cash Flows from/(used in) Financing Activities** | | | | | |
| Proceeds from Interest Bearing Liabilities | | **1,397.73** | 1,297.92 | **1,397.73** | 1,297.92 |
| Repayment of Interest Bearing Liabilities | | **(2,812.16)** | (1,576.14) | **(2,812.16)** | (1,576.14) |
| Principal Payments under Finance Lease Liabilities | | **(2,025.77)** | (4,831.12) | **(2,025.77)** | (4,831.12) |
| Dividends Paid | | **(0.05)** | (0.65) | **(0.05)** | – |
| Net Cash Flows from/(used in) Financing Activities | | **(3,440.25)** | (5,109.99) | **(3,440.25)** | (5,109.34) |
| **Net increase/(decrease) in Cash and Cash Equivalents** | | **1,796.68** | (1,616.75) | **1,786.70** | (1,413.48) |
| **Cash and Cash Equivalents at the beginning of the year** | | **1,453.71** | 3,070.46 | **1,371.20** | 2,784.68 |
| **Cash and Cash Equivalents at the end of the year** | 14.2 | **3,250.39** | 1,453.71 | **3,157.90** | 1,371.20 |

The accounting policies and notes on pages 28 to 53 form an integral part of these financial statements.

# Notes to the Financial Statements

*For the year ended 31st March 2002*

## 1. CORPORATE INFORMATION

### 1.1 General

SriLankan Airlines Limited is a limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at # 22-01, East Tower, World Trade Centre, Echelon Square, Colombo 1, Sri Lanka and the principal place of business is situated at Bandaranaike International Airport, Katunayake, Sri Lanka.

### 1.2 Principal Activities and Nature of Operations

The principal activity of the Company 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.

### 1.3 Number of Employees

The number of employees in service at 31st March 2002 was 4,049 (31st March 2001 - 5,196).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 General Policies

#### *2.1.1 (a) Basis of Preparation*

The balance sheet, statements of income, changes in equity and cash flows, together with accounting policies and notes ("Financial Statements") of the Company and of the Group as at 31st March 2002, and for the year then ended, comply with the Sri Lanka Accounting Standards, except that these have departed from Sri Lanka Accounting Standard 21 in order to achieve fair presentation. [See Note 2.1.4 (iii)].

These financial statements presented in Sri Lankan Rupees have been prepared on a historical cost basis, except for the revaluation of certain property, plant & equipment, which are stated at revalued amounts.

#### *2.1.1 (b) Going Concern*

During the current financial year the Company has recorded a Net Profit after Extraordinary Items of Rs. 1,415.01 million (2001 Net Loss - Rs. 6,507.95 million). However, before Extraordinary Items, the Company has incurred a loss of Rs. 5,683.60 million. Further, in the current financial year the Company has recorded cumulative losses of Rs. 2,399.85 million (2001 - Rs. 3,814.86 million), and a negative net current asset position of Rs. 3,147.14 million (2001 - Rs. 4,411.94 million) and has a negative shareholders' fund of Rs. 2,445.62 million (2001 - Rs. 3,710.12 million).

The Directors' took a number of aggressive actions to strengthen the financial position of the Company throughout the year. These actions included cessation of operations to a number of destinations, closure of sales and airport offices and reduction in staffing levels through a voluntary severance scheme. These moves have resulted in an improvement in the operating results of the Company. The Directors are continuing with their focus on strengthening revenues and profits in order to restore the financial position of the Company.

Accordingly, these financial statements are prepared on the assumption that the Company is a going concern, i.e., as continuing in operation for the foreseeable future.

### *2.1.2 Comparative Information*

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

### *2.1.3 Consolidation*

The consolidated financial statements include the results, assets and liabilities of SriLankan Airlines Limited and its wholly owned Subsidiary - SriLankan Catering (Pvt) Limited.

The total profits and losses of the Company and its Subsidiary included in consolidation are shown in the consolidated financial statements.

All assets and liabilities of the Company and its Subsidiary included in consolidation are shown in the consolidated balance sheet.

The Company and its Subsidiary have a common financial year, which ends on 31st March.

### *2.1.4 Foreign Currency Translation*

(i) All foreign exchange transactions are converted into Sri Lankan Rupees, which is the reporting currency at the rates of exchange which approximate bank rates prevailing at dates of transactions.

(ii) All monetary assets and liabilities denominated in foreign currencies as at balance sheet date are translated to Sri Lankan Rupee equivalents at the exchange rates ruling as at 31st March 2002.

(iii) Gains and losses arising from the translation of long-term foreign currency borrowings and finance leases which finance specific aircraft are recorded in an exchange equalization reserve and amortized as currency gains/ losses over the period during which the foreign currency liability is outstanding. Unamortized balances of such gains and losses are carried forward in the exchange equalization account.

Although this policy is a departure from the provisions of the Sri Lanka Accounting Standard (SLAS) No. 21 issued by the Institute of Chartered Accountants of Sri Lanka and effective from 01st April 1990, the Company has adopted this policy as it provides a fair presentation of the financial position, performance and cash flows of the enterprise for the following reasons:

a) The foreign exchange earnings of the Company are adequate to meet the foreign currency commitments on long-term foreign currency borrowings and finance leases, which finance specific aircraft, without the need to convert Sri Lankan Rupees into relevant currencies.

b) Aircraft which are financed by long-term foreign currency borrowings and finance leases are saleable only in foreign currency, and

c) It is an industry practice to defer exchange differences arising on translation of long-term foreign currency borrowings and finance leases, and is one of the methods recommended by International Air Transport Association's (IATA) exposure draft on "Translation of Long-Term Foreign Currency Borrowings."

In these circumstances, if the entire unrealized exchange difference were taken into the income statement of a given year, it would distort that particular year's result.

The Directors consider that the policy adopted presents a fair view.

SLAS 21 requires such exchange differences to be dealt with in the income statement in the year in which they arise. Adoption of the provisions of Sri Lanka Accounting Standard No. 21 would result in a decrease in the profit for the year by Rs. 150.51 million and the increase in accumulated losses by Rs. 5,170.65 million.

(iv) All other gains and losses arising on translation are dealt with through the income statement as exchange differences.

### *2.1.5 Taxation*

**(a) Local 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 01st September 1979, subsequently extended for a period of three years from 1st August 1986, and thereafter a period of five years from 1st August 1989.

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

In March 1998 the Board of Investment of Sri Lanka granted a further extension extending the tax exemption period up to 31st March 2013.

The Subsidiary, SriLankan Catering (Pvt) Limited - income from Flight Kitchen and Transit Restaurant was exempted from income tax for a period of 15 years, up to 19th August 1995 in terms of Agreement No. 139 of 29th June 1983 supplemented by Agreement No. 110 of 2nd August 1995 entered into with the Board of Investment of Sri Lanka (BOI) in terms of Section 17 of BOI Law No. 4 of 1978. Subsequent to this period it is liable to pay income tax at 2% on Flight Kitchen and

Transit Restaurant turnover until the year 2006. The Public Restaurant is liable at the normal rate of corporate tax.

**(b) 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.

**(c) Deferred Taxation**

No deferred taxation has been provided for, in these financial statements, since majority of assets will be fully depreciated before the expiry of the tax holiday period.

***2.1.6 Borrowing Costs***

Borrowing costs amounting to Rs. 554.28 million incurred on long-term loans obtained to meet pre-delivery payments in respect of new aircraft have been capitalised during financial years of 1992/93 to 1994/95 as part of the cost of such aircraft.

Exchange losses which are regarded as an adjustment to borrowing costs, amounting to Rs. 242.15 million on long-term loans obtained to meet pre-delivery payments in respect of new aircraft have been capitalised during financial years of 1992/93 to 1994/95 as part of the cost of such aircraft, as permitted by Sri Lanka Accounting Standard No. 20 - Borrowing Costs.

***2.1.7 Post Balance Sheet Events***

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

**2.2 VALUATION OF ASSETS AND THEIR MEASUREMENT BASES**

***2.2.1 Inventories***

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

All inventories are valued on the basis of weighted average cost.

Subsidiary SriLankan Catering (Pvt) Limited - the cost of inventories has been determined on the FIFO and the weighted average basis for inventories held at the Restaurant and Flight Kitchen, respectively.

***2.2.2 Trade and other Receivables***

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

***2.2.3 Cash and Cash Equivalents***

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

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

### *2.2.4 Property, Plant & Equipment*

**(a) Cost**

Property, plant & equipment are stated at cost of acquisition or construction except for certain properties, which are included at valuation.

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

1. *Fleet*
   Additions to the fleet are reflected at cost. The Company receives credits from manufacturers in connection with the acquisition of certain aircraft and engines. These credits are recorded as a reduction of the cost of the related aircraft and engines except where the aircraft is held under an operating lease, in which case the credits are deferred and reduced from the operating lease rentals on a straight-line basis over the period of the related lease as deferred credits.

2. *Aircraft Rotable Spares*
   Aircraft rotable spares, which are treated as tangible fixed assets are recorded in the balance sheet at cost. This item is grouped under "Aircraft Related Equipment".

3. *Capital Projects*
   Capital projects are stated at cost together with financing costs incurred from the date of commencement of the project to the date on which it is commissioned. When commissioned, capital projects are transferred to the appropriate category under property, plant and equipment and depreciated in accordance with Company policies.

**(b) Depreciation**

Depreciation is provided on all property, plant and equipment (freehold and leasehold), other than freehold land, at rates calculated to write off their cost or valuation 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 per cent allowance for residual value.

Used aircraft and spare engines - over the estimated remaining useful life, which is currently estimated to be 8 years.

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

Equipment - over periods ranging from 1 to 10 years according to the type of equipment.

Aircraft rotable spares - over 8 years.

### *2.2.5 Leases*

**Finance Leases**

Property, Plant and Equipment on finance leases which effectively transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased items are capitalised at their cash price and depreciated over the period the Company is expected to benefit from the use of the leased assets. The corresponding principal amount payable to the lessor is shown as a liability. The interest element of the rental obligations pertaining to each financial year is charged to the income statement over the period of lease.

Major modifications to aircraft and re-configuration costs are capitalised as part of aircraft cost and depreciated over the unexpired period of the lease or the estimated useful lives of the modifications/re-configuration, whichever is shorter.

**Operating Leases**

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased terms are classified as operating leases. Rentals paid under operating leases are recognized in the income statement in the year they become payable.

Major modifications to aircraft and re-configuration costs are capitalised and depreciated over the lease term period.

**Sale and Lease back**

Profits and losses which arise from sale and lease back transactions, which result in operating leases are recognized in the income statement immediately.

### *2.2.6 Investments*

Long-term Investments are stated at cost. The cost of investments is the cost of acquisition. The carrying amount of long-term investments is reduced to recognize a decline other than temporary in the value of investments, determined on an individual investment basis.

## 2.3 Liabilities and Provisions

### *2.3.1 Retirement Benefit Obligations*

**(a) Defined Benefit Plan - Gratuity**

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. An actuarial valuation of the gratuity liability of the Company as at 31st January 2002 was undertaken by Actuarial & Management Consultants (Pvt) Limited, a firm of professional actuaries.

The method used by the actuaries to value the gratuity liability is the "Projected Unit Cost Method".

The key assumptions used by the Actuary include the following:

i) Rate of Interest 10%
ii) Rate of Salary Increase 10%
iii) Retirement Age -
 Male 55 years
 Female 55 years
iv) The Company will continue as a going concern.

The amount recognized as an expense for the current year in terms of the actuarial valuation is Rs. 129.16 million.

The actuarial present value of the accrued benefits as at 31st March 2002 is Rs. 555.59 million. The gratuity liability is not externally funded. This item is grouped under "Provisions and Other Liabilities" in the balance sheet (refer Note 19).

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

Subsidiary, SriLankan Catering (Pvt) Limited - provision for gratuity has been made in accordance with the payment of Gratuity Act No. 12 of 1983 and has been made for employees who have completed more than 1 year of service, in accordance with Sri Lanka Accounting Standard No. 16 - Retirement Benefits. This fund is not externally funded. The basis is as follows:

| Years of Service | No. of months salary for each completed year |
|---|---|
| 1 to 10 years | ½ |
| Over 10 years | 1 |

**(b) Defined Contribution Plans - Employees' Provident Fund & Employees' Trust Fund**

Employees based in Sri Lanka are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Company contributes 15% and 3% of gross emoluments to Employees' Provident Fund and Employees' Trust Fund respectively.

***2.3.2 Aircraft Maintenance and Overhaul Costs***

The costs of maintenance and overhaul conducted using the Company's own resources are charged to the income statement as and when the costs are incurred. These include the costs of labour and replacement parts.

Provision for the costs of heavy maintenance and overhaul conducted outside the Company are accrued on the basis of the number of hours flown and estimated costs of maintenance and overhaul.

***2.3.3 Frequent Flyer Programme***

The Company is a co-sponsor of the 'Skywards' frequent flyer programme established by EMIRATES.

The obligation to provide travel rewards to members of the frequent flyer programme is accrued by EMIRATES based on the incremental direct cost of ultimately providing the travel rewards. The corresponding cost is included in a cost and revenue pool.

Pooled costs and revenue are shared among co-sponsoring airlines in proportion to the SKYWARDS frequent flyer miles issued to members on the flights operated by the Company and EMIRATES.

**2.4 Income Statement**

***2.4.1 Revenue Recognition***

**(a) Airline Revenue Recognition**

Passenger and Cargo sales are initially recorded as a liability in the sales in advance of carriage account and subsequently recognized as air transport revenue when the service is utilized through carriage by the Company.

Passenger and Cargo sales made by the Company and utilized on the services of other airlines are billed by them and offset against sales in advance of carriage when paid.

Passenger tickets that remain unutilized are credited to the income statement after a predetermined period.

Actual revenue adjustments are dealt with in the income statement.

**(b) Dividend and Interest**

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

**(c) Rental Income**

Rental income is recognized on an accrual basis.

**(d) Royalties**

Royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement.

### *2.4.2 Expenditure Recognition*

Expenses are recognized in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining property, plant and equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

For the purpose of presentation of the income statement, the Directors are of the opinion that function of expenses method presents fairly the elements of the Company's performance, and hence such a presentation method is adopted.

### *2.4.3 Fuel Risk Management*

The Company participates in a Fuel Risk Management Programme involving fuel derivatives to reduce its exposure to fluctuating fuel prices. Gains and losses on these derivatives are recognized upon contract expiry as a component of fuel expenses during the period the related fuel is used.

### *2.4.4 Interest Rate Profile Management*

Interest rate swap agreements are used to manage the interest rate profile of fixed rate foreign currency operating lease commitments.

Amounts payable or receivable in respect of interest rate swap agreements are recognized in the lease rentals/interest charges over the period of the contracts on an accrual basis. Gains or losses on early termination of agreements are recognized in full in the relevant year.

## Notes to the Financial Statements

*For the year ended 31st March 2002*

### 3. REVENUE

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **Rs. M** | Rs. M | **Rs. M** | Rs. M |
| Total Revenue | **29,755.81** | 31,010.95 | **29,352.91** | 30,437.09 |

#### 3.1 In Terms of GST Act No. 34 of 1996

Company activities directly connected with international transportation of passengers and goods, and the provision of ground handling services are zero rated.

All other income derived in Sri Lanka is liable at the standard rate of 12.5%.

#### 3.2 Primary Reporting by Business Segment - Goods and Services Analysis

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **Rs. M** | Rs. M | **Rs. M** | Rs. M |
| Sale of Goods | **–** | – | **–** | – |
| Rendering of Services | | | | |
| Scheduled Services - Passenger | **23,036.34** | 23,087.39 | **23,036.34** | 23,087.39 |
| - Excess Baggage | **612.71** | 490.22 | **612.71** | 490.22 |
| - Cargo | **3,703.00** | 4,483.53 | **3,738.43** | 4,483.53 |
| - Mail | **69.23** | 99.12 | **69.23** | 99.12 |
| | **27,421.28** | 28,160.26 | **27,456.71** | 28,160.26 |
| Non-Scheduled Services | **13.37** | 6.87 | **13.37** | 6.87 |
| Flight Catering | **438.33** | 573.86 | **–** | – |
| Ground Handling & other Services | **1,692.76** | 2,102.13 | **1,692.76** | 2,102.13 |
| Duty Free | **190.07** | 167.83 | **190.07** | 167.83 |
| Total | **29,755.81** | 31,010.95 | **29,352.91** | 30,437.09 |

*For the year ended 31st March 2002*

### 3.3 Secondary Reporting by Geographical Segment - Goods and Services Analysis

**Group**

**Analysis of Turnover by Geographical Segment**

| | Asia | Europe & Africa | Middle East | North & South America | South West Pacific | **Total 2002** |
|---|---|---|---|---|---|---|
| | Rs. M | Rs. M | Rs. M | Rs. M | Rs. M | **Rs. M** |
| Scheduled Services - Passenger | 10,353.98 | 7,174.85 | 4,597.07 | 628.78 | 281.66 | **23,036.34** |
| - Excess Baggage | 386.79 | 21.30 | 178.71 | 25.05 | 0.86 | **612.71** |
| - Cargo | 2,849.20 | 594.58 | 204.53 | 22.55 | 32.14 | **3,703.00** |
| - Mail | 42.45 | 5.64 | 1.19 | 19.95 | – | **69.23** |
| | 13,632.42 | 7,796.37 | 4,981.50 | 696.33 | 314.66 | **27,421.28** |
| Non-Scheduled Services | 13.37 | – | – | – | – | **13.37** |
| Ground Handling & other Services | 1,692.76 | – | – | – | – | **1,692.76** |
| Duty Free | 190.07 | – | – | – | – | **190.07** |
| | 15,528.62 | 7,796.37 | 4,981.50 | 696.33 | 314.66 | **29,317.48** |
| In-flight Catering | 438.33 | – | – | – | – | **438.33** |
| Total | 15,966.95 | 7,796.37 | 4,981.50 | 696.33 | 314.66 | **29,755.81** |

The analysis of turnover by origin of sale is derived by allocating revenue to the area in which the sale was made.

**Group**

**Analysis of Financial Results and Financial Position by Business Segment**

| | Business Segment | | |
|---|---|---|---|
| | Airline | In-flight Catering | **Total 2002** |
| | Rs. M | Rs. M | **Rs. M** |
| Net Profit/(Loss) | 1,415.01 | 680.02 | **2,095.03** |
| Assets | 24,958.70 | 516.24 | **25,474.94** |
| Liabilities | 25,735.38 | 219.50 | **25,954.88** |
| Operating Expenses | 32,319.86 | 640.71 | **32,960.57** |
| Depreciation & Amortization | 3,102.31 | 20.69 | **3,123.00** |

The major revenue earning asset of the Company is the aircraft fleet which is employed across its worldwide route network. Management considers that there is no suitable basis for allocating such assets and related liabilities to geographical segments. Accordingly, segment assets, segment liabilities and other segment information by geographical segment is not disclosed.

# Notes to the Financial Statements

*For the year ended 31st March 2002*

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **Rs. M** | Rs. M | **Rs. M** | Rs. M |
| **4. OTHER INCOME** | | | | |
| Interest Income | **154.48** | 117.48 | **149.24** | 109.99 |
| Rental Income Receivable | **0.75** | 0.60 | **0.75** | 0.60 |
| Miscellaneous Revenue | **25.44** | 49.92 | **23.93** | 49.21 |
| Profit/(Loss) on Disposal of Property, Plant & Equipment | **(97.24)** | 3,304.51 | **(111.93)** | 3,303.01 |
| Realised Gain/(Loss) on Exchange | **512.84** | 319.71 | **370.69** | 180.80 |
| | **596.27** | 3,792.22 | **432.68** | 3,643.61 |
| **5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES** | | | | |
| **Includes the following:** | | | | |
| Bad Debts | **42.56** | 213.03 | **42.38** | 213.03 |
| Advertising & Marketing Costs | **3,356.14** | 3,311.49 | **3,356.14** | 3,311.49 |
| Directors' Emoluments | **–** | – | **–** | – |
| Auditors' Remuneration | **1.60** | 1.37 | **1.25** | 1.02 |
| Depreciation | **1,827.10** | 2,009.44 | **1,806.41** | 1,981.64 |
| Staff Costs | **5,576.73** | 5,197.84 | **5,430.28** | 5,009.72 |
| Defined Benefit Plan Costs - Gratuity | **126.83** | 222.67 | **118.62** | 203.02 |
| Defined Contribution Plan Costs - EPF & ETF | **409.42** | 381.41 | **393.52** | 363.62 |
| Staff Incentive Payments | **14.11** | 115.87 | **14.11** | 115.87 |
| Realised Gain/(Loss) on Exchange | **512.84** | 319.71 | **370.69** | 180.80 |
| Profit/(Loss) on Disposal of Property, Plant & Equipment | **(97.24)** | 3,304.51 | **(111.93)** | 3,303.01 |
| Fuel Risk Management Programme | **343.34** | (56.87) | **343.34** | (56.87) |
| Interest Rate Profile Management Programme | **(833.67)** | – | **(833.67)** | – |
| **6. FINANCE COSTS** | | | | |
| Interest Expense on Loans, Borrowings & Overdrafts | **265.09** | 178.92 | **265.09** | 178.92 |
| Finance Charges on Lease Liabilities | **797.77** | 1,346.89 | **797.77** | 1,346.89 |
| | **1,062.86** | 1,525.81 | **1,062.86** | 1,525.81 |
| **7. INCOME TAX EXPENSE** | | | | |
| **Current Income Tax** | | | | |
| Current Tax Expense for the year | **36.33** | (9.16) | **12.93** | (35.99) |
| **Deferred Income Tax** | | | | |
| Deferred Taxation Charge/(Reversal) | **–** | – | **–** | – |
| | **36.33** | (9.16) | **12.93** | (35.99) |

A refund of income taxes paid in respect of years of assessment 1989/90, 1990/91, 1991/92 and 1992/93 amounting to Rs. 47.17 million is reflected in the accounts of the Company for the year ended 31st March 2001.

*For the year ended 31st March 2002*

## 8. EXTRAORDINARY ITEMS

On 24th July 2001, three aircraft operated by the Company were destroyed while parked at the Bandaranaike International Airport, Colombo, and three others suffered varying degrees of damage. Of the damaged aircraft, one was subsequently declared a total loss by the underwriters.

The Company's obligations to financiers/lessors of the four affected aircraft and other relevant parties were met by underwriters, as also the repair costs.

Termination of the leases of four aircraft and the temporary disablement of two others forced the Company to suspend operations to several destinations and to close its sales and airport offices in a number of countries.

Extraordinary Items represent the following:

| | Company 2002 Rs. M |
|---|---|
| Surplus on Termination of Leases | 7,415.60 |
| Costs Incurred due to Disruptions to Flights | (94.07) |
| Cost of Station Closures | (222.92) |
| | 7,098.61 |

## 9. EARNINGS PER SHARE

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

**9.2** The following reflects the income and share data used in the Basic Earnings per Share computations:

| | Group | | Company | |
|---|---|---|---|---|
| | **2002 Rs. M** | 2001 Rs. M | **2002 Rs. M** | 2001 Rs. M |
| **Amount used as the Numerator** | | | | |
| Net Profit/(Loss) attributable to Ordinary Shareholders for Basic Earnings per Share before Extraordinary Items | **(5,003.58)** | (5,826.87) | **(5,683.60)** | (6,507.95) |
| Net Profit/(Loss) attributable to Ordinary Shareholders for Basic Earnings per Share after Extraordinary Items | **2,095.03** | (5,826.87) | **1,415.01** | (6,507.95) |

# Notes to the Financial Statements

*For the year ended 31st March 2002*

| | Group 2002 Number | Group 2001 Number | Company 2002 Number | Company 2001 Number |
|---|---|---|---|---|
| **Number of Ordinary Shares used as the Denominator** | | | | |
| Weighted average number of Ordinary Shares in issue applicable to Basic Earnings per Share | **51,463,463** | 51,463,463 | **51,463,463** | 51,463,463 |

**10. PROPERTY, PLANT & EQUIPMENT - GROUP**

**10.1 Gross Carrying Amounts**

| | Balance as at 01.04.2001 Rs. M | Acquisitions and Modifications Rs. M | Adjustments and Transfers Rs. M | Disposals during the year Rs. M | **Balance as at 31.03.2002 Rs. M** |
|---|---|---|---|---|---|
| **At Cost/Cost Incurred since last Revaluation** | | | | | |
| Land & Buildings | 750.83 | 8.09 | – | – | **758.92** |
| Equipment | 3,262.30 | 145.25 | (11.47) | (120.09) | **3,275.99** |
| Aircraft Reconfiguration Cost | 674.45 | 69.68 | – | (725.37) | **18.76** |
| Aircraft Related Equipment | 3,639.66 | 246.27 | (90.43) | (45.85) | **3,749.65** |
| Projects | – | – | – | – | **–** |
| | 8,327.24 | 469.29 | (101.90) | (891.31) | **7,803.32** |
| **Assets on Finance Leases** | | | | | |
| Aircraft & Related Equipment | 16,489.38 | 63.08 | – | – | **16,552.46** |
| | 16,489.38 | 63.08 | – | – | **16,552.46** |
| **At Valuation** | | | | | |
| Land & Buildings | 107.77 | – | – | – | **107.77** |
| | 107.77 | – | – | – | **107.77** |
| **Total Value of Depreciable Assets** | 24,924.39 | 532.37 | (101.90) | (891.31) | **24,463.55** |

**10.2 In the Course of Construction**

| | Balance as at 01.04.2001 Rs. M | Incurred during the year Rs. M | Adjustments during the year Rs. M | Disposals/ Transfers Rs. M | **Balance as at 31.03.2002 Rs. M** |
|---|---|---|---|---|---|
| Building Work in Progress | 111.00 | 101.70 | – | – | **212.70** |
| **Total Gross Carrying Amount** | 25,035.39 | 634.07 | (101.90) | (891.31) | **24,676.25** |

*For the year ended 31st March 2002*

### 10.3 Depreciation

| | Balance as at 01.04.2001 Rs. M | Charge for the year/ Transfers Rs. M | Disposals Rs. M | **Balance as at 31.03.2002 Rs. M** |
|---|---|---|---|---|
| **At Cost/Cost Incurred since last Revaluation** | | | | |
| Land & Buildings | 535.81 | 39.33 | – | **575.14** |
| Equipment | 2,209.14 | 380.50 | (89.08) | **2,500.56** |
| Aircraft Reconfiguration Cost | 15.75 | 37.47 | (49.54) | **3.68** |
| Aircraft Related Equipment | 1,705.70 | 379.60 | (4.24) | **2,081.06** |
| | 4,466.40 | 836.90 | (142.86) | **5,160.44** |
| **Assets on Finance Leases** | | | | |
| Aircraft & Related Equipment | 5,356.24 | 988.11 | – | **6,344.35** |
| | 5,356.24 | 988.11 | – | **6,344.35** |
| **At Valuation** | | | | |
| Land & Buildings | 92.01 | 2.09 | – | **94.10** |
| | 92.01 | 2.09 | – | **94.10** |
| **Total Depreciation** | 9,914.65 | 1,827.10 | (142.86) | **11,598.89** |

### 10.4 Net Book Values

| | Group | |
|---|---|---|
| | **2002 Rs. M** | 2001 Rs. M |
| At Cost/Cost Incurred since last Revaluation | **2,642.88** | 3,860.84 |
| On Finance Leases | **10,208.11** | 11,133.14 |
| At Valuation | **13.67** | 15.76 |
| In the Course of Construction | **212.70** | 111.00 |
| **Total Carrying Amount of Property, Plant & Equipment** | **13,077.36** | 15,120.74 |

**10.5** The Auditors of SriLankan Catering (Pvt) Limited have made a reference to an emphasis of matter, as given below, on the basis for the capitalisation of Rs. 212.7 million incurred towards the new flight kitchen project.

The Board approved the construction of a new flight kitchen to the value of US Dollars 20 million. After incurring a sum of Rs. 212.7 million as project design cost, as per a Board decision on 13th June 2001 this project was suspended temporarily, to be reactivated within a period of 18 months.

*For the year ended 31st March 2002*

## 10 (a). PROPERTY, PLANT & EQUIPMENT - COMPANY

### 10(a).1 Gross Carrying Amounts

| | Balance as at 01.04.2001 Rs. M | Acquisitions and Modifications Rs. M | Adjustments and Transfers Rs. M | Disposals during the year Rs. M | **Balance as at 31.03.2002 Rs. M** |
|---|---|---|---|---|---|
| **At Cost/Cost Incurred since last Revaluation** | | | | | |
| Land & Buildings | 653.32 | 8.09 | – | – | **661.41** |
| Equipment | 2,897.57 | 138.39 | (11.47) | (104.58) | **2,919.91** |
| Aircraft Reconfiguration Cost | 674.45 | 69.68 | – | (725.37) | **18.76** |
| Aircraft Related Equipment | 3,639.66 | 246.27 | (90.43) | (45.85) | **3,749.65** |
| Projects | – | – | – | – | **–** |
| | 7,865.00 | 462.43 | (101.90) | (875.80) | **7,349.73** |
| **Assets on Finance Leases** | | | | | |
| Aircraft & Related Equipment | 16,489.38 | 63.08 | – | – | **16,552.46** |
| | 16,489.38 | 63.08 | – | – | **16,552.46** |
| **At Valuation** | | | | | |
| Land & Buildings | 107.77 | – | – | – | **107.77** |
| | 107.77 | – | – | – | **107.77** |
| **Total Value of Depreciable Assets** | 24,462.15 | 525.51 | (101.90) | (875.80) | **24,009.96** |

### 10(a).2 In the Course of Construction

| | Balance as at 01.04.2001 Rs. M | Incurred during the year Rs. M | Adjustments during the year Rs. M | Disposals/ Transfers Rs. M | **Balance as at 31.03.2002 Rs. M** |
|---|---|---|---|---|---|
| Building Work in Progress | – | – | – | – | **–** |
| **Total Gross Carrying Amount** | 24,462.15 | 525.51 | (101.90) | (875.80) | **24,009.96** |

*For the year ended 31st March 2002*

### 10(a).3 Depreciation

| | Balance as at 01.04.2001 Rs. M | Charge for the year/ Transfers Rs. M | Disposals Rs. M | **Balance as at 31.03.2002 Rs. M** |
|---|---|---|---|---|
| **At Cost/Cost Incurred since last Revaluation** | | | | |
| Land & Buildings | 453.28 | 35.41 | – | **488.69** |
| Equipment | 1,886.89 | 363.73 | (79.32) | **2,171.30** |
| Aircraft Reconfiguration Cost | 15.75 | 37.47 | (49.54) | **3.68** |
| Aircraft Related Equipment | 1,705.70 | 379.60 | (4.24) | **2,081.06** |
| | 4,061.62 | 816.21 | (133.10) | **4,744.73** |
| **Assets on Finance Leases** | | | | |
| Aircraft & Related Equipment | 5,356.24 | 988.11 | – | **6,344.35** |
| | 5,356.24 | 988.11 | – | **6,344.35** |
| **At Valuation** | | | | |
| Land & Buildings | 92.01 | 2.09 | – | **94.10** |
| | 92.01 | 2.09 | – | **94.10** |
| **Total Depreciation** | 9,509.87 | 1,806.41 | (133.10) | **11,183.18** |

### 10(a).4 Net Book Values

| | Company 2002 Rs. M | 2001 Rs. M |
|---|---|---|
| At Cost/Cost Incurred since last Revaluation | **2,605.00** | 3,803.37 |
| On Finance Leases | **10,208.11** | 11,133.15 |
| At Valuation | **13.67** | 15.76 |
| In the Course of Construction | – | – |
| **Total Carrying Amount of Property, Plant & Equipment** | **12,826.78** | 14,952.28 |

**10(a).5** The following Land and Buildings have been revalued during the financial year 1988/89:

| | **Valuer** |
|---|---|
| Property owned by the Company situated at at No. 12, Sir Baron Jayatilaka Mawatha, Colombo 1. | Mr. D S A Senaratne, Independent Chartered Valuer, on 25th December 1988. |
| The SriLankan Administration and Training Building situated at Katunayake. | Mr. S Fernando, Independent Chartered Valuer, on 20th January 1989. |

The results of such revaluation have been incorporated in these financial statements from its effective date which is 1988/89.

The surplus arising from the revaluation has been transferred to a revaluation reserve.

**10(a).6** During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 525.51 million (2001 - Rs. 3,663.91 million). Cash payments amounting to Rs. 423.61 million (2001 - Rs. 3,052.01 million) were made during the year for purchase of Property, Plant & Equipment.

**10(a).7** Property, Plant & Equipment includes fully depreciated assets having a gross carrying amount of Rs. 2,938.88 million (2001 - Rs. 2,779.25 million).

## 11. INVESTMENT IN SUBSIDIARY

**Non-Quoted**

| Name of Subsidiary | Country of Incorporation | Holding % | **Cost 2002 Rs. M** | **Directors' Valuation 2002 Rs. M** | Cost 2001 Rs. M | Directors' Valuation 2001 Rs. M |
|---|---|---|---|---|---|---|
| SriLankan Catering (Pvt) Limited | Sri Lanka | 100% | **70.40** | **70.40** | 70.40 | 70.40 |
| | | 100% | **70.40** | **70.40** | 70.40 | 70.40 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2002 Rs. M** | 2001 Rs. M | **2002 Rs. M** | 2001 Rs. M |
| **12. INVENTORIES** | | | | |
| Consumable Spares | **1,993.73** | 2,063.54 | **1,949.84** | 1,993.74 |
| Total Inventories at lower of Cost and Net Realisable Value | **1,993.73** | 2,063.54 | **1,949.84** | 1,993.74 |
| **13. TRADE AND OTHER RECEIVABLES** | | | | |
| **13.1 Summary** | | | | |
| Trade Debtors | **3,288.69** | 3,338.25 | **3,199.51** | 3,208.39 |
| Less: Provision for Doubtful Debts | **(416.59)** | (275.04) | **(416.33)** | (274.95) |
| | **2,872.10** | 3,063.21 | **2,783.18** | 2,933.43 |
| Other Debtors | **1,407.88** | 731.30 | **1,407.88** | 731.30 |
| Advances and Prepayments | **2,460.41** | 4,132.23 | **2,351.94** | 4,005.43 |
| | **6,740.39** | 7,926.74 | **6,543.00** | 7,670.17 |
| Loans & Advances to Company Officers (13.2) | **23.88** | 12.45 | **21.59** | 10.96 |
| | **6,764.27** | 7,939.19 | **6,564.59** | 7,681.13 |

*For the year ended 31st March 2002*

**13.2 Loans to Company Officers**

Given below are particulars of loans granted to Company officers in excess of Rs. 20,000 only:

| | Group | | Company | |
|---|---|---|---|---|
| | **2002 Rs. M** | 2001 Rs. M | **2002 Rs. M** | 2001 Rs. M |
| **Summary** | | | | |
| Balance as at the beginning of the year | **0.80** | 2.80 | **0.62** | 1.98 |
| Loans granted during the year | **2.37** | 0.36 | **2.00** | – |
| Less: Repayments | **(1.16)** | (2.36) | **(0.73)** | (1.36) |
| Balance as at the end of the year | **2.02** | 0.80 | **1.89** | 0.62 |

**14. CASH AND CASH EQUIVALENTS**

**Components of Cash and Cash Equivalents**

| | | | | |
|---|---|---|---|---|
| **14.1 Favourable Cash and Cash Equivalents Balance** | | | | |
| Cash & Bank Balances | **688.13** | 2,604.04 | **611.60** | 2,532.89 |
| Fixed & Call Deposits | **2,937.99** | 2,042.04 | **2,935.49** | 2,039.54 |
| Treasury Bills | **13.46** | 12.58 | **–** | – |
| | **3,639.58** | 4,658.66 | **3,547.09** | 4,572.43 |
| **14.2 Unfavourable Cash and Cash Equivalents Balance** | | | | |
| Bank Overdrafts | **(389.19)** | (3,204.95) | **(389.19)** | (3,201.23) |
| **Total Cash and Cash Equivalents for the purpose of Cash Flow Statement** | **3,250.39** | 1,453.71 | **3,157.90** | 1,371.20 |

**15. SHARE CAPITAL**

**15.1 Authorised**

| | | Par Value Rs. | **Company 2002 Number** | Company 2001 Number |
|---|---|---|---|---|
| Number of Shares | Ordinary Shares | 100/- | **150,000,000** | 150,000,000 |
| | | | **150,000,000** | 150,000,000 |
| | | | **Rs. M** | Rs. M |
| Nominal Value | Ordinary Shares | 100/- | **15,000.00** | 15,000.00 |
| | | | **15,000.00** | 15,000.00 |

# Notes to the Financial Statements

*For the year ended 31st March 2002*

**15.2 Issued and Fully Paid**

| | | Par Value | **2002 Number** | 2001 Number |
|---|---|---|---|---|
| Number of Shares | Ordinary Shares | Rs. 100/- | **51,463,463** | 51,463,463 |
| | | | **51,463,463** | 51,463,463 |
| | | | **Rs. M** | Rs. M |
| Nominal Value | Ordinary Shares | Rs. 100/- | **5,146.35** | 5,146.35 |
| | | | **5,146.35** | 5,146.35 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2002 Rs. M** | 2001 Rs. M | **2002 Rs. M** | 2001 Rs. M |
| **16. RESERVES** | | | | |
| **Summary** | | | | |
| Capital Reserves (16.1) | **105.20** | 105.20 | **75.60** | 75.60 |
| Revenue Reserves (16.2) | **0.63** | 0.63 | **–** | – |
| General Reserves (16.3) | **53.44** | 53.44 | **53.44** | 53.44 |
| | **159.27** | 159.27 | **129.04** | 129.04 |
| **16.1 Capital Reserves** | | | | |
| At 1st April | **105.20** | 105.20 | **75.60** | 75.60 |
| At 31st March | **105.20** | 105.20 | **75.60** | 75.60 |

Capital Reserves represents:

*The Group:*

a) The difference between book value and the restated value of property - Rs. 75.60 million [See Note 10(a).5].

b) Reserve on Consolidation - Rs. 8.00 million.

c) Bonus Issue - Rs. 21.60 million.

*The Company:*

a) The difference between book value and the restated value of property - Rs. 75.60 million [See Note 10(a).5].

| | Group 2002 Rs. M | Group 2001 Rs. M | Company 2002 Rs. M | Company 2001 Rs. M |
|---|---|---|---|---|
| **16.2 Revenue Reserves** | | | | |
| At 1st April | **0.63** | 0.63 | – | – |
| At 31st March | **0.63** | 0.63 | – | – |
| **16.3 General Reserves** | | | | |
| At 1st April | **53.44** | 53.44 | **53.44** | 53.44 |
| At 31st March | **53.44** | 53.44 | **53.44** | 53.44 |

## 17. EXCHANGE EQUALISATION RESERVE

### 17.1 Summary

| | Group 2002 Rs. M | Group 2001 Rs. M | Company 2002 Rs. M | Company 2001 Rs. M |
|---|---|---|---|---|
| As at the beginning of the year | **5,170.65** | 4,677.26 | **5,170.65** | 4,677.26 |
| Deferred during the year | **1,446.41** | 2,698.86 | **1,446.41** | 2,698.86 |
| Amortised during the year | **(1,295.90)** | (2,205.47) | **(1,295.90)** | (2,205.47) |
| As at the end of the year | **5,321.16** | 5,170.65 | **5,321.16** | 5,170.65 |

**17.2** Gains and losses arising from the year-end translation of long-term foreign currency borrowings which finance specific property, plant & equipment are recorded in an exchange equalization reserve and amortized as currency gains/losses over the period during which the foreign currency liability is outstanding.

Unamortised balances of such gains and losses are carried forward in the exchange equalization reserve.

## 18. INTEREST BEARING LIABILITIES - GROUP/COMPANY

| | 2002 Amount Repayable within 1 year Rs. M | 2002 Amount Repayable after 1 year Rs. M | 2002 Total Rs. M | 2001 Amount Repayable within 1 year Rs. M | 2001 Amount Repayable after 1 year Rs. M | 2001 Total Rs. M |
|---|---|---|---|---|---|---|
| Finance Leases (18.1) | **2,321.22** | **11,098.43** | **13,419.65** | 1,930.74 | 12,218.20 | 14,148.94 |
| Long-term Loans (18.2) | **128.83** | **492.66** | **621.49** | 431.40 | 1,454.58 | 1,885.98 |
| | **2,450.05** | **11,591.09** | **14,041.14** | 2,362.14 | 13,672.78 | 16,034.92 |

*For the year ended 31st March 2002*

**18.1**

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | **USD M** | **Rs. M** | USD M | Rs. M |
| **Finance Lease Liabilities** | | | | |
| Within one year | **24.31** | **2,321.22** | 22.21 | 1,930.74 |
| Between : | | | | |
| - one and two years | **26.61** | **2,540.82** | 24.31 | 2,113.40 |
| - two and three years | **29.12** | **2,781.20** | 26.61 | 2,313.35 |
| - three and four years | **31.88** | **3,044.33** | 29.12 | 2,532.21 |
| - four and five years | **28.61** | **2,732.08** | 31.88 | 2,771.77 |
| - after five years | **–** | **–** | 28.61 | 2,487.47 |
| | **140.53** | **13,419.65** | 162.74 | 14,148.94 |
| Amount due within one year included under current liabilities | **(24.31)** | **(2,321.22)** | (22.21) | (1,930.74) |
| | **116.22** | **11,098.43** | 140.53 | 12,218.20 |

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

| | USD M | Rs. M |
|---|---|---|
| Within one year | 6.03 | 575.59 |
| Between : | | |
| - one and two years | 5.57 | 531.46 |
| - two and three years | 5.28 | 503.84 |
| - three and four years | 3.96 | 377.89 |
| - four and five years | 1.50 | 143.56 |
| - after five years | – | – |
| | 22.34 | 2,132.34 |

Interest rates applicable to the finance leases ranged from 3.23 per cent to 9.1141 per cent per annum.

The Government of Sri Lanka has guaranteed the obligations of the Company under the finance lease agreements up to a limit of US Dollars 65.78 million (Rs. 6,281.66 million).

Conversion Rate - 1 US Dollar = Rs. 95.5 (Rs. 86.95 in 2000/01).

**18.2**

| | 2002 USD M | 2002 Rs. M | 2001 USD M | 2001 Rs. M |
|---|---|---|---|---|
| Bank Loans Payable | – | – | – | – |
| Other Loans Payable | | | | |
| Within one year | 1.35 | 128.83 | 4.96 | 431.40 |
| Between : | | | | |
| - one and two years | 1.35 | 128.83 | 12.43 | 1,080.36 |
| - two and three years | 1.35 | 128.83 | 1.23 | 106.92 |
| - three and four years | 1.35 | 128.82 | 1.23 | 106.92 |
| - four and five years | 0.73 | 70.10 | 1.23 | 106.92 |
| - after five years | 0.38 | 36.08 | 0.61 | 53.46 |
| | 6.51 | 621.49 | 21.69 | 1,885.98 |
| Amount due within one year included under current liabilities | (1.35) | (128.83) | (4.96) | (431.40) |
| | 5.16 | 492.66 | 16.73 | 1,454.58 |

Loans are repayable on various dates up to the year 2007 at varying interest rates which ranged from 3.23 per cent to 9.1141 per cent per annum during the year.

The outstanding aircraft spares loan amounting to US Dollars 5.53 million (Rs. 528.45 million) is guaranteed by the Government of Sri Lanka.

Conversion Rate - 1 US Dollar = Rs. 95.5 (Rs. 86.95 in 2000/01).

## 19. PROVISIONS AND OTHER LIABILITIES

### 19.1 Group

| | Non-Current 2002 Rs. M | Non-Current 2001 Rs. M | Current 2002 Rs. M | Current 2001 Rs. M | Total 2002 Rs. M | Total 2001 Rs. M |
|---|---|---|---|---|---|---|
| Retirement Benefit Obligations - Gratuity | 670.05 | 712.71 | – | – | 670.05 | 712.71 |
| Provision for Airframe & Aircraft Engine overhaul | – | – | 3,630.26 | 2,553.30 | 3,630.26 | 2,553.30 |
| | 670.05 | 712.71 | 3,630.26 | 2,553.30 | 4,300.31 | 3,266.01 |

### 19.2 Company

| | Non-Current 2002 Rs. M | Non-Current 2001 Rs. M | Current 2002 Rs. M | Current 2001 Rs. M | Total 2002 Rs. M | Total 2001 Rs. M |
|---|---|---|---|---|---|---|
| Retirement Benefit Obligations - Gratuity | 604.57 | 648.08 | – | – | 604.57 | 648.08 |
| Provision for Airframe & Aircraft Engine overhaul | – | – | 3,630.26 | 2,553.30 | 3,630.26 | 2,553.30 |
| | 604.57 | 648.08 | 3,630.26 | 2,553.30 | 4,234.83 | 3,201.38 |

*For the year ended 31st March 2002*

### 20. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **Rs. M** | Rs. M | **Rs. M** | Rs. M |
| Trade Payables | **4,552.26** | 6,610.84 | **4,516.40** | 6,547.02 |
| SriLankan Catering (Pvt) Limited Current Account | – | – | **1,678.64** | 1,036.41 |
| Sundry Creditors including Accrued Expenses | **175.78** | 148.96 | **76.00** | 46.33 |
| Sales in Advance of Carriage | **2,090.25** | 2,547.81 | **2,090.25** | 2,547.81 |
| | **6,818.29** | 9,307.61 | **8,361.29** | 10,177.57 |

### 21. COMMITMENTS AND CONTINGENCIES

#### 21.1 Capital Expenditure Commitments

The Company had purchase commitments for acquisition of property, plant & equipment incidental to the ordinary course of business as at 31st March as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **Rs. M** | Rs. M | **Rs. M** | Rs. M |
| Contracted but not provided for | **89.19** | 185.33 | **89.19** | 185.33 |
| Authorised by the Board, but not contracted for | **1,896.91** | 2,025.65 | **199.61** | 229.65 |
| | **1,986.10** | 2,210.98 | **288.80** | 414.98 |

#### 21.2 Operational Commitments

| | | | | |
|---|---|---|---|---|
| Purchase Commitments | **9,535.79** | 5,209.57 | **9,535.79** | 5,209.57 |
| | **9,535.79** | 5,209.57 | **9,535.79** | 5,209.57 |

Purchase Commitments include the notional value of forward purchase contracts entered into with Counterparties under the Fuel Risk Management Programme. The notional value of such forward contracts outstanding as at 31st March 2002 amounts to Rs. 9,535.79 million (US Dollars 99.85 million) (2001 - US Dollars 59.91 million).

Conversion Rate - 1 US Dollar = Rs. 95.5 (Rs. 86.95 in 2000/01).

# Notes to the Financial Statements

*For the year ended 31st March 2002*

### 21.3 Lease Commitments

Commitments for minimum lease payments under non-cancellable operating leases as at 31st March were as follows:

| | Non-Cancellable Operating Leases | |
|---|---|---|
| | **2002** | 2001 |
| | **Rs. M** | Rs. M |
| Not later than 1 year | **4,570.49** | 7,048.52 |
| Later than one year and not later than 5 years | **17,763.14** | 27,138.62 |
| Later than 5 years | **22,404.84** | 37,768.81 |
| | **44,738.47** | 71,955.95 |

Under the terms of the lease agreements, no contingent rentals are payable.

### 21.4 Contingencies

a) No provision has been made in these 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 made against the Company. The management estimates contingent liabilities at Rs. 489.20 million.

b) All employees based in Sri Lanka with 5 or more years of service with the Company are entitled to the payment of gratuity, under the Payment of Gratuity Act No. 12 of 1983. An actuarial valuation of the gratuity liability of the Company as at 31st January 2002 was undertaken by Actuarial & Management Consultants (Pvt) Limited. The actuarial valuation assumed a salary escalation rate of 10% per annum in respect of salaries denoted in Sri Lankan Rupees, a salary escalation rate of 3% per annum in respect of salaries denoted in US Dollars, and a discount rate of 10% per annum. Based on these assumptions the actuarial present value of accrued benefits, as at 31st March 2002 is Rs. 555.59 million. If the method of making a provision for all employees as required under the Payment of Gratuity Act No. 12 of 1983 were to be adopted, the gratuity liability of the Company as at 31st March 2002 would be Rs. 662.62 million. Hence there is a contingent liability of Rs. 107.03 million which would crystallise if the Company ceases to be a going concern.

c) A contingent asset exists in respect of 278,240 Depository Certificates held by the Company in the SITA Foundation.

These Depository Certificates represent a beneficial economic interest in 126,473 France Telecom shares owned by the SITA Foundation.

The Company became eligible to receive the Depository Certificates as a result of its membership in Societe International de Telecommunications Aeronautiques (SITA).

In March 2002, the Company elected to have the Depository Certificates converted to 126,473 France Telecom shares, subject to the withholding of 11,172 shares to be sold and the proceeds credited to a Reserve Fund by the SITA Foundation.

Market value of 115,301 France Telecom shares pending receipt by the Company as at 31st March 2002 amounted to US Dollars 3.5 million (Rs. 334.85 million), at USD 30.41 per share.

As at 31st March 2002, the SITA Foundation held EUR 354,124 (Rs. 29.64 million or US Dollars 0.31 million) in the Reserve Fund representing the proceeds from the sale of 11,172 shares in France Telecom.

(Conversion Rates 1 US Dollar = Rs. 95.50 & 1 EUR = Rs. 83.6903).

d) The Department of Inland Revenue has solicited information relating to "Insurance claims received on Aircraft". Having regard to legal advice received, the Directors are of the opinion that this will not give rise to a liability which will have a material effect on these financial statements.

**22. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

**22.1** The Company received title to 115,301 shares in France Telecom from the SITA Foundation in April 2002. (See Note 21.4 c).

**22.2** Certain outstanding forward purchase contracts entered into with Counterparties under the Fuel Risk Management Programme were liquidated in April 2002. As a result, the notional value of forward purchase contracts outstanding as at 31st March 2002 was reduced by US Dollars 62.12 Million (Rs. 5,932.54 million).

(Conversion Rate - 1 US Dollar = Rs. 95.50).

**23. DIRECTORS' INTERESTS**

Emirates, which holds 43.63% of the issued Share Capital of the Company as at balance sheet date, together with Management Control of the Company for a period of ten years from 31st March 1998, has nominated three Directors to the Board of the Company. The nominee Directors as at 31st March 2002 and holding office as at date are:

Mr. T C Clark - *Managing Director*
Mr. G W Chapman
Mr. D E Mannion

The Company has nominated four Directors to the Board of SriLankan Catering (Pvt) Limited, with whom the Company has a contract for catering.

The current Directors of SriLankan Catering (Pvt) Limited are:

Mr. D S J Pelpola - *Chairman*
Mr. R C D De Silva
Mr. M P Haradasa
Mr. D E Mannion
Mr. D Nijhawan - *Alternate Director to Mr. D E Mannion*

**24. RELATED PARTY DISCLOSURES**

**24.1** SriLankan Catering (Pvt) Limited provides flight catering services to the Company, and the Company provides passenger and freight services to the subsidiary in the normal course of business.

During the year ended 31st March 2002, the value of flight catering services provided to the Company amounted to Rs. 739.98 million, while freight and air tickets provided by the Company to SriLankan Catering (Pvt) Limited amounted to Rs. 35.43 million.

**24.2** Emirates holds 43.63% of the issued Share Capital of the Company. The Company has entered into a number of specific related party agreements in the normal course of business to obtain goods and services from Emirates on commercial terms. The Company has also entered into an exclusive marketing and sales agreement with Emirates, trading as Galileo Emirates, for the purpose of distributing Galileo CRS for use in Sri Lanka.

Transactions between the Group and Emirates are summarised as follows:

| | **2002 USD** | **2002 Rs.** | 2001 USD | 2001 Rs. |
|---|---|---|---|---|
| (a) Purchase of computer systems and services | **(4,141,138)** | **(374,451,989)** | (3,673,867) | (291,501,436) |
| (b) Purchase of buyer furnished equipment for A340/A330 aircraft | **(13,406,254)** | **(1,191,721,405)** | (5,392,000) | (427,825,975) |
| (c) Purchase of other goods and services | **(2,838,983)** | **(273,897,450)** | (3,985,433) | (316,222,534) |
| (d) Net receipt on transactions relating to international air transport, settled through the IATA Clearing House | **915,548** | **87,434,834** | 4,317,870 | 342,599,582 |
| (e) Finance charges on funds advanced for the purchase of Buyer Furnished Equipment for A340 aircraft | **(36,446)** | **(3,154,296)** | (173,910) | (13,798,855) |
| (f) Net Receipts/(Payments) on Fuel Risk Management Programme | **(3,547,095)** | **(343,336,020)** | 654,000 | 56,865,300 |
| (g) Galileo Segment Commission | **297,854** | **27,504,227** | 318,406 | 27,464,110 |
| (h) Net Receipt on Interest Rate Profile Management Programme | **8,729,498** | **833,667,059** | – | – |
| (i) Short-Term Loan & Interest - Obtained/(Repayment) | **(15,076,507)** | **(1,348,605,342)** | 14,999,753 | 1,304,228,523 |
| (j) In-flight Catering | **2,175,628** | **197,938,647** | 1,155,825 | 92,593,141 |

# Ten Year Review - Company

| | | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| **INCOME STATEMENT** | | | | | |
| Operating revenue | Rs. Million | 12,945.44 | 12,456.05 | 13,651.28 | 14,807.92 |
| Operating expenditure | Rs. Million | 12,390.28 | 11,747.81 | 12,154.46 | 13,253.64 |
| Net profit/(loss) | Rs. Million | 127.61 | 188.60 | 650.05 | 118.53 |
| **BALANCE SHEET** | | | | | |
| Share capital | Rs. Million | 7,369.47 | 5,146.35 | 5,146.35 | 5,146.35 |
| Fixed assets | Rs. Million | 9,019.84 | 10,742.20 | 22,318.81 | 20,836.32 |
| Current assets | Rs. Million | 5,323.45 | 5,054.09 | 7,175.43 | 8,154.25 |
| Total assets | Rs. Million | 14,373.69 | 15,826.69 | 29,524.64 | 29,020.97 |
| Current liabilities | Rs. Million | 7,005.56 | 7,142.16 | 8,858.31 | 8,740.41 |
| **YIELD/UNIT COST** | | | | | |
| Overall yield | Rs. tkm | 24.9 | 27.6 | 27.8 | 26.5 |
| Unit cost | Rs. tkm | 15.5 | 18.1 | 17.6 | 16.7 |
| Breakeven load factor | % | 62.1 | 65.6 | 63.1 | 63.1 |
| Revenue per RPK | Rs./RPK | 2.5 | 2.8 | 2.9 | 2.9 |
| **PRODUCTION** | | | | | |
| Passenger capacity | ASK Millions | 6,137.90 | 5,145.36 | 5,405.55 | 5,602.21 |
| Overall capacity | ATK Millions | 782.71 | 632.15 | 672.27 | 772.27 |
| **TRAFFIC** | | | | | |
| Passengers carried | Nos. Thousands | 1,067 | 994 | 1,081 | 1,149 |
| Passengers carried | RPK Millions | 4,203.25 | 3,576.75 | 3,786.56 | 3,931.26 |
| Passenger load factor | % | 68.48 | 69.51 | 70.06 | 70.17 |
| Cargo carried | Tonnes | 26,518 | 25,957 | 28,748 | 35,409 |
| Cargo load carried | RTK Millions | 108.63 | 107.38 | 119.77 | 166.23 |
| Overall load carried | RTK Millions | 492.20 | 419.37 | 454.19 | 514.81 |
| Cargo load factor | % | 48.28 | 50.81 | 52.15 | 61.56 |
| Overall load factor | % | 62.88 | 66.34 | 67.56 | 66.66 |
| **STAFF** | | | | | |
| Average strength | Nos. | 4,531 | 4,442 | 4,584 | 4,880 |
| Revenue per employee | Rs. | 2,857,082 | 2,804,154 | 2,978,028 | 3,034,410 |
| Capacity per employee | Tonne-km | 172,746 | 142,312 | 146,656 | 158,252 |
| Load carried per employee | Tonne-km | 108,629 | 94,410 | 99,082 | 105,494 |
| **FLEET** | | | | | |
| L1011-500 | Nos. | 3 | 2 | 2 | 2 |
| L1011-200 | Nos. | 2 | 2 | – | – |
| L1011-100 | Nos. | 1 | 1 | 1 | 1 |
| L1011-50 | Nos. | 1 | 1 | 1 | 1 |
| B737-200 | Nos. | 1 | – | – | – |
| A320-200 | Nos. | 1 | 2 | 2 | 2 |
| A330-200 | Nos. | – | – | – | – |
| A340-300 | Nos. | – | – | 3 | 3 |
| Aircraft in service at year end | Nos. | 9 | 8 | 9 | 9 |

| 1997 | 1998 | 1999 | 2000 | 2001 | **2002** |
|---|---|---|---|---|---|
| 15,619.30 | 17,592.00 | 19,171.43 | 24,354.32 | 30,437.09 | **29,352.91** |
| 14,121.08 | 14,657.40 | 16,136.47 | 24,116.33 | 36,893.36 | **33,097.50** |
| 449.51 | 2,361.36 | 2,518.63 | (750.41) | (6,507.95) | **1,415.01** |
| 5,146.35 | 5,146.35 | 5,146.35 | 5,146.35 | 5,146.35 | **5,146.35** |
| 19,217.72 | 17,882.38 | 16,359.69 | 17,525.99 | 14,952.28 | **12,826.78** |
| 8,769.55 | 11,196.80 | 16,090.86 | 14,930.23 | 14,247.30 | **12,061.52** |
| 28,017.67 | 29,109.58 | 32,520.95 | 32,526.62 | 29,269.98 | **24,958.70** |
| 8,856.67 | 9,224.37 | 11,477.25 | 13,528.69 | 18,659.24 | **15,208.66** |
| 27.4 | 29.3 | 31.3 | 31.8 | 30.2 | **38.6** |
| 20.3 | 20.8 | 20.4 | 22.9 | 25.7 | **28.7** |
| 74.4 | 70.9 | 65.2 | 72.0 | 85.2 | **74.2** |
| 3.0 | 3.2 | 3.3 | 3.4 | 3.1 | **3.8** |
| 5,525.10 | 5,672.66 | 6,209.80 | 8,038.31 | 10,891.61 | **8,556.92** |
| 746.78 | 757.42 | 832.69 | 1,088.38 | 1,454.78 | **1,148.73** |
| 1,196 | 1,201 | 1,260 | 1,475 | 1,891 | **1,615** |
| 4,003.19 | 4,154.46 | 4,417.55 | 5,459.65 | 7,447.87 | **5,862.09** |
| 72.45 | 73.24 | 71.14 | 67.92 | 68.38 | **68.51** |
| 35,039 | 36,478 | 35,566 | 41,670 | 58,618 | **46,067** |
| 164.43 | 173.62 | 156.61 | 195.67 | 266.75 | **186.47** |
| 522.09 | 547.14 | 554.90 | 703.28 | 932.72 | **711.72** |
| 61.94 | 65.40 | 57.50 | 57.53 | 54.77 | **44.19** |
| 69.91 | 72.24 | 66.64 | 64.62 | 64.11 | **61.96** |
| 4,965 | 4,823 | 4,832 | 5,070 | 5,196 | **4,049** |
| 3,145,881 | 3,647,522 | 3,967,597 | 4,803,614 | 5,857,792 | **7,249,422** |
| 150,409 | 157,043 | 172,329 | 214,670 | 279,981 | **283,706** |
| 105,153 | 113,444 | 114,838 | 138,713 | 179,507 | **175,777** |
| 2 | 2 | 2 | – | – | **–** |
| – | – | – | – | – | **–** |
| 1 | 1 | 1 | – | – | **–** |
| 1 | 1 | 1 | – | – | **–** |
| – | – | – | – | – | **–** |
| 2 | 2 | 2 | 2 | 2 | **1** |
| – | – | – | 4 | 6 | **4** |
| 3 | 3 | 3 | 4 | 4 | **3** |
| 9 | 9 | 9 | 10 | 12 | **8** |

# Glossary

### AVAILABLE SEAT KILOMETRES (ASK)

The product of seats offered for sale and 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.

### 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.

### REVENUE PER RPK

The revenue per RPK relates the passenger revenue to RPK.

### UNIT COST

The unit cost relates the total operating cost to ATK.

### OVERALL YIELD

Overall Yield relates the net traffic revenue to RTK. The net traffic revenue is the sum of the passenger, excess baggage, cargo and mail revenue.

### BREAKEVEN LOAD FACTOR

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

# Srilankan Directory

1. **AUSTRALIA**

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2. **BAHRAIN**

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Apt Fax: 069 694851
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12. **INDIA**

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**Calicut:**
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Fax: 0091 172 702770
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Fax: 0091 422214758
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8117748
Fax: 0091 44 8111472
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Fax: 020 6124897
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**Tiruchirapalli:**
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(GSA) tl-trz@eth.net

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2) Aer Lingus, 12, Upper George Street, Dublin, Ireland.
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Passenger Terminal 2 M5048
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Fax: 0476 348351
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Fax: 06 6265 2147

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(D): 073 3832
Fax: 073 5367
PTA No. 073 3851/3840
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**Reservations/Telephone Sales**
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(D) 073 3490/91
(RC) 073 5500
(T/D) 073 3667
Ticket Office 073 3674/3675
Govt. Travel 073 3673/3668
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Fax: 073 5222

**Ticket Office:**
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Fax: 066 85283

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Atlas Travel Tourism & Transport:
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**Umm Al Quwain:**
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2000
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**London Cargo Office**
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TERRITORIES OF CROATIA,
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SriLankan Airlines is GSA for:
Aer Lingus,
Aeroflot Russian International
Airlines
Varig Brazilian Airlines
Balkan Bulgarian Airlines
Solomon Island Airlines

***Abbreviations used for Telephone Numbers:***

*(A) - Administration*
*(C) - Cargo*
*(D) - Direct*
*(F) - Flight Information*
*(G) - General*
*(R) - Reservations*
*(S) - Sales Office*
*(T) - Ticketing*
*(RC) - Reconfirmation*
*(P/S) - Passenger Sales*
*(C/S) - Cargo Sales*

# Notes

## CORPORATE INFORMATION

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Public Limited Liability Company

**DIRECTORS**

D S J Pelpola - *Chairman*

R C D De Silva

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A L Gooneratne

T C Clark - *Managing Director*

G W Chapman

D E Mannion

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Ghaith Al Ghaith *(Alternate to D E Mannion)*

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Mildred Peries

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