



Annual Report

2002/2003



The white cricket ball on the cover, amidst red cricket balls, represents the appeal and **attraction** of the **results oriented**, shorter version of the game as against the traditional. It also illustrates how the **innovative** stands out against the ordinary.

Innovative. Attractive. Results oriented.

This Report is dedicated to the outstanding people of SriLankan, whose initiative, skills and commitment keep our airline always flying high.

VISION

To be the most preferred airline in Asia.

MISSION

- *We are in the air transportation business.*
- *We provide our customers with a reliable and pleasant travel experience.*
- *We provide our business partners with a variety of innovative, professional and mutually profitable services.*
- *We meet shareholder expectations of profitably marketing Sri Lanka and contributing towards the well-being of Society.*
- *We are a competent, pro-active and diligent team.*
- *Our contribution is recognized and rewarded.*



workingtogether
To be the best in Asia

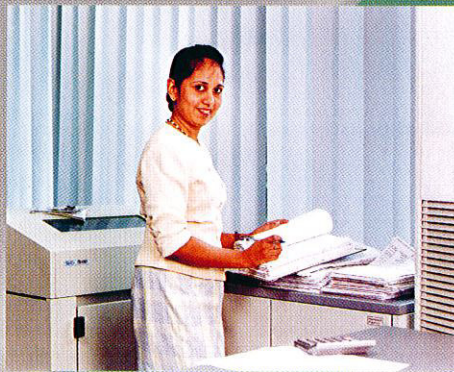


“Everything has been decentralized and we are eager to achieve positive results for the betterment of the company.”

Maani Ratnayake
Flown Accounting Officer

“We are well equipped to face the competition of the 21st century with SriLankan Skychain which facilitates tracking, tracing, warehouse management, schedules and network information.”

W. A. D. B. Thushara
Senior Cargo Supervisor



“There is a good understanding of what is expected of us and in turn what we can expect from the company. Today, we can express our ideas freely.”

Bernadine Fernando
HR Services Officer

“We have built a special brand image that shows our customers that we are one of Asia’s best airlines.”

Avanthi Bandaranaike
Advertising Officer



“Changing to the new IT infrastructure has made a lot of difference to the way we work.”

Arjuna Samarasinghe
Senior IT Administration Assistant

IT IS THEIR SPIRIT THAT MAKES US SOAR!

This page is dedicated to the people from the different divisions of the Airline. As one, their dedication, attitude and optimism has enabled us to spread our wings and fly high.



“It is a privilege to be on the staff of the National Carrier as we represent the country globally.”

Kamani Dematapaksha
Airport Service Officer

“SriLankan has upgraded the final product in many ways during the last few years. We have gone to top of the line, new aircraft which are easy to maintain and which have dramatically reduced delays.”

J. K. A. L. R. Jayasinghe
Senior Aircraft Technician



“Year by year, there has been a big improvement. I feel that the company is really moving forward. I am very proud to be working for SriLankan Catering.”

H. D. P. Presley
Senior Commissary Agent

“New management ideas, the latest technology, training, expanding route network, a new image and a motivated staff - the changes are all positive.”

Shirani Abeyratne
Ticketing Agent



C O N T E N T S

Corporate Information	05
Board of Directors & CEO	06-07
Chairman's Statement	08-09
Interview with the Managing Director	10-13
CEO's Review	14-15
Divisional Reviews	16-33
Social Responsibilities	34
Record of Events	35
Review of Operations	37-40
Report of the Directors	41-42
Report of the Auditors	43-44
Income Statement	45
Balance Sheet	46
Statement of Changes in Equity	47
Cash Flow Statement	48
Notes to the Financial Statements	49-71
Ten Year Review	72
Glossary	73
SriLankan Directory	74-76
Notice of Meeting	77
Proxy	79

LEGAL FORM

Public Limited Liability Company

DIRECTORS

D S J Pelpola - Chairman
R C D De Silva
M P Haradasa
A L Gooneratne
T C Clark - Managing Director
G W Chapman
D E Mannion
P M Hill - CEO
(Alternate to T C Clark)
M Flanagan
(Alternate to G W Chapman)
Ghaith Al Ghaith
(Alternate to D E Mannion)

COMPANY SECRETARY

Mildred Peries

REGISTERED OFFICE

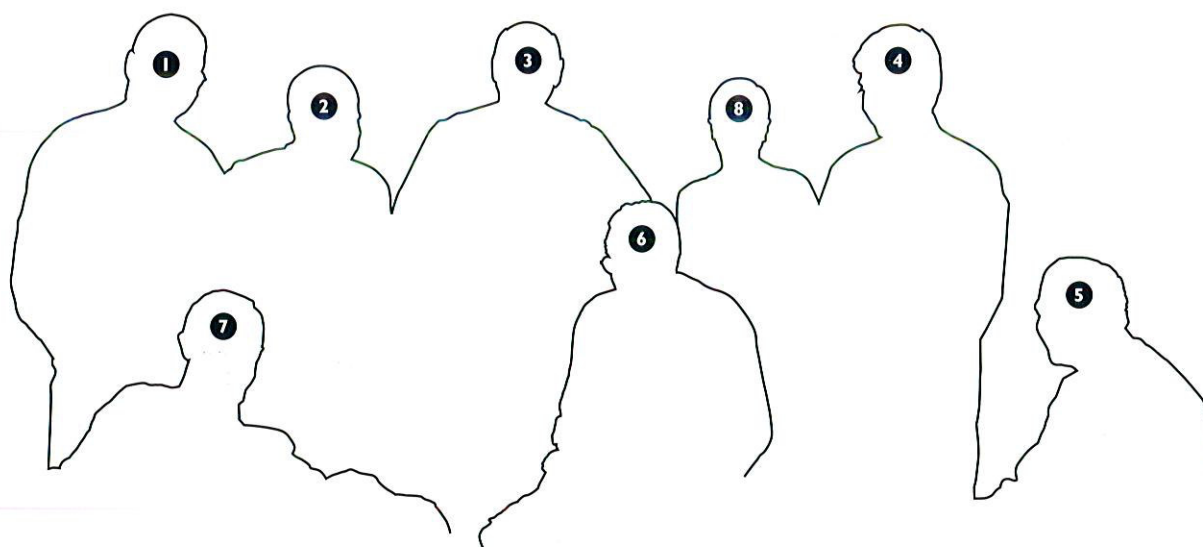
#22-01, East Tower
World Trade Center
Echelon Square
Colombo I
Sri Lanka

AUDITORS

Ernst & Young
Chartered Accountants
PO Box 101
Colombo 10



- 1 Dermot Mannion – Director. President Group Support Services, Emirates.
- 2 Mahinda Haradasa – Director. Attorney-at-Law by profession and Senior Partner of Varners Lanka Law Office, a Corporate Law Firm.
- 3 Peter Hill – Chief Executive Officer
- 4 Amitha Gooneratne – Director. Managing Director of Commercial Bank of Ceylon Ltd., and a Chartered Accountant by profession.
- 5 Daya Pelpola – Chairman. An Attorney-at-Law by profession and also a Director of Trans Asia Hotels Limited.
- 6 Chanaka De Silva – Director. Chairman of Union Commodities (Pvt) Ltd. among several other establishments.
- 7 Tim Clark – Managing Director. President Emirates Airline
- Gary Chapman – Director. President Dnata and Associated Companies, Emirates. *(Absent)*
- 8 Mildred Peries – Company Secretary





It is my pleasure on behalf of the Board of Directors, to present the Annual Report and Audited Accounts of the Company for the financial year ended March 31st 2003.

In the year under review, our industry continued to wrestle with the effects of global recession, the reduced demand for air travel since September 11th 2001, the recent war in Iraq and the SARS outbreak in Asia. There are some welcome indications that the industry is beginning to recover in some markets, but many airlines are forecasting poor results for the current financial year.

SriLankan Airlines however fared better than most. It was undoubtedly, in vast measure, due to the prevailing climate of peace initiated by the present government. (A ceasefire with rebels was entered into in February 2002 and peace talks began in September 2002).

The airline's management very creditably, aptly captured the opportunities afforded by the climate of peace to enable the airline to increase its loads and yields. The airline was able to undertake some expansion, launching new destinations like Bangalore and Bodh Gaya in India and resuming operations to Frankfurt in Germany. SriLankan added an Airbus A320 to the fleet in June 2002, to provide extra capacity for the new regional routes.

The expansion in India was advantageous, not simply for the airline, but also for the country. SriLankan currently flies to eight destinations in India, which for the last two years has been among the top three countries bringing in tourists to the country.

The airline's improved performance was evident in both passenger and cargo figures. Passenger traffic increased by nearly 12% and cargo traffic by over 3%. Passenger seat factor improved to 76% - an increase of 8% and yields improved by 11% over the previous year.

The gross profit of the SriLankan Group (the airline and its subsidiary - SriLankan Catering) was up by 91% over 2001/2002 at Rs 8,288.49 million. Net profit after tax for the group was Rs 2,197.23 million.

A steady return to profitability and a continued profitable performance for the rest of the group's activities is projected.

The climate of peace is creating renewed interest from overseas investors and leisure travellers alike. Recently pledged foreign aid to Sri Lanka, amounting to US\$ 5 billion should lead to considerable improvements in Sri Lanka's infrastructure, thereby creating many job opportunities. Such developments will continue to have a positive impact on the revenue forecasts of the airline and add to traffic growth.

As for the financial year 2003/04, an additional Airbus A320 aircraft has already been added to the fleet in April 2003 for the launch of two more destinations - Cochin in India and Karachi in Pakistan, and to provide additional capacity on existing routes in India. Plans include the addition of two more Airbus A340 aircraft in the winter of 2003 to increase capacity on European and Far Eastern routes.

A new flight kitchen is being constructed at the Bandaranaike International Airport (BIA) for SriLankan Catering at a cost of more than US\$ 20 million. It is scheduled to be opened in 2005 and will replace the more than 20 year old unit.

SriLankan is also in the process of developing a new Business Class lounge at the BIA to accommodate approximately 150 passengers which is targeted for opening by October 2003. SriLankan here too, will contribute not only to its own development, but also to the enhancement of the international airport.

The airline is continuing its efforts to obtain JAA (Joint Aviation Authority) approval for the company to undertake third party engineering work and anticipates commencing operations in August/September 2003.

Finally, I would like to thank each and every employee of SriLankan Airlines and SriLankan Catering for their hard work and efforts in helping the Group to achieve profits in the year under review, the senior management team for their dedication and commitment and the Board of Directors for their unstinting support and cooperation throughout the year.



Daya Pelpola
Chairman
6th June, 2003.



“

SRILANKAN HAS RECORDED A SEAT FACTOR OF 76.08%, UP 7.57% FROM LAST YEAR, WITH PASSENGER YIELD UP BY 12.01% AND OPERATING REVENUE 23.45% ABOVE LAST YEAR.

”

TIM CLARK - Managing Director

- They say that SriLankan is planning to change its fleet. SriLankan has a relatively new fleet. Why is it necessary to change it?

SriLankan is currently re-developing its five-year Business Plan in the light of current and projected global economic and political conditions. Depending upon our traffic forecasts the existing fleet mix may change, and additional units may be added to satisfy growth in different segments of the market.

- What is the position regarding the agreement between Emirates and the Government of Sri Lanka, which came under review with the change of government and the UNP coming into power last year?

A memorandum of understanding was signed between the Government of Sri Lanka and Emirates on June 4th, 2003, reflecting discussions that have taken place between the two parties since the formation of a UNP Government last year. This agreement accommodates the new government's aviation policies whilst satisfying the investor shareholder's stake in the airline.

- Can you clarify the position of SriLankan Catering and ground handling which were two areas which came under review by the new government?

SriLankan will continue to provide sole and exclusive ground handling services for all aircraft using the Bandaranaike International Airport (BIA) until March 31st, 2008. However, with effect from August 1st, 2003, airlines have the option of undertaking their own passenger or cargo handling within the respective terminal buildings at BIA. With effect from July 31st, 2003, SriLankan Catering Services will relinquish the exclusive right to provide airline catering at BIA.



“

*Our team has responded magnificently,
to produce a very creditable
financial result at Group level.*

”

PETER HILL - Chief Executive Officer

I ended my review last year by saying that I needed everyone in the SriLankan Team, to toil and persevere to enable us to overcome the challenges that would lie ahead.

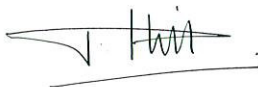
What challenges they have been continued world economic uncertainty compounded by the effects of the war in Iraq and then the SARS epidemic in Asia. Yet despite everything that we have faced over the last twelve months, our team has responded magnificently, to produce a very creditable financial result at Group level, with positive cash flow and cost containment, alongside significant gains in employee productivity. The airline too, has performed well, continuing to make steady progress towards profitability, with improved passenger and cargo revenue and higher yields. Such an achievement is no mean feat when measured against the performance of the international airline industry during the past year.

SriLankan is building upon its growing reputation as a quality, customer focused airline by being voted as Skytrax's 'Best Airline – Central Asia 2003' (for the third year running), 'Most Friendly Cabin Crew 2003' and runner-up 'Best Cabin Crew 2003'. These awards speak volumes for the consistently high levels of care and attention delivered by our dedicated team of employees.

To re-emphasise our commitment to total quality service we recently launched our Vision and Mission initiative, with every member of staff involved in our goal to be 'The most preferred airline in Asia'. This has been enthusiastically embraced by everyone and encourages us all to actively support one another in our daily work, to provide our customers with the feeling that they really are someone special when flying SriLankan!

This year, I have left room for the individual managers of the Airline to review the areas of their responsibility in greater depth and detail.

The next twelve months ahead will undoubtedly provide its own set of new challenges which I am confident that we will meet. Our company is now well placed to face the future with growing confidence and a vibrant work force, eager to prove to the world, that SriLankan Airlines is going to be hard to beat in the years to come.



Peter Hill
Chief Executive Officer
6th June, 2003.



“WE ARE NOT SELLING AN
AIRLINE, WE ARE SELLING AN
EXPERIENCE!”

G.T. JEYASEELAN - Head of Commercial



A commanding position.

• **There is a new sense of optimism about the airline, what has changed?**

“Our approach has changed over the last couple of years. We shifted focus from mass tourism to a product that can be sold to the higher end of the market. We are using revenue management to look for those tourists who bring in money. We are using Sri Lanka as a hub to carry passengers who pay more. The product is on time, the reliability has improved...we are running at 90% punctuality. We have the confidence to sell our product at the price it deserves and people are accepting the fact that it's a better quality product. Furthermore, we have strengthened our team and enhanced their inner belief.”

• **Your intention is to be a premium carrier in the region. What will differentiate you?**

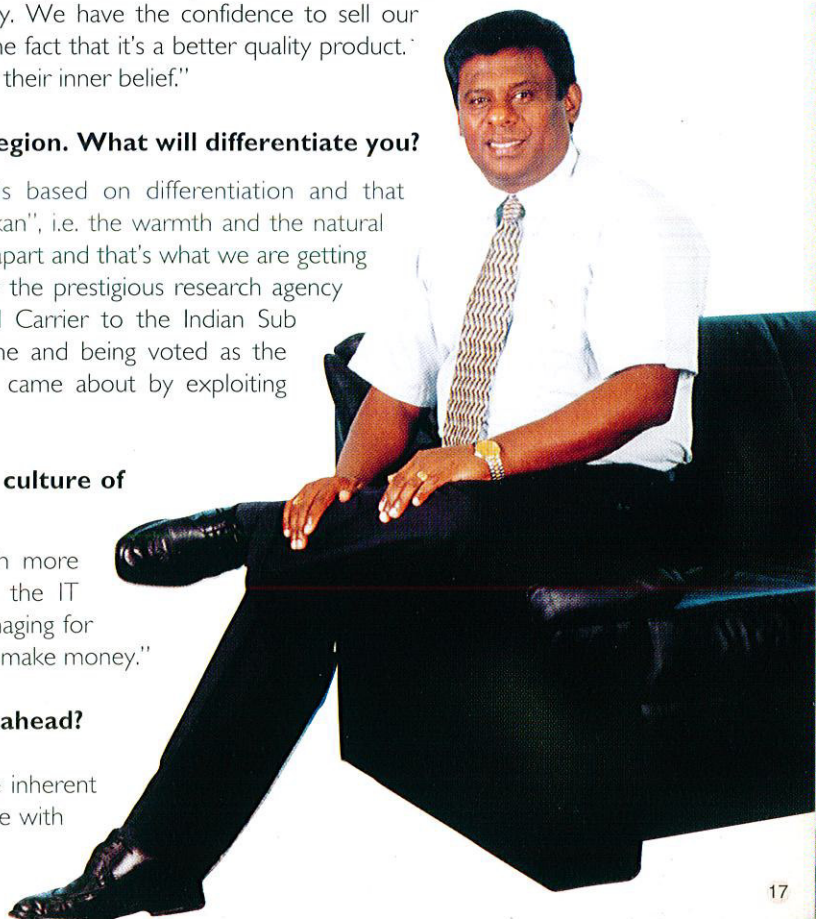
“At the end of the day, our success in this business is based on differentiation and that differentiation comes from nothing less than being “Sri Lankan”, i.e. the warmth and the natural hospitality that comes from our people. This is what sets us apart and that's what we are getting recognition for, being voted 'Best Airline in Central Asia by the prestigious research agency Skytrax, getting recognition for being the 'Best Long Haul Carrier to the Indian Sub Continent' from the UK based 'Selling Long Haul' magazine and being voted as the 'World's Friendliest Cabin Staff', again by Skytrax. All this came about by exploiting qualities inherent in our culture.”

• **What has changed in the character, attitude and culture of the people at SriLankan Airlines?**

“There is a sense of urgency now. Our people are much more confident because of the modern product we have and the IT support that now exists. We are changing our focus to 'managing for profit'. We are small enough to survive and large enough to make money.”

• **Where do you see SriLankan Airlines in the years ahead?**

“As a sophisticated, modern airline that has still not lost the inherent warmth and hospitality of the people it represents...an airline with a heart... a heart winning airline.”





SERVICE WITH A SRILANKAN SMILE!

WALTER RIGGANS - Head of Service Delivery



The friendliest cabin staff in the world.

What does Service Delivery do for SriLankan?

"It brings two of the main passenger contact teams together - Airport Service and In-Flight Service. We look after passengers from the moment they arrive at the airport until they collect their baggage at their destination."

What do you think is the single most important factor from the passenger's perspective?

"A smooth, seamless travel experience from beginning to end."

SriLankan is becoming a more internationally recognised airline. Will this result in an international cabin staff like Emirates?

"We are a Sri Lankan Airline. A Sri Lankan product is what we are selling and we will stay very much Sri Lankan."

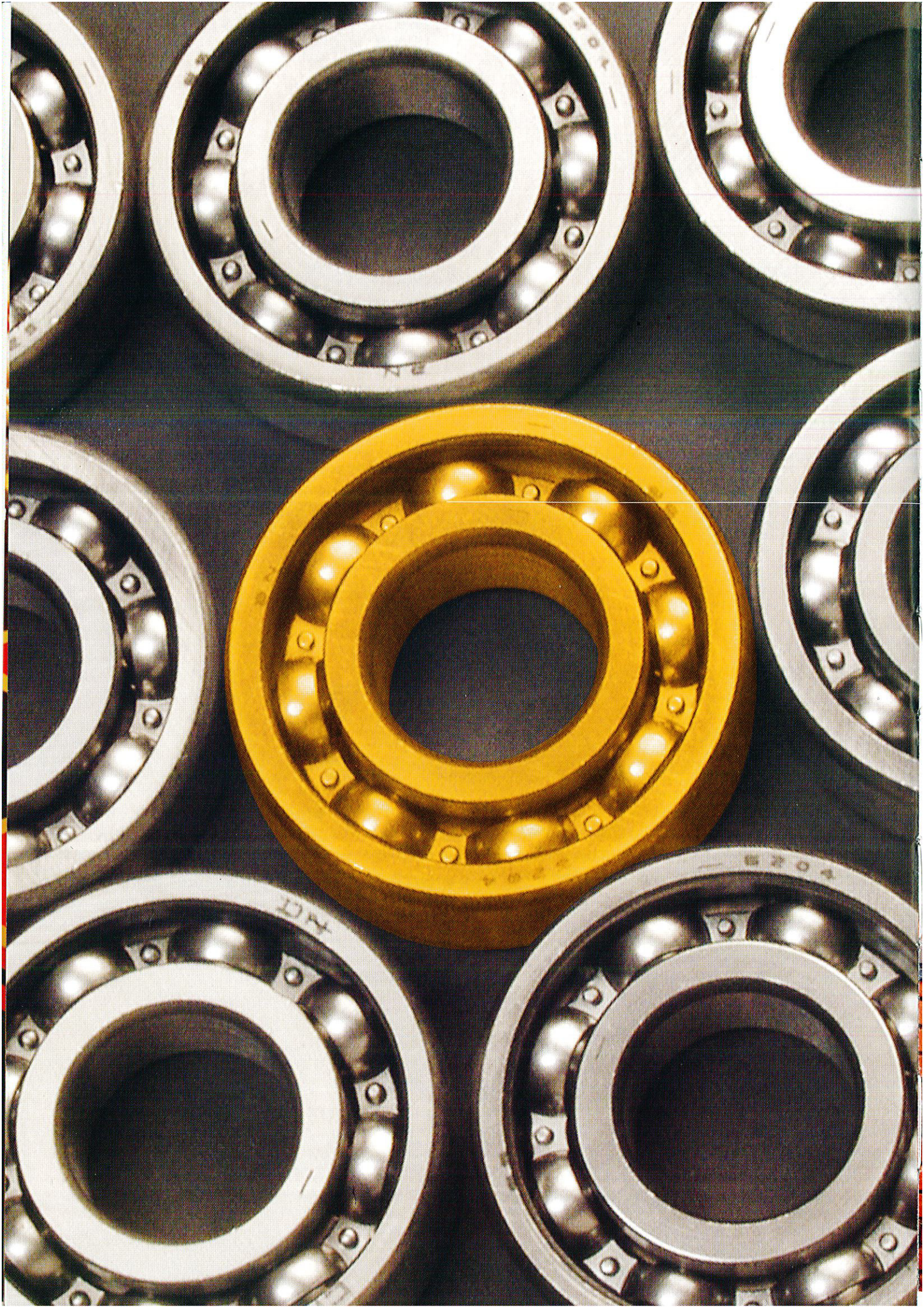
What long term challenges do you envisage?

"Staying ahead of the competition. That is a short, medium and long term challenge. I think we are facing it well."

How is Service Delivery contributing towards Sri Lankan's vision of becoming the "Most preferred airline in Asia"?

"Well, judging by the recent competitive performance report from Skytrax, we are pretty well up there. Our Airport Service staff are among the top 10 in the world, our cabin staff were voted the 'Friendliest in the World' and also took the 1st runner up for 'Best Cabin staff in the World'. We are constantly looking for new ways to delight our passengers. Our Service Standards and In-Flight Entertainment are second to none. Our In-Flight Entertainment now offers 56 channels - 18 video, 22 audio and 16 games plus an additional 30 videos on demand in Business Class. So as word spreads we will get there. I can see it happening and soon!"





“THE BIGGEST SINGLE THING SINCE I
CAME HERE IS THE CHANGE IN
PUNCTUALITY. WE ARE NOW 90% ON TIME,
EVERY MONTH!”

CAPTAIN DICK HUTTON - Chief Technical Officer



Because perfection is so precious.

• **When you joined the airline what were your key tasks?**

"To minimize costs, because Engineering is the single largest cost center in the airline. So we work very hard in Engineering to keep costs down, to manage our airframe and engine maintenance in such a way that makes it cost effective. To concentrate on the safety standards of the technical crews, i.e. pilots, and most importantly, punctuality. Also to introduce procedures and systems that would enhance flight despatch capability and route selection."

• **Punctuality must have been an issue the Airline as a whole addressed?**

"Sure, pilots concentrate on pushback at the right times and the station crews try to make sure that they don't get tagged with a delay. We have a daily meeting to analyze every delay there is, even if it's only three minutes!"

• **Having addressed that issue what got your attention next?**

"We introduced a whole new range of programmes that's allowed us to do the job more efficiently. On the operation side, we concentrate on cost saving through efficient management of our fuel consumption policies including route selection, altitude selection and cost indexing flight profiles."

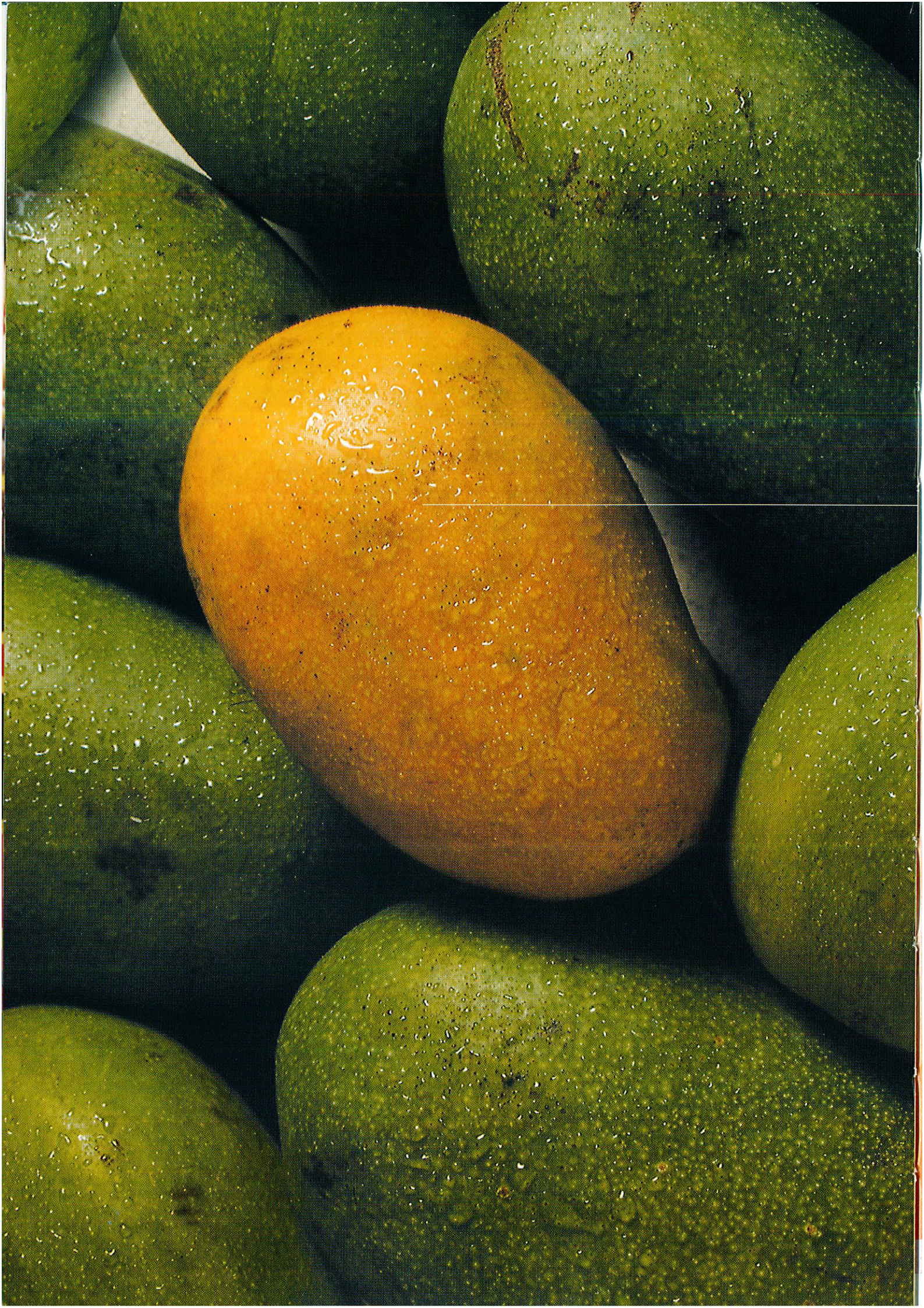
• **How will your division be able to deal with the expansion of the airline, as and when that happens?**

"At present we could handle three more airplanes without an increase of personnel and no changes in equipment."

• **What are the challenges you see in terms of your vision and how do you intend to get there?**

"I already feel that the airline has got there, from the point of view of Engineering, both in terms of serviceability of the aircraft and punctuality."





“OUR RELIABILITY HAS BEEN ON PAR WITH, IF NOT BETTER THAN, SOME OF THE BEST AIRLINES IN ASIA.

NALIN RODRIGO - Senior Manager Cargo



Delivering the fruits of your labour.

• **How have you achieved this turn around, what has changed?**

“Today, we consider ourselves a partner in our customers' businesses. We understand how we relate to the supply chain. We are fully committed towards a 'shipped as booked' policy of handling freight throughout our network.”

• **What modifications have you made to your systems?**

“We use the 'quality circle' concept to improve the process of traffic flow through our hub, Colombo. As a result we had the highest throughput at the Colombo hub in March 2003. This reflects the confidence our global partners have, to use Colombo as 'the hub in the Indian Ocean.’”

• **How does the Airline's growth affect cargo operations?**

“The growth of cargo operations depends on the spread of our network. Hence any expansion is welcome so that we can offer our partners a better product.”

• **How important is Cargo to the overall picture of SriLankan Airlines?**

“Right now, our contribution is 15%. And this component is pretty significant to the bottom line of any airline. So the management decided that Cargo should be a separate division of SriLankan because of the revenue we generate. We are the second highest contributor to the airline.”

• **Personally, where would you like SriLankan Cargo to be a few years from now?**

“We should and will have a network large enough to grow the cargo business on a consistent basis. We may have 'cargo only' destinations in the network supported by freighters.”





REMEMBER, WE ARE THE
NATIONAL CARRIER. THAT COMES
WITH CERTAIN RESPONSIBILITIES!

CHANDANA DE SILVA - Head of Corporate Communications



High visibility.

What key task does your division perform?

"We have two challenges: to promote the country as an attractive destination and then to promote the Airline as the more attractive way to get there. The two processes go hand in hand. This is why we frequently take the lead in organizing events overseas that boost Sri Lanka as a tourist destination."

As far as the airline goes, how successful have you been?

"I would think very successful. Today, the perception of the Airline has changed dramatically. We have repositioned the product very successfully. We have branded the product as a seamless experience that encompasses every aspect of the Airline a customer comes in to contact with."

You say the perception of the airline has changed, any indicators?

"Many, the awards and accolades the Airline has received over the last couple of years. And most of all the load factor. Today, we have a 76% cabin factor. Mind you, we are not the cheapest airline to fly."

On that point, the airline is moving towards being a premium carrier in the region. Have your strategies changed?

"Yes, today we are selling an experience. A very Sri Lankan experience. It is no longer just the smiles. It is an aura of a very professional, very modern, but still very warm airline."

What about the internal customer, your own staff?

"That was a challenge, to change our peoples attitudes and perceptions. But I believe we have won that battle. Today, our people take great pride in what their airline has achieved in the last couple of years. They have become our greatest asset."

Finally, challenges of the future?

"Look, this is an evolving industry. Change is eternal. The ability and flexibility not just to keep pace with change, but to stay ahead of change is paramount. This is our biggest challenge."



“ WE HAVE CREATED AN ENVIRONMENT FOR EMPLOYEES WHERE THEY CAN GROW AND GO AS FAR AS THEIR TALENT AND ABILITY CAN TAKE THEM.

SUNIL DISSANAYAKE - Head of Human Resources



Sharpening skills. Honing the resource.

• **People play the most important part in any service industry. You obviously have a major role in shaping the image of the Airline. Where do you begin?**

“Our aim is to make sure that proper people enter the organization. We have a very rigorous interview process for every job. And from HR, we bring in a perspective of the type of individual that should come in to the company. It is merit and merit alone that determines this.”

• **What happens beyond that?**

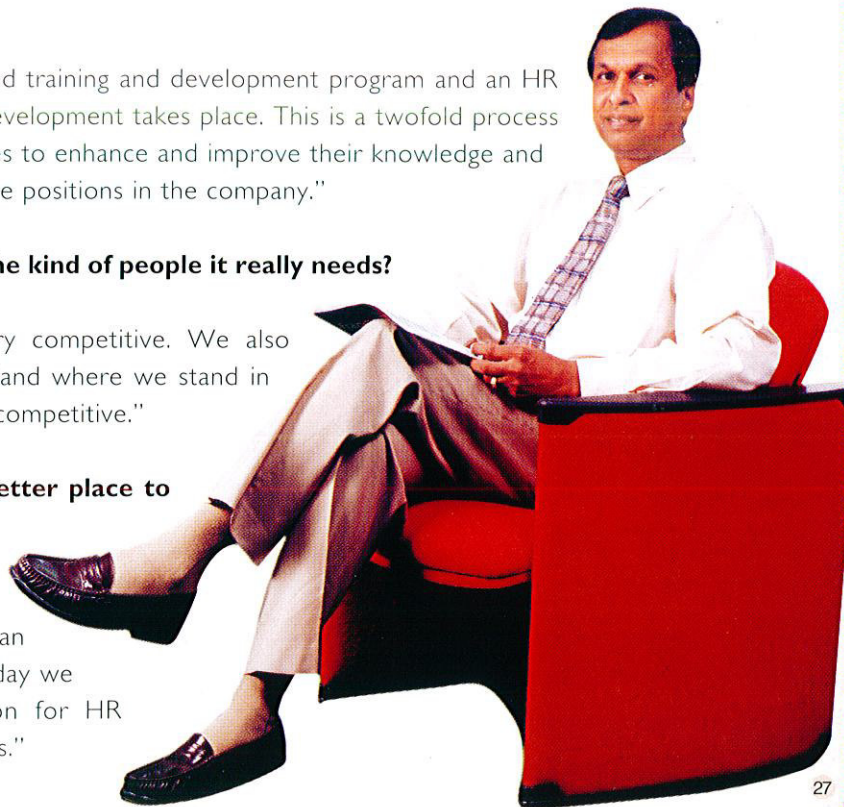
“Once they enter the company, we have a dedicated training and development program and an HR Development Center where ongoing training and development takes place. This is a twofold process whereby, we provide training that enables employees to enhance and improve their knowledge and in addition, we help prepare people to take up future positions in the company.”

• **How is SriLankan positioning itself to attract the kind of people it really needs?**

“Our salaries and remuneration packages are very competitive. We also participate in surveys with other airlines to understand where we stand in terms of remuneration and in this area we are very competitive.”

• **What have you done to make the airline a better place to work?**

“I believe that we have created an environment where people can perform at their best and also an environment that they enjoy working in. In fact, today we are perceived as being a benchmark organization for HR practices, where even other companies look up to us.”





“ WE WANT TO USE THE INTERNET AND INTERNET TECHNOLOGY TO ENHANCE OUR BUSINESS IN TERMS OF REVENUE GENERATION AND IN THE WAY WE COMMUNICATE AND MANAGE OUR CUSTOMERS. ”

NIGEL O'SHEA - Head of IT



An invaluable asset.

• Has your division played a part in changing the culture of the Airline?

“The revolution in the last five years has been huge. I don't think you'll find another airline of our size that has a better IT set up. There's been an emphasis on training, coaching and encouraging people to use IT. As a result, 83% of our staff use IT facilities every day which indicates a massive change in both attitude and approach to work.”

• What role do you see your division playing in the evolution of the Airline?

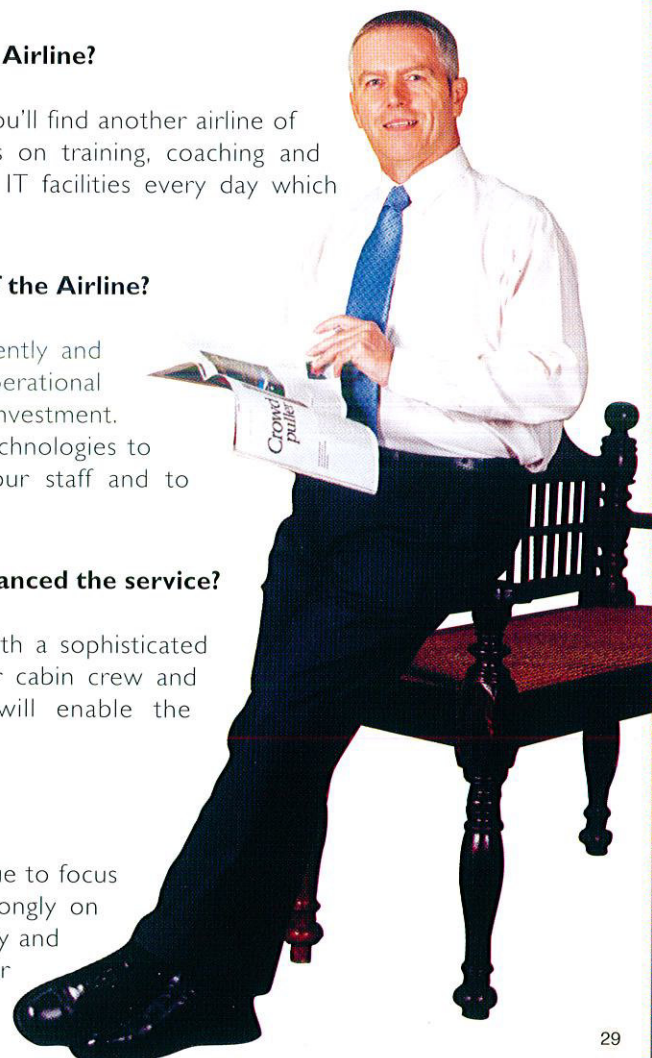
“IT plays a very significant role in ensuring the airline runs efficiently and smoothly. We have put in place many IT facilities to support the operational functions of the business and we are reaping the rewards of that investment. As we go forward, we are focusing more and more on Internet technologies to offer better customer services, improve communications with our staff and to present better information to help us manage our business.”

• SriLankan prides itself on its in-flight service. How has IT enhanced the service?

“IT supports our award winning cabin crew by providing them with a sophisticated rostering system and a dedicated website which is specifically for cabin crew and pilots. We are also planning new website facilities which will enable the pre-ordering of duty free items and in-flight meals.”

• Goals and aspirations for the next couple of years?

“We have invested very heavily in our IT facilities so we will continue to focus on getting better usage of those facilities. We will also focus strongly on increasing the business benefits we can get from the Internet. Finally and most importantly, we will continue to increase the skill levels of our staff and to keep our IT facilities up to date.”





“

NOW THERE IS AN OPPORTUNITY TO
CONCENTRATE ON LONG TERM PLANS
AND TO BE MORE STRATEGICALLY
ORIENTED.

S A CHANDRASEKERA - Chief Financial Officer



Standing out from the competition

• **What has been your department's biggest accomplishment to date?**

"We have completely overhauled our financial systems during the last three to four years. As a result, we have been able to achieve significant efficiencies across the board and improve effectiveness of our output."

• **Have you seen a change in the culture of the airline over that period?**

"On the whole, the Company is more focused, having rid ourselves of a lot of constraints. Employees of all levels are empowered, enabling faster decision making, which has helped the Company to move forward."

• **What do you think are the most significant challenges in the next couple of years?**

"The challenge really is to remain competitive... the focus will continue to be on becoming more productive as an airline and providing better value to our customers."

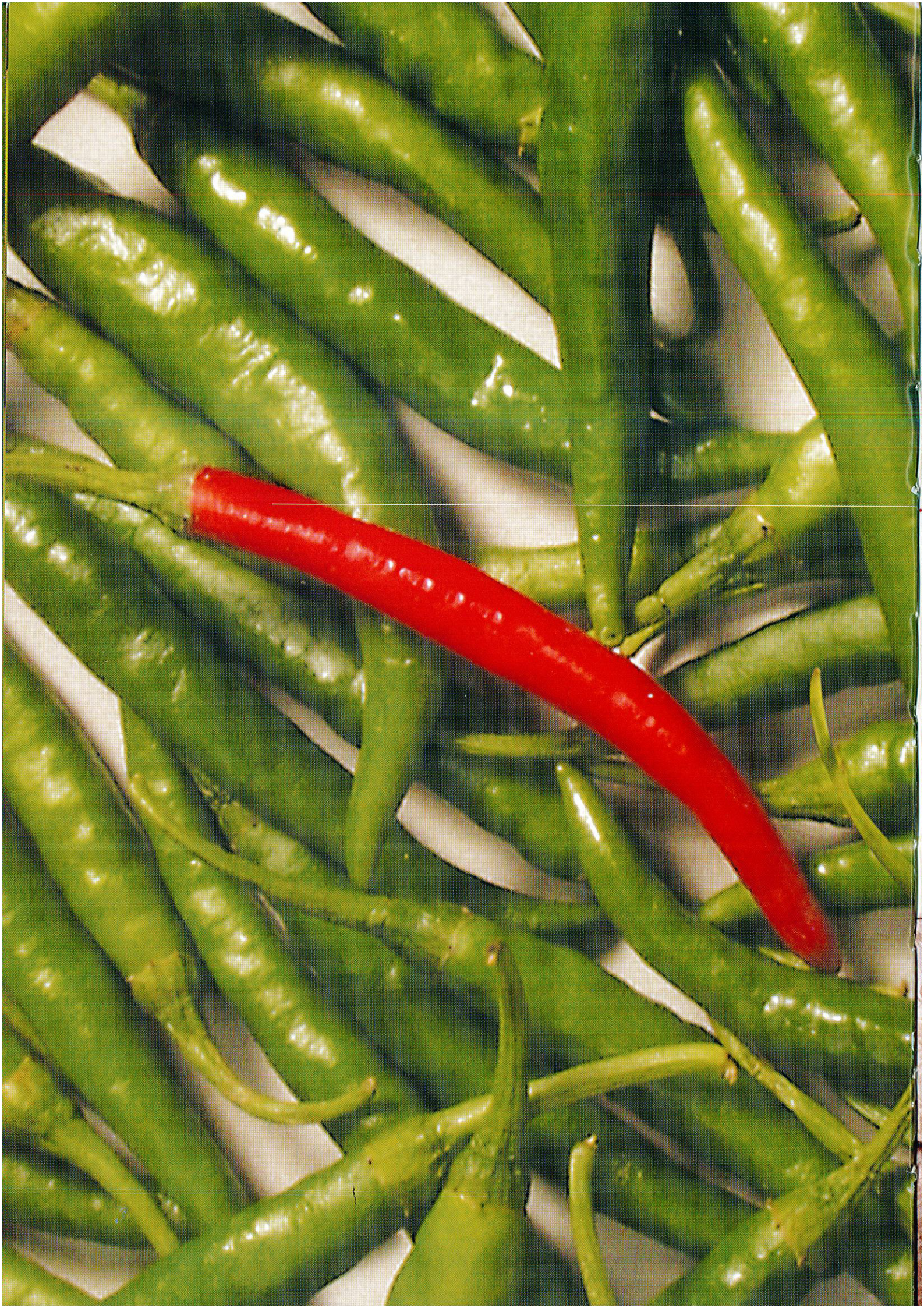
• **What steps should the company take to achieve its vision of being 'the most preferred airline in Asia'?**

"We have to differentiate our product and grow our business. At the same time, the bottom line should not be forgotten. Hence cost consciousness and productivity will be a key for sustainable growth."

• **How has the airline been performing financially over the last 2 to 3 years?**

"The year 2001 imposed lot of challenges on us which were not uncommon for the whole industry. There has been a significant improvement since then, which has enabled the Company to report profits for this year. The current indicators are that we are on the right track."





“
**ACHIEVING ISO 9001-2000
 CERTIFICATION HAS BEEN A MAJOR
 MILESTONE. VERY FEW COMPANIES IN THE
 AIRLINE CATERING INDUSTRY HAVE BEEN
 ABLE TO ACHIEVE THIS ACCREDITATION!**
 ”

DILIP NIJHAWAN - CEO SriLankan Catering



Adding spice to our services.

How have you contributed to enable the Airline to realize its vision?

“The quality of our food speaks for itself to the passengers. Achieving ISO 9001-2000 confirms the standards of our product which we deliver to the airline as per their requirements, at the most affordable price. Every endeavour is made to retain maximum freshness and the flavour of the food through our stringent quality control measures.”

How does the catering unit continue to excel in its performance year on year?

“That was the biggest challenge. We had to improve and streamline the prevailing system without causing any major ripples and at the same time, motivate the employees to enhance their productivity. To give you an example, our productivity was six meals per employee. Today it is around 14. That's in just four years! This is as good, if not better than any European caterer.”

Your industry is very labour intensive. How do you source the talent?

“Our recruitment processes are very rigid and intensive. We recruit young people with Hotel School backgrounds and/or with exposure in the catering field while affording them an opportunity with a lot of growth potential within the organization.”

In terms of the region, how would you rate your catering unit?

“I can confidently acknowledge that we are amongst the best in the South East Asian Region.”

What are the challenges you face in the next couple of years?

“We definitely need to grow and are currently greatly constrained for space. We should have the new flight kitchen operational by 2005 with state-of-the-art technology and an enhanced capacity.”

A HEART WINNING AIRLINE

SriLankan Airlines is more than about flying millions of customers, safely and comfortably to its ever expanding network of international destinations. It's about giving life to the wishes and dreams of hundreds of worthy Sri Lankans from all walks of life and occupations. In fact, when it comes to social responsibility, few other airlines or indeed business organizations of any kind can come close to matching the track record of the national carrier.

SriLankan Airlines is deeply committed to the Hope Cancer Hospital project. The airline has created a miniature Hope cap which is sold onboard its flights as a means of collecting funds for the hospital. The airline has also created a miniature Hope cricket bat with the signatures of the National First XI, which is sold at the Hope Secretariat and at the airline's promotional events. Tills have been placed at all ticket offices and at the Bandaranaike International Airport, to collect funds for this project. Further, where the airline is requested to co-sponsor a project, it often requests that a part of the proceeds be donated to the Hope Cancer Hospital project.

The airline distributed 30,000 exercise books to children in five rural schools in Kurunegala, Kandy and Galle. SriLankan also distributed exercise books to children of deceased servicemen.

SriLankan Airlines sponsored the Healthy Schools project and the Dengue Eradication projects carried out by the Colombo Municipal Council. The Healthy Schools project which covers all schools in the city of Colombo involves training programmes for principals of schools to ensure that they create the required physical and psychological environment for teaching children. Under the Dengue Eradication project, houses and gardens in Colombo are inspected for eradication of potential breeding places of mosquitoes.

The airline donated Rs. 250,000 to the National Mammogram Fund of the Colombo National Hospital.

The airline has transported artificial limbs at no cost, on behalf of disabled persons and provided free / discounted air travel for volunteer doctors visiting Sri Lanka.

The airline has been at the forefront of travel trade promotions by sponsoring several local and international trade fairs, provided free air transportation of promotional material relating to such events to all overseas online points and has flown innumerable personnel involved in the travel trade to overseas destinations for the purpose of promoting the country at trade shows, food fairs and other events, at no cost.

In the field of sports, SriLankan has been flying the country's flag high by sponsoring numerous national sports events and by providing assistance to players involved in athletics, tennis and golf and recently being appointed the national carrier for the Sri Lankan cricket team.

The airline has rallied round the people in times of national crises by transporting essential items and medical equipment for the needy, handicapped and sick affected by droughts, floods and other disasters.

Sri Lanka's arts and culture too, have benefited from generous support with the airline extending its services to cultural and historical projects of national importance while promoting cultural activities overseas and at home. Discounts and free air travel is granted on a regular basis to cultural troupes and music ensembles from the country as well as visiting performers.

RECORD OF EVENTS

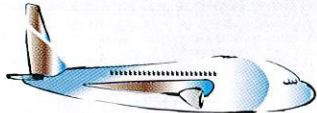
RECORD OF EVENTS



March 2002

MAKING THE GRADE

Ninth place, Best Economy Class service from "Reise and Preise" magazine



June 2002

ON THE WINGS OF EXPANSION

Airbus A320 added to fleet



July 2002

MAKING INROADS TO INDIA

Bangalore launch



October 2002

HIGH PRAISE

Best Long Haul Carrier to Indian sub-continent from UK's "Selling Long Haul" Magazine
TTG (Asia)'s Best Airline in South Asia 2002



November 2002

FLIGHT TO BODH GAYA

Bodh Gaya launch

First Runner Up for Inflight Entertainment Guide at AVION awards 2002



December 2002

REASONS TO KEEP SMILING

World's Friendliest Cabin Crew award from "Skytrax"



February 2003

WELL FLIGHTED DELIVERIES

SriLankan Airlines chosen as official carrier of the national cricket team



March 2003

RULING CENTRAL ASIAN SKIES

"Skytrax" Best Airline in Central Asia for the third consecutive year

Financial Reports

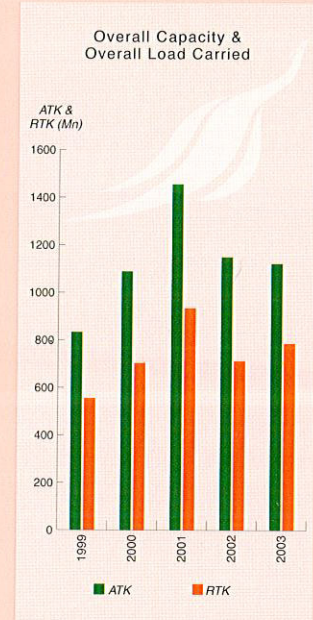
Review of Operations	37
Report of the Directors	41
Report of the Auditors	43
Income Statement	45
Balance Sheet	46
Statement of Changes in Equity	47
Cash Flow Statement	48
Notes to the Financial Statements	49
Ten Year Review	72
Glossary	73
Notice of Meeting	77
Proxy	79

Review of Operations

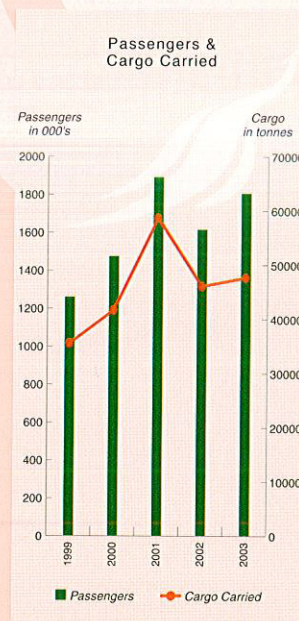
CAPACITY AND TRAFFIC GROWTH

The year 2002/2003 saw an increase in total traffic carriage by 10.3%. The number of passengers carried during the year increased to 1.81 million from 1.62 million carried in the previous year. Cargo carriage increased from 46,067 tonnes to 47,650 tonnes. The growth in traffic is primarily due to the peace initiative taken by the Government of Sri Lanka coupled with determined efforts by the Commercial team, as well as expansion of operations to Bangalore and Bodhagaya and resumption of services to Frankfurt. Increased volumes of transshipment cargo is another reason for improvement in cargo carriage.

Capacity production declined by 2.3% from 1,148.73 million tonne kilometers in 2001/2002 to 1,121.89 million tonne kilometers in 2002/2003. Available seat kilometers also fell 1.6% to 8,422.77. This decline was due to the reduced fleet size following the 24th July 2001 incident.



Passenger seat factor increased 7.57 percentage points to 76.08% while the overall load factor averaged 69.98%, 8.02 percentage points above last year due to the increase in passenger and cargo carriage during the year.



Review of Operations

REVENUE

Total operating revenue of the Company amounted to Rs.36,235.04 million, up by Rs.6,882.13 million or 23.5% from 2001/2002, primarily due to higher passenger numbers and yield.

The revenue of the Group in 2002/2003 was Rs. 36,896.88 million, up by Rs.7,141.07 million or 24.0% from the previous year.

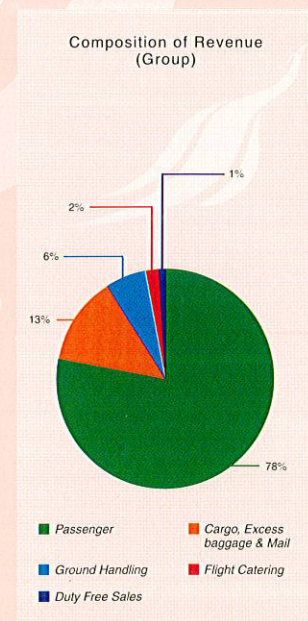
Composition of Revenue	GROUP				COMPANY			
	2003		2002		2003		2002	
	Rs M	%	Rs M	%	Rs M	%	Rs M	%
Passenger	28,852	78	23,036	77	28,852	79	23,036	78
Cargo, Excess baggage & Mail	4,880	13	4,386	15	4,900	14	4,421	15
Charter	-	-	13	-	-	-	13	-
Ground Handling	2,231	6	1,693	6	2,239	6	1,693	6
Flight Catering	690	2	438	1	-	-	-	-
Duty Free Sales	244	1	190	1	244	1	190	1
Total	36,897	100	29,756	100	36,235	100	29,353	100

Passenger revenue excluding charter revenue totaled Rs. 28,851.76 million, an increase of 25.2% from 2001/2002.

Revenue from cargo carriage increased by 15.3% to Rs. 4,309.67 million.

Ground handling revenue increased by 32.3% or Rs 546.70 million to Rs. 2,239.46 million, as a result of more airlines operating to Colombo following the peace initiative.

Duty Free Sales increased by Rs. 54 million or 28.4% to Rs. 244.07 million, with the improvement in passenger carriage.



Review of Operations

EXPENDITURE

The total expenditure of the Company totaled to Rs. 34,454.90 million, up 10.3% or Rs. 3,214.60 million from 2001/2002.

At the Group level, total expenditure amounted to Rs. 34,237.54 million, reflecting a 10.1% increase.

Aviation fuel costs increased 3.6% to Rs. 6,459.61 million due to the rise in fuel prices in the second half of the year.

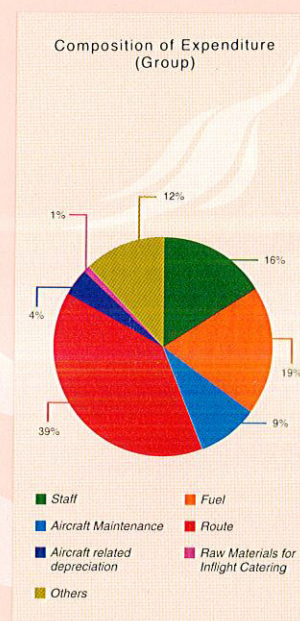
Aircraft maintenance cost rose by Rs. 1,488.01 or 103.6% as the number of engine overhauls undertaken during the year recorded an increase.

Route costs of the Company increased by Rs. 1,750.89 million or 13.9% to Rs. 14,372.19 million. This increase was principally due to the operation of a greater number of flights and the appreciation of the Euro against the Sri Lankan Rupee.

The increase in other costs by Rs. 409.19 million to Rs. 3,992.28 million was due to higher marketing and advertising costs.

Staff costs in 2002 included the cost of the compensation package that was paid to employees who took up early retirement.

Composition of Expenditure	GROUP				COMPANY			
	2003		2002		2003		2002	
	Rs M	%	Rs M	%	Rs M	%	Rs M	%
Staff	5,507	16	6,127	20	5,349	16	5,957	19
Fuel	6,460	19	6,237	20	6,460	19	6,237	20
Aircraft Maintenance	2,925	9	1,437	5	2,925	8	1,437	5
Route	13,454	39	11,881	38	14,372	41	12,621	40
Aircraft related depreciation	1,357	4	1,406	4	1,357	4	1,406	5
Raw Materials for Inflight Catering	290	1	241	1	-	-	-	-
Others	4,245	12	3,774	12	3,992	12	3,583	11
Total	34,238	100	31,103	100	34,455	100	31,240	100



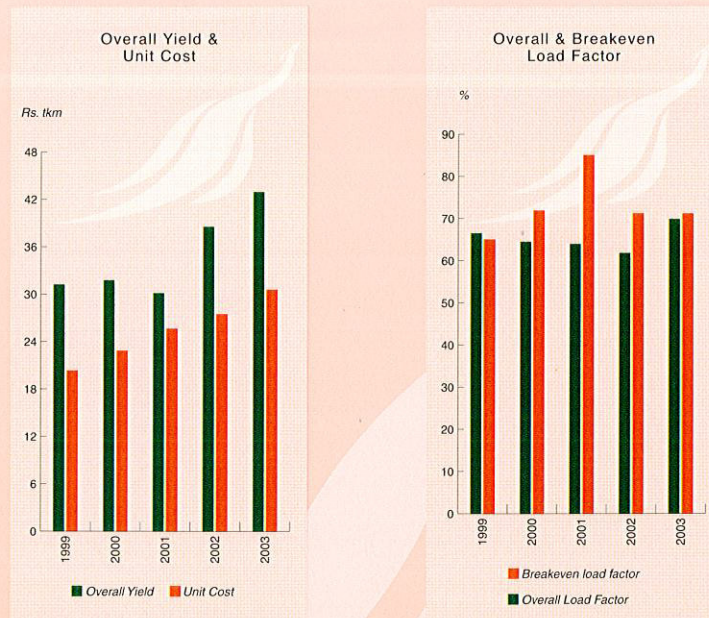
Review of Operations

YIELD / UNIT COST / BREAK-EVEN LOAD FACTOR

Compared to 2001/2002, unit yield increased by 11.4% to Rs. 42.99 per load tonne kilometer. The increase was largely due to fare increases and the depreciation of the Sri Lankan Rupee against European currencies.

Unit cost increased from Rs. 27.5 to Rs. 30.6 per capacity tonne kilometer due to higher maintenance, advertising and marketing expenditure and depreciation of the Sri Lankan Rupee and the reduction in capacity production.

Break-even load factor improved from 71.34% to 71.28% as a result of the improvement in unit yield.



FINANCIAL POSITION

For the year 2002/2003, the Company registered a gross profit of Rs. 7,018.29 million, reflecting a significant improvement in its operating performance. In the previous year, the Company recorded a gross profit of Rs. 3,451.03 million.

Group gross profit was up 91.0% or Rs. 3,948.35 million to Rs. 8,288.49 million.

The net profit of the Company after taxation was Rs. 1,329.20 million.

The Group net profit after taxation was Rs. 2,197.23 million.

Total equity of the Company increased by Rs. 2,336.38 million or 197.2% as a result of the growth in profits. At the Group level, total equity improved by Rs. 3,204.41 million or 101.7%, with the subsidiary registering a net profit of Rs. 868.03 million.

Cash and cash equivalents held by the Company as at 31 March 2003 was Rs. 8,242.37 million, reflecting an improvement of Rs. 5,084.47 million over the previous year.

At the Group level, cash and cash equivalents increased by Rs. 5,129.28 million to reach Rs. 8,379.67 million as at 31 March 2003.

Report of the Directors

The Directors have pleasure in submitting their Report and Audited Accounts for the year ended 31st March 2003. The Accounts are set out on pages 45 to 71.

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 the 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

SriLankan Catering (Private) 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 to Mr. D E Mannion

Particulars of interests of Directors in contracts and proposed contracts having been declared by the Directors are in Note 25 to the accounts.

ACCOUNTS

The Consolidated profit for the year ended 31st March 2003, before interest and other similar charges was Rs. 4,012.68 million. Consolidated net profit for the year, after interest and similar charges, taxation and extraordinary items amounted to Rs. 2,197.23 million.

Report of the Directors

RESERVES

There were no material transfers to or from reserves or provisions during the year ended 31st March 2003, other than those stated in the accounts and the notes thereto.

ACCOUNTING POLICIES

The principal accounting policies of the Company are set out on pages 49 to 56.

PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and 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 19 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

6th June 2003

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 2003, the consolidated balance sheet of the Company and of its Subsidiary (Group) 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 45 to 71 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- Company

In our opinion, so far as appears from our examination, the Company maintained proper books of account for the year ended 31st March 2003 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 2003, its profit and cash flows for the year then ended.

Without qualifying our opinion on the financial statements of the Company, we draw attention to Note 2.1.5 (iii) to the financial statements.

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 2.1.5 (iii) to the financial statements.

Report of the Auditors

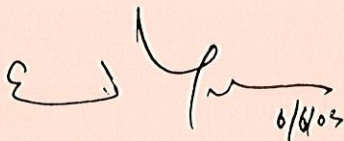
Opinion- Group

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 2003, 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.

The Auditors' of the Subsidiary without qualifying their opinion have drawn attention to Note 10.5 that relates to the capitalization of Rs. 213 million spent on the new flight kitchen design.

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 2003, except as stated in Note 25 to these financial statements.



Ernst & Young
Chartered Accountants
Colombo

6th June 2003

Income Statement

Year Ended 31 March 2003

	Note	Group 2003 Rs M	Restated Group 2002 Rs M	Company 2003 Rs M	Restated Company 2002 Rs M
Revenue	3	36,896.88	29,755.81	36,235.04	29,352.91
Cost of Sales		<u>(28,608.39)</u>	<u>(25,415.67)</u>	<u>(29,216.75)</u>	<u>(25,901.88)</u>
Gross Profit		8,288.49	4,340.14	7,018.29	3,451.03
Other Income	4	1,353.34	596.27	1,327.91	432.68
Distribution & Marketing Costs		<u>(3,793.75)</u>	<u>(3,398.70)</u>	<u>(3,793.75)</u>	<u>(3,398.52)</u>
Administrative Expenses		<u>(1,835.40)</u>	<u>(2,289.00)</u>	<u>(1,444.40)</u>	<u>(1,939.90)</u>
Profit/(Loss) from Operating Activities	5	4,012.68	(751.29)	3,108.05	(1,454.71)
Finance Cost	6	<u>(576.36)</u>	<u>(1,062.86)</u>	<u>(576.36)</u>	<u>(1,062.86)</u>
Amortization of Currency Losses	18.1	<u>(1,192.67)</u>	<u>(1,295.90)</u>	<u>(1,192.67)</u>	<u>(1,295.90)</u>
Profit/(Loss) from Ordinary Activities Before Tax		2,243.65	(3,110.05)	1,339.02	(3,813.47)
Income Tax Expense	7	<u>(46.42)</u>	<u>(36.33)</u>	<u>(9.82)</u>	<u>(12.93)</u>
Profit/(Loss) from Ordinary Activities After tax Before Extraordinary Items		2,197.23	(3,146.38)	1,329.20	(3,826.40)
Extraordinary Items	8	<u>-</u>	<u>7,098.61</u>	<u>-</u>	<u>7,098.61</u>
Net Profit/(Loss) for the Year		2,197.23	3,952.23	1,329.20	3,272.21
Basic Earnings Per Share Before Extraordinary Items	9	42.69	(61.14)	25.83	(74.35)
Basic Earnings Per Share After Extraordinary Items	9	42.69	76.80	25.83	63.58
Dividends Per Share		-	-	-	-

The accounting policies and notes on pages 49 to 71 form an integral part of these financial statements.

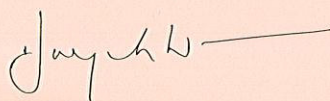
6th June 2003

Balance Sheet

As at 31 March 2003

	Note	Group 2003 Rs M	Restated Group 2002 Rs M	Company 2003 Rs M	Restated Company 2002 Rs M
ASSETS					
Non-Current Assets					
Property, Plant & Equipment	10	11,508.30	13,077.36	11,218.59	12,826.78
Investments	11	25.49	-	95.89	70.40
		<u>11,533.79</u>	<u>13,077.36</u>	<u>11,314.48</u>	<u>12,897.18</u>
Current Assets					
Inventories	12	2,194.97	1,993.73	2,136.98	1,949.84
Trade and Other Receivables	13.1	7,972.66	6,683.51	7,794.71	6,564.59
Investments	14	121.79	-	121.79	-
Cash and Bank Balances	15.1	8,798.67	3,639.58	8,659.85	3,547.09
		<u>19,088.09</u>	<u>12,316.82</u>	<u>18,713.33</u>	<u>12,061.52</u>
Total Assets		<u>30,621.88</u>	<u>25,394.18</u>	<u>30,027.81</u>	<u>24,958.70</u>
EQUITY AND LIABILITIES					
Capital and Reserves					
Issued Capital	16.2	5,146.35	5,146.35	5,146.35	5,146.35
Reserves	17	159.27	159.27	129.04	129.04
Accumulated Profits/(Losses)		5,363.09	3,165.86	2,559.61	1,230.41
		<u>10,668.71</u>	<u>8,471.48</u>	<u>7,835.00</u>	<u>6,505.80</u>
Exchange Equalisation Reserve	18.1	(4,313.98)	(5,321.16)	(4,313.98)	(5,321.16)
Total Equity		<u>6,354.73</u>	<u>3,150.32</u>	<u>3,521.02</u>	<u>1,184.64</u>
Non-Current Liabilities					
Interest Bearing Liabilities	19	9,054.57	11,591.09	9,054.57	11,591.09
Retirement Benefit Obligations	20	881.88	670.05	811.10	604.57
		<u>9,936.45</u>	<u>12,261.14</u>	<u>9,865.67</u>	<u>12,195.66</u>
Current Liabilities					
Trade and Other Payables	21	10,852.23	6,834.86	13,126.85	8,361.68
Income Tax Payable		349.98	308.62	387.30	377.48
Bank Overdraft	15.2	419.00	389.19	417.48	389.19
Interest Bearing Liabilities	19	2,709.49	2,450.05	2,709.49	2,450.05
		<u>14,330.70</u>	<u>9,982.72</u>	<u>16,641.12</u>	<u>11,578.40</u>
Total Equity and Liabilities		<u>30,621.88</u>	<u>25,394.18</u>	<u>30,027.81</u>	<u>24,958.70</u>

The Board of Directors is responsible for the preparation and presentation of these financial statements. Signed for and on behalf of the Board by:


Director


Director

The accounting policies and notes on pages 49 to 71 form an integral part of these financial statements.

6th June 2003

Statement of Changes in Equity

Year Ended 31 March 2003

GROUP	Note	Share Capital	Capital Reserve	Revenue Reserve	General Reserve	Exchange Equalisation Reserve	Accumulated Profits/(Losses)	Total
		Rs M	Rs M	Rs M	Rs M	Rs M	Rs M	Rs M
Balance as at 31 March 2001		5,146.35	105.20	0.63	53.44	(5,170.65)	(2,559.43)	(2,424.46)
Effects of changes in accounting policy	22	-	-	-	-	-	1,773.06	1,773.06
Restated Balance as at 31 March 2001		5,146.35	105.20	0.63	53.44	(5,170.65)	(786.37)	(651.40)
Net Profit/(Loss) for the year		-	-	-	-	-	3,952.23	3,952.23
Transferred (to)/from during the year		-	-	-	-	(150.51)	-	(150.51)
Restated Balance as at 31 March 2002		5,146.35	105.20	0.63	53.44	(5,321.16)	3,165.86	3,150.32
Net Profit/(Loss) for the year		-	-	-	-	-	2,197.23	2,197.23
Transferred (to)/from during the year		-	-	-	-	1,007.18	-	1,007.18
Balance as at 31 March 2003		<u>5,146.35</u>	<u>105.20</u>	<u>0.63</u>	<u>53.44</u>	<u>(4,313.98)</u>	<u>5,363.09</u>	<u>6,354.73</u>

COMPANY	Note	Share Capital	Capital Reserve	General Reserve	Exchange Equalisation Reserve	Accumulated Profits/(Losses)	Total
		Rs M	Rs M	Rs M	Rs M	Rs M	Rs M
Balance as at 31 March 2001		5,146.35	75.60	53.44	(5,170.65)	(3,814.86)	(3,710.12)
Effects of changes in accounting policy	22	-	-	-	-	1,773.06	1,773.06
Restated Balance as at 31 March 2001		5,146.35	75.60	53.44	(5,170.65)	(2,041.80)	(1,937.06)
Net Profit/(Loss) for the year		-	-	-	-	3,272.21	3,272.21
Transferred (to)/from during the year		-	-	-	(150.51)	-	(150.51)
Restated Balance as at 31 March 2002		5,146.35	75.60	53.44	(5,321.16)	1,230.41	1,184.64
Net Profit/(Loss) for the year		-	-	-	-	1,329.20	1,329.20
Transferred (to)/from during the year		-	-	-	1,007.18	-	1,007.18
Balance as at 31 March 2003		<u>5,146.35</u>	<u>75.60</u>	<u>53.44</u>	<u>(4,313.98)</u>	<u>2,559.61</u>	<u>3,521.02</u>

The accounting policies and notes on pages 49 to 71 form an integral part of these financial statements.

6th June 2003

Cash Flow Statement

Year Ended 31 March 2003

	Note	Group 2003 Rs M	Restated Group 2002 Rs M	Company 2003 Rs M	Restated Company 2002 Rs M
Cash Flows From / (Used in) Operating Activities					
Net Profit/(Loss) before Income Tax Expense & Extraordinary Items		2,243.65	(3,110.05)	1,339.02	(3,813.47)
Adjustments for					
Depreciation		1,761.02	1,827.10	1,742.20	1,806.41
Amortisation of Pre-delivery Payments		112.13	135.45	112.13	135.45
Amortisation of Currency Losses		1,192.67	1,295.90	1,192.67	1,295.90
(Profit)/Loss on sale of Property, Plant & Equipment		(3.22)	97.24	(3.22)	111.93
Finance Costs		576.36	1,062.86	576.36	1,062.86
Provision for Bad and Doubtful Debts		-	42.56	-	42.38
Provision for Slow Moving Stocks		24.44	99.77	24.44	99.77
Provision for Gratuity		245.05	126.84	238.92	118.62
Income from Sale & Revaluation of Shares		(290.57)	-	(290.57)	-
Operating Profit/(Loss) before Working Capital Changes		5,861.53	1,577.67	4,931.95	859.85
(Increase)/Decrease in Inventories		(225.68)	(165.38)	(211.58)	(191.29)
(Increase)/Decrease in Trade and Other Receivables		(1,401.66)	146.92	(1,342.25)	105.19
Increase/(Decrease) in Trade and Other Payables		4,108.17	(2,968.55)	4,856.92	(2,295.46)
Cash Generated from Operations		8,342.36	(1,409.34)	8,235.04	(1,521.71)
Finance Costs Paid		(606.85)	(707.01)	(606.85)	(707.01)
Gratuity Paid		(33.22)	(169.50)	(32.39)	(162.13)
Income Tax Paid		(4.68)	-	-	-
Cash Flow before Extraordinary Items		7,697.61	(2,285.85)	7,595.80	(2,390.85)
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		7,697.61	5,750.87	7,595.80	5,645.87
Cash Flows From/(Used in) Investing Activities					
Acquisition of Property, Plant & Equipment		(261.82)	(532.17)	(204.82)	(423.61)
Proceeds from sale of Property, Plant & Equipment		12.78	18.23	12.78	4.69
Proceeds from sale of Investments		143.29	-	143.29	-
Net Cash Flows from/(used in) Investing Activities		(105.75)	(513.94)	(48.75)	(418.92)
Cash Flows From/(Used in) Financing Activities					
Proceeds from Interest Bearing Liabilities		-	1,397.73	-	1,397.73
Repayment of Interest Bearing Liabilities		(130.17)	(2,812.16)	(130.17)	(2,812.16)
Principal Payments under Finance Lease Liabilities		(2,332.41)	(2,025.77)	(2,332.41)	(2,025.77)
Dividends Paid		-	(0.05)	-	(0.05)
Net Cash Flows from/(used in) Financing Activities		(2,462.58)	(3,440.25)	(2,462.58)	(3,440.25)
Net increase/(decrease) in Cash and Cash Equivalents		5,129.28	1,796.68	5,084.47	1,786.70
Cash and Cash Equivalents at the beginning of the year	15.2	3,250.39	1,453.71	3,157.90	1,371.20
Cash and Cash Equivalents at the end of the year	15.2	8,379.67	3,250.39	8,242.37	3,157.90

The accounting policies and notes on pages 49 to 71 form an integral part of these financial statements.

Notes to the Financial Statements

Year Ended 31 March 2003

1.0 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 as at 31st March 2003 was 3,970. (31st March 2002 – 4,049)

2.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 GENERAL POLICIES

2.1.1 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 2003, 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 2.1.5 (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 and equipment, which are stated at revalued amounts and current investments which are stated at market values.

2.1.2 Comparative Information

The accounting policies have been consistently applied by the Company and except for the change in accounting policy discussed more fully in 2.1.3; are consistent with those used in the previous year.

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

2.1.3 Changes in Accounting Policies

In the current year the Company changed its accounting policy in recognising major airframe and engine maintenance costs from providing for the estimated future costs of maintenance over the period from the date of acquisition to the date of the next check on the basis of block hours flown to recognizing such costs when incurred. This is more fully described in Note 22 to the financial statements.

Notes to the Financial Statements

Year Ended 31 March 2003

2.1.4 Consolidation

The consolidated financial statements include the results, assets and liabilities of SriLankan Airlines Ltd. and its wholly owned Subsidiary – SriLankan Catering (Private) 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.

2.1.5 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 2003.
- (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 account and amortised 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 equalisation 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 SriLankan 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.

Notes to the Financial Statements

Year Ended 31 March 2003

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 an increase in the profit for the year by Rs. 1,007.18 million and the decrease in accumulated profits by Rs. 5,321.16 million.

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

2.1.6 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 01st August 1986, and thereafter a period of five years from 01st 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 (Private) 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.

Notes to the Financial Statements

Year Ended 31 March 2003

2.1.7 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.

2.1.8 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) Ltd. – 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 and Equipment

(a) Cost

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

Expenditure for major modifications and improvements which result in an increase in the earning capacity or the useful life of the assets, are capitalised. Expenditure for repairs and maintenance are charged to the income statement.

Notes to the Financial Statements

Year Ended 31 March 2003

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 rotatable 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 percent 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 rotatable spares	-	over 8 years.

2.2.5 Leases

Finance Leases

Property, Plant & 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 costs, whichever is shorter.

Notes to the Financial Statements

Year Ended 31 March 2003

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.

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

Current investments

Current investments are stated at market value.

Unrealised gains and losses on current investments carried at market value are taken to the income statement.

Long-term 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 recognise 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 March 2003 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 | 13% |
| iii) | Retirement Age - | Male 55 years
Female 55 years |
| iv) | The Company will continue as a going concern. | |

The amount recognised as an expense for the current year in terms of the actuarial valuation is Rs. 221.87 million.

Notes to the Financial Statements

Year Ended 31 March 2003

The actuarial present value of the accrued benefits as at 31st March 2003 is Rs. 748.12 million. The gratuity liability is not externally funded. This item is grouped under "Retirement Benefit Obligations" in the Balance Sheet (refer note 20).

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

Subsidiary SriLankan Catering (Pvt) Ltd. – 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	1/2
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 & Overhaul costs

All costs in relation to maintenance and overhaul of aircraft and engines including costs associated with heavy maintenance checks are charged to the income statement as they are incurred.

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 recognised as air transport revenue when the service is utilised through carriage by the Company.

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

Notes to the Financial Statements

Year Ended 31 March 2003

Passenger tickets that remain unutilised 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 participated 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. Gains and losses on early termination of agreements are deferred and amortised over the period of the forecasted transactions.

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 recognised in full in the relevant year.

Notes to the Financial Statements

Year Ended 31 March 2003

3 REVENUE	Group 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
Total Revenue	<u>36,896.88</u>	<u>29,755.81</u>	<u>36,235.04</u>	<u>29,352.91</u>

3.1 In terms of Goods and Services Tax (GST) Act No. 34 of 1996:

- * Company activities directly connected with international transportation of passenger 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%, and a National Security Levy of 6.5%.

Goods and Services tax was abolished with effect from 01 August 2002. This sales tax was replaced by the Value Added Tax (VAT) and the Company is registered for purposes of VAT.

In terms of the Value Added Tax (VAT) Act No. 14 of 2002 as such at present:

- * Company activities directly connected with international transportation of passenger 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 20%.

3.2 Primary Reporting by Business Segment - Goods and Services Analysis

	Group 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
Sale of goods				
Rendering of Services				
Scheduled Services - Passenger	28,851.76	23,036.34	28,851.76	23,036.34
- Excess baggage	514.59	612.71	514.59	612.71
- Cargo	4,290.42	3,703.00	4,309.67	3,738.43
- Mail	75.49	69.23	75.49	69.23
	<u>33,732.26</u>	<u>27,421.28</u>	<u>33,751.51</u>	<u>27,456.71</u>
Non-scheduled services	-	13.37	-	13.37
Duty Free	244.07	190.07	244.07	190.07
Ground Handling & Other Services	2,230.93	1,692.76	2,239.46	1,692.76
Flight Catering	689.62	438.33	-	-
Total	<u>36,896.88</u>	<u>29,755.81</u>	<u>36,235.04</u>	<u>29,352.91</u>

3.3 Secondary Reporting by Geographical Segment - Goods and Services Analysis

Group

Analysis of Turnover by Geographical Segment

	Group 2003 Rs M	Group 2002 Rs M
Asia	19,916.73	15,966.95
Europe & Africa	11,073.39	7,796.37
Middle East	4,626.67	4,981.50
North & South America	1,017.36	696.33
South West Pacific	262.73	314.66
Total	<u>36,896.88</u>	<u>29,755.81</u>

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

Notes to the Financial Statements

Year Ended 31 March 2003

3.3 Secondary Reporting by Geographical Segment - Goods and Services Analysis (Contd.)

Group

Analysis of Financial Results and Financial Position by Business Segment

	Business Segment		Group	Business Segment		Group
	Air Line	Flight Catering		Air Line	Flight Catering	
	2003 Rs M	2003 Rs M		2002 Rs M	2002 Rs M	
Revenue	36,235.04	1,607.33	36,896.88	29,352.91	1,178.31	29,755.81
Net Profit/(Loss) After Tax	1,329.20	868.03	2,197.23	3,272.21	680.02	3,952.23
Assets	30,027.81	3,114.91	30,621.88	24,958.70	2,172.39	25,394.18
Liabilities	26,506.79	235.77	24,267.15	23,774.06	161.29	22,243.86
Operating Expenses	34,454.90	728.12	34,237.54	31,240.30	638.48	31,103.37
Depreciation & Amortisation	3,047.00	18.82	3,065.82	3,237.76	20.69	3,258.45

Values reported under "Group" exclude inter-group balances.

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.

4 OTHER INCOME

	Group 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
Interest Income	173.56	154.48	166.69	149.24
Rental Income	0.72	0.75	0.72	0.75
Miscellaneous revenue	352.86	25.44	349.92	23.93
Income from Sale & Revaluation of shares	290.57	-	290.57	-
Profit/(Loss) on Disposal of Property, Plant and Equipment	3.22	(97.24)	3.22	(111.93)
Realised Gain/(Loss) on Exchange	532.41	512.84	516.79	370.69
	<u>1,353.34</u>	<u>596.27</u>	<u>1,327.91</u>	<u>432.68</u>

5 Profit/(Loss) from Operating Activities Includes the following:

	Group 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
Bad Debts	-	42.56	-	42.38
Advertising & Marketing Costs	3,793.75	3,356.14	3,793.75	3,356.14
Directors' Emoluments	-	-	-	-
Auditors' Remuneration	1.83	1.60	1.45	1.25
Depreciation	1,761.02	1,827.10	1,742.20	1,806.41
Staff Costs	4,757.82	5,009.00	4,621.93	4,862.55
Voluntary Severance Scheme	-	567.73	-	567.73
Defined Benefit Plan costs - Gratuity	245.09	126.83	238.92	118.62
Defined Contribution Plan costs - EPF & ETF	387.39	409.42	371.30	393.52
Staff Incentive Payments	117.06	14.11	117.06	14.11
Realised Gain/(Loss) on Exchange	532.41	512.84	516.79	370.69
Profit/(Loss) on Disposal of Property, Plant and Equipment	3.22	(97.24)	3.22	(111.93)
Gain/(Loss) on Fuel Risk Management Programme	208.27	(343.34)	208.27	(343.34)
Gain on Interest Rate Profile Management Programme	-	833.67	-	833.67

6 FINANCE COST

	Group 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
Interest Expense on Loans, Borrowings & Overdrafts	37.06	265.09	37.06	265.09
Finance Charges on Lease Liabilities	539.30	797.77	539.30	797.77
	<u>576.36</u>	<u>1,062.86</u>	<u>576.36</u>	<u>1,062.86</u>

Notes to the Financial Statements

Year Ended 31 March 2003

7 INCOME TAX EXPENSE	Group 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
Current Income Tax				
Current Tax expense for the year	46.42	36.33	9.82	12.93
	<u>46.42</u>	<u>36.33</u>	<u>9.82</u>	<u>12.93</u>

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)
	<u>7,098.61</u>

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 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
Amount used as the Numerator:				
Net Profit/(Loss) attributable to ordinary shareholders for Basic Earnings per Share before Extraordinary Items	2,197.23	(3,146.38)	1,329.20	(3,826.40)
Net Profit/(Loss) attributable to ordinary shareholders for Basic Earnings per Share after Extraordinary Items	2,197.23	3,952.23	1,329.20	3,272.21
	Group 2003 Number	Group 2002 Number	Company 2003 Number	Company 2002 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

Notes to the Financial Statements

Year Ended 31 March 2003

10 PROPERTY, PLANT & EQUIPMENT - GROUP

10.1 Gross Carrying Amounts	Balance As at 01-04-2002	Acquisitions and Modification	Adjustments and Transfers	Disposals during the year	Balance As at 31-03-2003
	Rs M	Rs M	Rs M	Rs M	Rs M
At Cost/Cost Incurred Since Last Revaluation					
Land & Buildings	758.92	6.29	-	-	765.21
Equipment	3,275.99	182.62	(8.85)	(37.37)	3,412.39
Aircraft Reconfiguration Cost	18.76	-	-	-	18.76
Aircraft Related Equipment	3,749.65	68.88	(52.40)	(10.34)	3,755.79
	<u>7,803.32</u>	<u>257.79</u>	<u>(61.25)</u>	<u>(47.71)</u>	<u>7,952.15</u>
Assets on Finance Leases					
Aircraft & Related Equipment	16,552.46	4.03	-	-	16,556.49
	<u>16,552.46</u>	<u>4.03</u>	<u>-</u>	<u>-</u>	<u>16,556.49</u>
At Valuation					
Land & Buildings	107.77	-	-	-	107.77
	<u>107.77</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107.77</u>
Total Value of Depreciable Assets	<u>24,463.55</u>	<u>261.82</u>	<u>(61.25)</u>	<u>(47.71)</u>	<u>24,616.41</u>
10.2 In the Course of Construction					
	Balance As at 01-04-2002	Incurred During the Year	Adjustments during the Year	Disposals/ Transfers	Balance As at 31-03-2003
	Rs M	Rs M	Rs M	Rs M	Rs M
Building Work in Progress	212.70	-	0.95	-	213.65
Total Gross Carrying Amount	<u>24,676.25</u>	<u>261.82</u>	<u>(60.30)</u>	<u>(47.71)</u>	<u>24,830.06</u>
10.3 Depreciation					
	Balance As at 01-04-2002	Charge for the year/ Transfers	Disposals	Balance As at 31-03-2003	
	Rs M	Rs M	Rs M	Rs M	
At Cost/Cost Incurred Since Last Revaluation					
Land & Buildings	575.14	40.18	-	615.32	
Equipment	2,500.56	356.58	(35.14)	2,822.00	
Aircraft Reconfiguration Cost	3.68	5.47	-	9.15	
Aircraft Related Equipment	2,081.06	370.47	(3.01)	2,448.52	
	<u>5,160.44</u>	<u>772.70</u>	<u>(38.15)</u>	<u>5,894.99</u>	
Assets on Finance Leases					
Aircraft & Related Equipment	6,344.35	986.23	-	7,330.58	
	<u>6,344.35</u>	<u>986.23</u>	<u>-</u>	<u>7,330.58</u>	
At Valuation					
Land & Buildings	94.10	2.09	-	96.19	
	<u>94.10</u>	<u>2.09</u>	<u>-</u>	<u>96.19</u>	
Total Depreciation	<u>11,598.89</u>	<u>1,761.02</u>	<u>(38.15)</u>	<u>13,321.76</u>	

Notes to the Financial Statements

Year Ended 31 March 2003

10.4 Net Book Values	Group 2003 Rs M	Group 2002 Rs M
At Cost/Cost Incurred Since Last Revaluation	2,057.16	2,642.88
On Finance Leases	9,225.91	10,208.11
At Valuation	11.58	13.67
In the Course of Construction	213.65	212.70
Total Carrying Amount of Property, Plant & Equipment	11,508.30	13,077.36

10.5 The Auditors' of the Subsidiary without qualifying their opinion have drawn attention to the capitalisation of Rs. 213.65 million spent on the new flight kitchen design. This project was suspended as per a Board decision of 13 June 2001 and is now being reactivated with in intimation made on 04 June 2003 to a project manager to commence the project. The land lease for the said site is being negotiated and the formal acceptance by the project manager is subject to final discussions.

10 (a) PROPERTY, PLANT & EQUIPMENT - COMPANY

10 (a).1 Gross Carrying Amounts	Balance As at 01-04-2002 Rs M	Acquisitions and Modifications Rs M	Adjustments and Transfers Rs M	Disposals during the year Rs M	Balance As at 31-03-2003 Rs M
At Cost/Cost Incurred Since Last Revaluation					
Land & Buildings	661.41	0.24	-	-	661.65
Equipment	2,919.91	131.67	(8.85)	(37.37)	3,005.36
Aircraft Reconfiguration Cost	18.76	-	-	-	18.76
Aircraft Related Equipment	3,749.65	68.88	(52.40)	(10.34)	3,755.79
	<u>7,349.73</u>	<u>200.79</u>	<u>(61.25)</u>	<u>(47.71)</u>	<u>7,441.56</u>
Assets on Finance Lease					
Aircraft & Related Equipment	16,552.46	4.03	-	-	16,556.49
	<u>16,552.46</u>	<u>4.03</u>	<u>-</u>	<u>-</u>	<u>16,556.49</u>
At Valuation					
Land & Building	107.77	-	-	-	107.77
	<u>107.77</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107.77</u>
Total Value of Depreciable Assets	<u>24,009.96</u>	<u>204.82</u>	<u>(61.25)</u>	<u>(47.71)</u>	<u>24,105.82</u>
10 (a).2 In the Course of Construction					
	Balance As at 01-04-2002 Rs M	Incurred During the Year Rs M	Adjustments during the year Rs M	Disposals/ Transfers Rs M	Balance As at 31-03-2003 Rs M
Building Work in Progress	-	-	-	-	-
Total Gross Carrying Amount	<u>24,009.96</u>	<u>204.82</u>	<u>(61.25)</u>	<u>(47.71)</u>	<u>24,105.82</u>

Notes to the Financial Statements

Year Ended 31 March 2003

10 (a).3 Depreciation	Balance As at 01-04-2002 Rs M	Charge for the year/ Transfers Rs M	Disposals Rs M	Balance As at 31-03-2003 Rs M
At Cost/Cost Incurred Since Last Revaluation				
Land & Buildings	488.69	36.29	-	524.98
Equipment	2,171.30	341.65	(35.14)	2,477.81
Aircraft Reconfiguration Cost	3.68	5.47	-	9.15
Aircraft Related Equipment	2,081.06	370.47	(3.01)	2,448.52
	<u>4,744.73</u>	<u>753.88</u>	<u>(38.15)</u>	<u>5,460.46</u>
Assets on Finance Leases				
Aircraft & Related Equipment	6,344.35	986.23	-	7,330.58
	<u>6,344.35</u>	<u>986.23</u>	<u>-</u>	<u>7,330.58</u>
At Valuation				
Land & Buildings	94.10	2.09	-	96.19
	<u>94.10</u>	<u>2.09</u>	<u>-</u>	<u>96.19</u>
Total Depreciation	<u>11,183.18</u>	<u>1,742.20</u>	<u>(38.15)</u>	<u>12,887.23</u>

10 (a).4 Net Book Values	Company 2003 Rs M	Company 2002 Rs M
At Cost/Cost Incurred Since Last Revaluation	1,981.10	2,605.00
On Finance Leases	9,225.91	10,208.11
At Valuation	11.58	13.67
In the Course of Construction	-	-
Total Carrying Amount of Property, Plant & Equipment	<u>11,218.59</u>	<u>12,826.78</u>

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

	Valuer -
Property owned by the Company and situated at No. 12 Sir Baron Jayatileka 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 and Equipment to the aggregate value of Rs. 204.82 million (2002 - Rs. 525.51 million): Cash payments amounting to Rs. 204.82 million (2002 - Rs. 423.61 million) were made during the year for purchase of Property, Plant and Equipment.

10 (a).7 Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs. 3,963.01 million (2002 - Rs. 2,938.88 million).

Notes to the Financial Statements

Year Ended 31 March 2003

11 INVESTMENTS Un-Quoted

Name of Company	Country of Incorporation	Holding %	Cost 2003	Directors' Valuation 2003	Cost 2002	Directors' Valuation 2002
			Rs M	Rs M	Rs M	Rs M
SriLankan Catering (Private) Ltd.	Sri Lanka	100%	70.40	70.40	70.40	70.40
SITA INC Foundation Shares	Netherlands	0.8%	25.49	25.49	-	-
			<u>95.89</u>	<u>95.89</u>	<u>70.40</u>	<u>70.40</u>

The investment in SITA INC. represents unquoted depositary certificates without fixed maturity. This investment is measured at cost.

12 INVENTORIES

	Group 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
Consumable Spares	2,194.97	1,993.73	2,136.98	1,949.84
Total Inventories at lower of cost and net realisable value	<u>2,194.97</u>	<u>1,993.73</u>	<u>2,136.98</u>	<u>1,949.84</u>

13 TRADE AND OTHER RECEIVABLES

	Group 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
13.1 Summary				
Trade Debtors	4,043.22	3,288.69	3,915.06	3,199.51
Less: provision for doubtful debts	(416.33)	(416.59)	(416.33)	(416.33)
	<u>3,626.89</u>	<u>2,872.10</u>	<u>3,498.73</u>	<u>2,783.18</u>
Other Debtors	2,010.91	1,407.88	2,010.91	1,407.88
Advances and Prepayments	2,306.20	2,379.65	2,259.99	2,351.94
	<u>7,944.00</u>	<u>6,659.63</u>	<u>7,769.63</u>	<u>6,543.00</u>
Loans & Advances to Company officers (13.2)	28.66	23.88	25.09	21.60
	<u>7,972.66</u>	<u>6,683.51</u>	<u>7,794.71</u>	<u>6,564.59</u>

13.2 Loans to Company Officers:

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

Summary

Balance as at the beginning of the year	2.02	0.80	1.89	0.62
Loans granted during the year	2.65	2.37	2.00	2.00
Less: Repayments	(1.88)	(1.16)	(1.19)	(0.73)
Balance as at the end of the year	<u>2.79</u>	<u>2.02</u>	<u>2.70</u>	<u>1.89</u>

Notes to the Financial Statements

Year Ended 31 March 2003

14 INVESTMENTS Quoted	Group 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
Investment in France Telecom Shares	121.79	-	121.79	-
	<u>121.79</u>	<u>-</u>	<u>121.79</u>	<u>-</u>
15 CASH AND CASH EQUIVALENTS				
	Group 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
Components of Cash and Cash Equivalents				
15.1 Favourable Cash & Cash Equivalents Balance				
Cash & Bank Balances	819.67	688.13	697.87	611.60
Fixed & Call Deposits	7,964.48	2,937.99	7,961.98	2,935.49
Treasury Bills	14.52	13.46	-	-
	<u>8,798.67</u>	<u>3,639.58</u>	<u>8,659.85</u>	<u>3,547.09</u>
15.2 Unfavourable Cash & Cash Equivalents Balance				
Bank Overdrafts	<u>(419.00)</u>	<u>(389.19)</u>	<u>(417.48)</u>	<u>(389.19)</u>
Total Cash and Cash Equivalents for the purpose of Cash Flow Statement	<u>8,379.67</u>	<u>3,250.39</u>	<u>8,242.37</u>	<u>3,157.90</u>
16 SHARE CAPITAL				
		Par Value Rs	Company 2003 Number	Company 2002 Number
16.1 Authorised				
Number of Shares	Ordinary Shares	100/-	<u>150,000,000</u>	<u>150,000,000</u>
			<u>150,000,000</u>	<u>150,000,000</u>
			Rs M	Rs M
Nominal Value	Ordinary Shares	100/-	<u>15,000.00</u>	<u>15,000.00</u>
			<u>15,000.00</u>	<u>15,000.00</u>
16.2 Issued and Fully Paid				
Number of Shares	Ordinary Shares	100/-	<u>51,463,463</u>	<u>51,463,463</u>
			<u>51,463,463</u>	<u>51,463,463</u>
			Rs M	Rs M
Nominal Value	Ordinary Shares	100/-	<u>5,146.35</u>	<u>5,146.35</u>
			<u>5,146.35</u>	<u>5,146.35</u>

Notes to the Financial Statements

Year Ended 31 March 2003

17 RESERVES

	Group 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
Summary				
Capital Reserves (17.1)	105.20	105.20	75.60	75.60
Revenue Reserves (17.2)	0.63	0.63	-	-
General Reserves (17.3)	53.44	53.44	53.44	53.44
	<u>159.27</u>	<u>159.27</u>	<u>129.04</u>	<u>129.04</u>

	Group 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
17.1 Capital Reserves				
At 1st April	105.20	105.20	75.60	75.60
At 31st March	<u>105.20</u>	<u>105.20</u>	<u>75.60</u>	<u>75.60</u>

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 - Company)
- 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 - Company)

	Group 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
17.2 Revenue Reserves				
At 1st April	0.63	0.63	-	-
At 31st March	<u>0.63</u>	<u>0.63</u>	<u>-</u>	<u>-</u>

	Group 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
17.3 General Reserves				
At 1st April	53.44	53.44	53.44	53.44
At 31st March	<u>53.44</u>	<u>53.44</u>	<u>53.44</u>	<u>53.44</u>

Notes to the Financial Statements

Year Ended 31 March 2003

18 EXCHANGE EQUALISATION ACCOUNT	Group 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
18.1 Summary				
As at the beginning of the year	5,321.16	5,170.65	5,321.16	5,170.65
Deferred during the year	185.49	1,446.41	185.49	1,446.41
Amortised during the year	(1,192.67)	(1,295.90)	(1,192.67)	(1,295.90)
As at the end of the year	<u>4,313.98</u>	<u>5,321.16</u>	<u>4,313.98</u>	<u>5,321.16</u>

18.2 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 equalisation account and amortised 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 equalisation account.

19 INTEREST BEARING LIABILITIES - GROUP/COMPANY

	Amount Repayable Within 1 Year Rs M	2003 Amount Repayable After 1 Year Rs M	Total Rs M	Amount Repayable Within 1 Year Rs M	2002 Amount Repayable After 1 Year Rs M	Total Rs M
Finance Leases (19.1)	2,578.74	8,685.30	11,264.04	2,321.22	11,098.43	13,419.65
Long Term Loans (19.2)	130.75	369.27	500.02	128.83	492.66	621.49
	<u>2,709.49</u>	<u>9,054.57</u>	<u>11,764.06</u>	<u>2,450.05</u>	<u>11,591.09</u>	<u>14,041.14</u>

	2003 USD M	2003 Rs M	2002 USD M	2002 Rs M
19.1 Finance Lease Liabilities				
Within one year	26.61	2,578.74	24.31	2,321.22
Between:				
- One and two years	29.12	2,822.70	26.61	2,540.82
- two and three years	31.88	3,089.75	29.12	2,781.20
- three and four years	28.61	2,772.85	31.88	3,044.33
- four and five years	-	-	28.61	2,732.08
- After five years	-	-	-	-
	<u>116.22</u>	<u>11,264.04</u>	<u>140.53</u>	<u>13,419.65</u>
Amount due within one year included under current liabilities	(26.61)	(2,578.74)	(24.31)	(2,321.22)
	<u>89.61</u>	<u>8,685.30</u>	<u>116.22</u>	<u>11,098.43</u>

Notes to the Financial Statements

Year Ended 31 March 2003

19 INTEREST BEARING LIABILITIES - GROUP/COMPANY (Contd.)

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

	USD M	Rs M
Within one year	5.57	539.39
Between:		
- One and two years	5.28	511.36
- two and three years	3.96	383.53
- three and four years	1.50	145.70
- four and five years	-	-
- After five years	-	-
	<u>16.31</u>	<u>1,579.98</u>

Interest rates applicable to the finance leases ranged from 2.19 percent to 9.1141 percent 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. 6,375.73 million).

Conversion rate 1 US Dollar = Rs. 96.925 (Rs. 95.5 in 2001/02).

19.2

	2003 USD M	2003 Rs M	2002 USD M	2002 Rs M
Bank Loans Payable	-	-	-	-
Other Loans Payable				
Within one year	1.35	130.75	1.35	128.83
Between:				
- One and two years	1.35	130.75	1.35	128.83
- two and three years	1.35	130.75	1.35	128.83
- three and four years	0.73	71.16	1.35	128.82
- four and five years	0.12	11.56	0.73	70.10
- After five years	0.26	25.05	0.38	36.08
	<u>5.16</u>	<u>500.02</u>	<u>6.51</u>	<u>621.49</u>
Amount due within one year included under current liabilities	<u>(1.35)</u>	<u>(130.75)</u>	<u>(1.35)</u>	<u>(128.83)</u>
	<u>3.81</u>	<u>369.27</u>	<u>5.16</u>	<u>492.66</u>

Loans are repayable on various dates upto the year 2007 at varying interest rates which ranged from 2.19 percent to 9.1141 percent per annum during the year. The outstanding aircraft spares loan amounting to US Dollars 4.30 million (Rs. 416.78 million) is guaranteed by the Government of Sri Lanka.

Conversion rate 1 US Dollar = Rs. 96.925 (Rs. 95.5 in 2001/02).

Notes to the Financial Statements

Year Ended 31 March 2003

20 RETIREMENT BENEFIT OBLIGATIONS

20.1 Group

	Non-Current		Current		Total	
	2003 Rs M	2002 Rs M	2003 Rs M	2002 Rs M	2003 Rs M	2002 Rs M
Provision for Gratuity	<u>881.88</u>	<u>670.05</u>	<u>-</u>	<u>-</u>	<u>881.88</u>	<u>670.05</u>
	881.88	670.05	-	-	881.88	670.05

20.2 Company

	Non-Current		Current		Total	
	2003 Rs M	2002 Rs M	2003 Rs M	2002 Rs M	2003 Rs M	2002 Rs M
Provision for Gratuity	<u>811.10</u>	<u>604.57</u>	<u>-</u>	<u>-</u>	<u>811.10</u>	<u>604.57</u>
	811.10	604.57	-	-	811.10	604.57

21 TRADE AND OTHER PAYABLES

	Group 2003 Rs M	Group 2002 Rs M	Company 2003 Rs M	Company 2002 Rs M
Trade Payables	5,813.61	4,552.27	5,779.52	4,516.40
SriLankan Catering (Pvt) Limited Current Account	-	-	2,452.02	1,678.64
Dividends Payable	16.56	16.56	0.39	0.39
Sundry Creditors including accrued expenses	204.68	175.78	77.54	76.00
Sales in Advance of Carriage	4,817.38	2,090.25	4,817.38	2,090.25
	<u>10,852.23</u>	<u>6,834.86</u>	<u>13,126.85</u>	<u>8,361.68</u>

22 EFFECTS OF CHANGES IN ACCOUNTING POLICIES

Prior year Accumulated Profits/(Losses) after Adjustments

	2003 Rs M	2002 Rs M
At the beginning of the year as previously stated	(2,399.85)	(3,814.86)
Change in accounting policy - Net adjustment resulting from adoption of SLAS 36, ie recognising airframe and engine maintenance costs when incurred	<u>3,630.26</u>	<u>1,773.06</u>
Adjusted balance brought forward	<u>1,230.41</u>	<u>(2,041.80)</u>

The Company changed its accounting policy of recognising airframe and engine maintenance costs from providing for the estimated future costs of maintenance over the period from the date of acquisition to the date of the next check on the basis of block hours flown, to recognising such costs when incurred.

This change in accounting policy is as a result of the Company's adoption of Sri Lanka Accounting Standard No. 36 - "Provisions, Contingent Liabilities and Contingent Assets" which became effective during the year. (Refer accounting policy 2.3.2).

This change in accounting policy has been accounted for retrospectively. The comparative statements of 2002 have been restated to conform to the changed policy.

The effect of the change in the accounting policy on the financial statements is as follows:

	2003 Rs M	2002 Rs M	Prior to 2001 Rs M
Increase/(Decrease) in provision for airframe and engine maintenance	<u>(1,918.51)</u>	<u>(1,857.20)</u>	<u>(1,773.06)</u>

The amounts envisaged to be incurred in respect of airframe and engine maintenance costs in the ensuing year is disclosed in note 23.2 to the financial statements.

Notes to the Financial Statements

Year Ended 31 March 2003

23 COMMITMENTS AND CONTINGENCIES

23.1 Capital Expenditure Commitments

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

	Group		Company	
	2003 Rs M	2002 Rs M	2003 Rs M	2002 Rs M
Contracted but not provided for	378.82	89.19	378.82	89.19
Authorised by the Board, but not contracted for	2,019.88	1,896.91	295.03	199.61
	<u>2,398.70</u>	<u>1,986.10</u>	<u>673.85</u>	<u>288.80</u>

23.2 Operational Commitments

	Group		Company	
	2003 Rs M	2002 Rs M	2003 Rs M	2002 Rs M
Purchase Commitments	2,878.67	9,535.79	2,878.67	9,535.79
	<u>2,878.67</u>	<u>9,535.79</u>	<u>2,878.67</u>	<u>9,535.79</u>

Purchase Commitments relating to year 2002 include the notional value of contracts entered into with counterparties under the fuel risk management programme, which was terminated during the current financial year.

23.3 Operating Lease Commitments

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

	Non Cancellable Operating Leases	
	2003 Rs M	2002 Rs M
Not later than 1 year	4,716.77	4,570.49
Later than one year and not later than 5 years	18,284.52	17,763.14
Later than 5 years	18,023.33	22,404.84
	<u>41,024.62</u>	<u>44,738.47</u>

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

23.4 Contingencies

- 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. 582.67 million.
- The Government of Sri Lanka and Kuwait have signed a Treaty for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. The Treaty, once ratified, will exempt the airlines of the two states from double taxation on their profits from the operation of aircraft in international traffic for any taxable period commencing on or after 01 January 1981. The process of ratification of the Treaty is in progress. Hence, no provision has been made in these accounts in respect of an assessment of Kuwait Dinar 827,920 (LKR 267.51 million) issued by the Department of Income Taxes of Kuwait covering the period 01 April 1993 to 31 March 2001.

Conversion rate - 1 Kuwait Dinar = Rs. 323.11.

Notes to the Financial Statements

Year Ended 31 March 2003

✓ 24 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

An agreement was entered into with Orix Aviation Systems Limited for an operating lease of an Airbus A320-231 aircraft for a period commencing 10th April 2003 and expiring on 31st March 2009.

The total future commitment under the agreement is valued at Rs. 901.40 million (USD 9.30 million).

Conversion rate - 1 US Dollar = Rs. 96.925.

25 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 2003 and holding office as at date are:

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

The Company has entered into a number of related party agreements which are disclosed in note 26.2.

The Company has nominated four Directors to the Board of SriLankan Catering (Private) Limited, with whom the Company has a contract for catering, the value of which is disclosed in note 26.1. The current Directors of SriLankan Catering (Private) Limited are:

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

26 RELATED PARTY DISCLOSURES

26.1 SriLankan Catering (Private) 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 2003, the value of flight catering service provided to the Company amounted to Rs. 917.71 million, while freight and air tickets provided by the Company to SriLankan Catering (Private) Limited amounted Rs. 27.77 million.

Notes to the Financial Statements

Year Ended 31 March 2003

26 RELATED PARTY DISCLOSURES (Contd.)

26.2 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:

	2003 USD	2003 Rs.	2002 USD	2002 Rs.
(a) Purchase of computer systems and services	(4,952,520)	(480,023,001)	(2,993,647)	(264,866,631)
(b) Purchase of buyer furnished equipment for A340/A330 aircraft	-	-	(13,406,254)	(1,191,721,405)
(c) Purchase of other goods and services	(1,563,097)	(151,503,177)	(2,838,983)	(273,897,450)
(d) Net receipt on transactions relating to international air transport, settled through the IATA Clearing House	1,119,617	108,518,878	915,548	87,434,834
(e) Finance charges on funds advanced for the purchase of Buyer Furnished Equipment for A340 aircraft	-	-	(36,446)	(3,154,296)
(f) Net Receipts/(Payments) on Fuel Risk Management Programme	1,905,175	208,265,092	(3,547,095)	(343,336,020)
(g) Galileo Segment Commission	304,589	29,522,289	297,854	27,504,227
(h) Net Receipt on Interest Rate Profile Management Programme	-	-	8,729,498	833,667,059
(i) Short Term Loan & Interest Repayments	-	-	(15,076,507)	(1,348,605,342)
(j) Inflight Catering	3,474,305	336,747,018	2,175,628	197,938,647
(k) Frequent Flyer Programme	(341,422)	(33,092,327)	(1,147,491)	(109,585,358)
Total	(53,353)	18,434,771	(26,927,894)	(2,388,621,736)

Ten Year Review

Year Ended 31 March 2003

		1994	1995	1996	1997	1998	1999	2000	2001	Restated 2002	2003
INCOME STATEMENT											
Operating revenue	Rs. Million	12,456.05	13,651.28	14,807.92	15,619.30	17,592.00	19,171.43	24,354.32	30,437.09	29,352.91	36,235.04
Operating expenditure	Rs. Million	11,747.81	12,154.46	13,253.64	14,121.08	14,657.40	16,136.47	24,116.33	36,893.36	31,240.30	34,454.90
Net profit/(loss)	Rs. Million	188.60	650.05	118.53	449.51	2,361.36	2,518.63	(750.41)	(6,507.95)	3,272.21	1,329.20
BALANCE SHEET											
Share capital	Rs. Million	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35
Fixed assets	Rs. Million	10,742.20	22,318.81	20,836.32	19,217.72	17,882.38	16,359.69	17,525.99	14,952.28	12,826.78	11,218.59
Current assets	Rs. Million	5,054.09	7,175.43	8,154.25	8,769.55	11,196.80	16,090.86	14,930.23	14,247.30	12,061.52	18,713.33
Total assets	Rs. Million	15,826.69	29,524.64	29,020.97	28,017.67	29,109.58	32,520.95	32,526.62	29,269.98	24,958.70	30,027.81
Current Liabilities	Rs. Million	7,142.16	8,858.31	8,740.41	8,856.67	9,224.37	11,477.25	13,528.69	18,659.24	11,578.40	16,641.12
YIELD/UNIT COST											
Overall yield	Rs. tkm	27.6	27.8	26.5	27.4	29.3	31.3	31.8	30.2	38.6	43.0
Unit cost	Rs. tkm	18.1	17.6	16.7	20.3	20.8	20.4	22.9	25.7	27.5	30.6
Breakeven load factor	%	65.6	63.1	63.1	74.4	70.9	65.2	72.0	85.2	71.3	71.3
Revenue per RPK	Rs./RPK	2.8	2.9	2.9	3.0	3.2	3.3	3.4	3.1	3.8	4.3
PRODUCTION											
Passenger capacity	ASK Millions	5,145.36	5,405.55	5,602.21	5,525.10	5,672.66	6,209.80	8,038.31	10,891.61	8,556.92	8,422.77
Overall capacity	ATK Millions	632.15	672.27	772.27	746.78	757.42	832.69	1,088.38	1,454.78	1,148.73	1,121.89
TRAFFIC											
Passengers carried	Nos. Thousands	994	1,081	1,149	1,196	1,201	1,260	1,475	1,891	1,615	1,806
Passengers carried	RPK Millions	3,576.75	3,786.56	3,931.26	4,003.19	4,154.46	4,417.55	5,459.65	7,447.87	5,862.09	6,408.38
Passenger load factor	%	69.51	70.06	70.17	72.45	73.24	71.14	67.92	68.38	68.51	76.08
Cargo carried	Tonnes	25,957	28,748	35,409	35,039	36,478	35,566	41,670	58,618	46,067	47,650
Cargo load carried	RTK Millions	107.38	119.77	166.23	164.43	173.62	156.61	195.67	266.75	186.47	200.45
Overall load carried	RTK Millions	419.37	454.19	514.81	522.09	547.14	554.90	703.28	932.72	711.72	785.11
Cargo load factor	%	50.81	52.15	61.56	61.94	65.40	57.50	57.53	54.77	44.19	46.22
Overall load factor	%	66.34	67.56	66.66	69.91	72.24	66.64	64.62	64.11	61.96	69.98
STAFF											
Average strength	Nos.	4,442	4,584	4,880	4,965	4,823	4,832	5,070	5,196	4,049	3,970
Revenue per employee	Rs.	2,804,154	2,978,028	3,034,410	3,145,881	3,647,522	3,967,597	4,803,614	5,857,792	7,249,422	9,127,214
Capacity per employee	Tonne-km	142,312	146,656	158,252	150,409	157,043	172,329	214,670	279,981	283,706	282,592
Load carried per employee	Tonne-km	94,410	99,082	105,494	105,153	113,444	114,838	138,713	179,507	175,777	197,760
FLEET											
L1011-500	Nos.	2	2	2	2	2	2	-	-	-	-
L1011-200	Nos.	2	-	-	-	-	-	-	-	-	-
L1011-100	Nos.	1	1	1	1	1	1	-	-	-	-
L1011-50	Nos.	1	1	1	1	1	1	-	-	-	-
B737-200	Nos.	-	-	-	-	-	-	-	-	-	-
A320-200	Nos.	2	2	2	2	2	2	2	2	1	2
A330-200	Nos.	-	-	-	-	-	-	4	6	4	4
A340-300	Nos.	-	3	3	3	3	3	4	4	3	3
Aircraft in service at year end	Nos.	8	9	9	9	9	9	10	12	8	9

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 being the sum of the passenger, excess baggage, cargo and mail revenue.

Break-even Load Factor

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

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corporate@holidayholdings.co.za
- Durban:**
SriLankan Airlines,
Travel Directions, Suite 810 Musgrave
Centre, Berea, PO Box 51182,
Musgrave Rd Durban 4062.
Tel: (031) 201 6061,
Fax: (031) 201 7809.
E-mail: dur@holidayholdings.co.za
- Cape Town:**
SriLankan Airlines,
c/o Travel Directions, 3rd Floor,
Sanclare Bldg, Dreyer St, Claremont,
Cape Town 7708.
Tel: (021) 683 2221,
Fax: (021) 683 3359.
E-mail: cpt@holidayholdings.co.za
- 31. SOUTH KOREA**
Seoul:
SriLankan Airlines,
c/o Pacific Air Agency, 12th Floor,
Donghwa Bldg, 58-7 Seoso-Mun-Dong,
Choong-Ku 100 814.
Tel: (82 2) 318 3721/2/3/4/5,
Fax: (82 2) 755 9758.
E-mail: selpaa@unitel.co.kr
- 32. SPAIN**
Barcelona:
SriLankan Airlines,
c/o Global Aviation Services SL,
Planta 4 OFIC 1, 08029 Barcelona.
Tel: 932 18 8822,
Fax: 932 18 1262.

SriLankan Directory

Madrid:

SriLankan Airlines,
c/o Global Aviation Systems, Gran Via
86, Edificio Espana, Grupo 5 -
Planta 21, 28013 Madrid.
Tel (5) 42 7132,
Fax (5) 42 7331.
E-mail: global.a@telefonos.es

33. SRI LANKA**Colombo:**

SriLankan Airlines,
22-01 East Tower, World Trade Center,
Echelon Square, Colombo 1.
Tel: Gen 073 5555,
Fax: 073 5122,
Res: 42 1161, reconfirmation 073 5500,
Flight information 073 1377/2377,
Customer affairs 073 1413,
Fax: 073 5145.
E-mail: customer@srilankan.aero
Skywards, Level 3, East Tower, World
Trade Centre, Colombo 1,
Tel: 073 3333,
Fax: 073 5333.
E-mail: skywards.cmb@srilankan.aero
Ticketing: Level 3, World Trade Center,
Colombo 1.
Tel: Gen 073 3723,
Business Class 073 3729,
Fax: 073 5312.
Government travel 073 3833,
Skywards/Business Class 073 3842,
Fax: 073 5367.
Also Ticketing: SriLankan Airlines,
Bandaranaike International Airport.
Tel: 073 2424 (24 hours).
SriLankan Cargo: 660 Galle Rd,
Colombo 3.
Tel: 073 3278/79/88.

Badulla:

SriLankan Airlines,
18/A Lower King's St, Badulla.
Tel: 055 3 2015,
Fax: 055 3 2016.

Batticaloa:

SriLankan Airlines Ltd,
c/o Travel World (Pvt) Ltd,
28 Central Road, Batticaloa.
Tel: 065 24304.

Dambulla:

SriLankan Airlines,
754 Anuradhapura Rd, Gimanhala.
Tel: 066 8 5286,
Fax: 066 8 5283.

Galle:

SriLankan Airlines,
16, Gamini Mawatha Galle.
Tel: res 094 6943,
Fax: 094 6944.

Jaffna:

SriLankan Airlines,
c/o Ceylinco Travels & Tours
IT, Stanley Road, Jaffna.
Tel: 021-2225063/021-2226035

Kandy:

SriLankan Airlines,
opp The Queens Hotel, 19 Temple St,
Kandy.
Tel: (08) 23 2494/5.

Kurunegala:

SriLankan Airlines,
c/o World Air Travels, 56 Colombo Rd,
Kurunegala.
Tel: (074) 69 2518/9,
Fax (074) 69 2520.

Ratnapura:

SriLankan Airlines,
Ramzi Gems Bldg, 1/1 Senanayake Rd,
Ratnapura.
Tel: 045 2 4813,
Fax: 045 2 4814.

34. SULTANATE OF OMAN**Alfahal:**

SriLankan Airlines,
c/o Meزون Travels LLC, Mina, Alfahal.
Tel: 56 8220/1, 67 7997,
Fax 56 2679.
E-mail: mzt@omzest.com

Muscat:

SriLankan Airlines,
PO Box 629, Muscat PC 113.
Tel: res/ktg 78 4545,
pax/cargo sales 78 5871,
Fax: 78 5872.
E-mail: ulmct@omantel.net.om

Salalah:

SriLankan Airlines,
Meزون Travels, PO Box 1076,
Salalah-PC211.
Tel: 29 7846,
Fax: 29 7847.
E-mail: mzt@omzest.com

35. SWEDEN**Stockholm:**

SriLankan Airlines,
c/o NTT Tours & Travels International,
Malmskillnadsgatan 13, 11157,
Stockholm.
Tel: (+46 8) 33 0330,
Fax (+46 8) 33 0350.
E-mail: info@srilankan.se
SriLankan Cargo,
c/o Scanpartners International Sweden
AB, PO Box 183,
S-E 190 46, Stockholm-Arlanda.
Tel: (+46 8) 5978 5099,
Fax: (+46 8) 5978 5175.

36. SWITZERLAND**Zurich:**

SriLankan Airlines, Bernina City,
Berninastrasse 43, 8057
Zurich.
Tel: (41 1) 315 5848,
Fax: (41 1) 315 5838.
E-mail: info@srilankan.ch
Website: www.srilankan.ch

37. TAIWAN**Taipei:**

Ms Overseas Travel Services,
2/F, No 129 Chang-Chun Rd, Taipei.
Tel: (886 2) 2511 6188,
Fax: (886 2) 2523 0626.
E-mail: otsgsa@ms21.hinet.net

38. THAILAND**Bangkok:**

SriLankan Airlines,
G/FI 942/34-35 Chan Issara Tower,
Rama IV Rd, Silom Bangkok 10500.
Tel: Gen 236 7618/ 0159,
Res 236 4981/2/236 9292/3,
Fax: 236 7617.
E-mail: admin@srilankan.co.th

39. UNITED ARAB EMIRATES**Abu Dhabi:**

SriLankan Airlines,
Zayed the Second St,
PO Box 2086, Abu Dhabi.
Tel: (02) 621 2057 (2 lines),
Fax: 634 0391.
E-mail: slankaad@emirates.net.ae

Ajman:

Ajman National Travel Agency,
PO Box 641, Ajman.
Tel: (06) 742 2300,
Fax: (06) 742 7537.
E-mail: anta@emirates.net.ae
Al Ain: Atlas Travels, Al Ain St,
Al Dhaheri Bldg,
PO Box 17670, Al Ain.
Tel: (03) 764 3344,
Fax (03) 764 3362.

Dubai:

SriLankan Airlines,
Dubai Airline Centre, 3/F,
PO Box 12889, Dubai.
Tel: res (04) 294 0094,
Fax: 295 5245.
E-mail: slankadb@emirates.net.ae
Dubai National Air Travel Agency,
PO Box 1515, Dubai.
Tel: Res/ktg (04) 203 8367/8,
294 9119, 316 6792,
Fax: (04) 295 5245.

Fujairah:

Fujairah National Air Travel Agency, PO
Box 96, Fujairah.
Tel: (09) 222 2316,
Fax: (09) 222 2555.
E-mail: fnatafjr@emirates.net.ae

Ra's al-Khaimah:

Ras Al Khaimah National Travel Agency,
PO Box 5214,
Ras Al Khaimah.
Tel: (07) 228 1536,
Fax: (07) 228 1255.
E-mail: rantarak@emirates.net.ae

Sharjah:

Sharjah National Travel Agency,
Sharjah Tower, PO Box 17,
Sharjah.
Tel: (06) 568 4411,
Fax: (06) 568 3535.
E-mail: snnta@emirates.net.ae

Umm al-Qaiwain:

Umm al-Qaiwain National Travel
Agency, PO Box 601,
King Faizal St, Umm Al Quwain.
Tel: (06) 765 6615 (5 lines),
Fax: (06) 765 5549.
E-mail: untaair@emirates.net.ae

40. UNITED KINGDOM**London:**

SriLankan Airlines,
Central House, 3 Lampton Rd,
Hounslow, Middlesex TW3 1HY.
Tel: (0208) 538 2001,
Fax: (0208) 572 0808.
E-mail: lon.sales@srilankan.aero
Airport tel: (020) 8759 4048,
Airport fax: (020) 8745 6649,
Airport e-mail:
operations@srilankanairlines.co.uk
SriLankan Cargo, Building 560,
Shoreham Road West,
Heathrow Airport,
Hounslow, Middlesex TW6 3RA.
Tel: (0208) 897 7877,
Fax: (0208) 897 7875.
E-mail: cargo@srilankanairlines.co.uk

41. UNITED STATES OF AMERICA**New York:**

SriLankan Airlines,
c/o Sri Lankan Travel, Metro Top Plaza,
111 Wood Ave South, Iselin,
New Jersey, NJ 08830
Tel: (732) 205 0017,
Fax: (732) 205 0299.
E-mail: sales@situsa.com

Los Angeles:

SriLankan Airlines,
Sri Lankan Travel,
No 1936 Wilshire Blvd,
Los Angeles, CA 90057.
Tel: (213) 483 8808,
Fax: (213) 483 8600.
E-mail: sales@situsa.com

42. YUGOSLAVIA**Belgrade:**

Ceylon House,
Zanke Stokic 21, 11000 Belgrade.
Tel: res (38 11) 369 0244,
Fax: (011) 369 0243.
E-mail: airlanka@eunet.yu

Notice of Meeting

Notice is hereby given that the Twenty Fifth Annual General Meeting of the Shareholders of SriLankan Airlines Limited will be held at the 'Catseye Ballroom' of the Ceylon Continental Hotel, No. 48 Janadhipathi Mawatha, Colombo 1, on 16 September 2003, at 4.00 p.m. for the following purposes.

Agenda

1. To receive and adopt the Report of the Directors and the Audited Accounts for the period ended 31 March 2003 and the Report of the Auditors.
2. To declare a final dividend as proposed by the Directors.
3. To re-appoint Auditors and authorise the Directors to fix their remuneration.

By Order of the Board
SriLankan Airlines Limited

Mildred Peries
Company Secretary

6th June 2003
Colombo

Note:

1. Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him.
2. A Proxy need not be a member of the Company.
3. A form of Proxy accompanies this notice.
4. **Shareholders/Proxies attending the meeting are requested to bring this Notice and their National Identity Cards.**

Proxy

I,
of
.....

being a member of the above named Company hereby appoint

- | | |
|-------------------|---------------------------|
| Mr D S J Pelpola | of Colombo or failing him |
| Mr R C D De Silva | of Colombo or failing him |
| Mr M P Haradasa | of Colombo or failing him |
| Mr A L Gooneratne | of Colombo or failing him |
| Mr T C Clark | of Dubai or failing him |
| Mr G Chapman | of Dubai or failing him |
| Mr D Mannion | of Dubai or failing him |

.....
as my proxy to represent me and on my behalf at the Twenty Fifth Annual General Meeting of the Shareholders of SriLankan Airlines Limited to be held on **16 September 2003, at 4.00 p.m.** and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid meeting.

Signed this day of Two Thousand and Three.

.....
Signature

Note:

If no words are deleted or there is in the view of the proxy holder doubt (by reason of the way in which the instructions contained in the proxy have been completed) as to the way in which the proxy holder should vote, the proxy holder will vote as he thinks fit.

Instructions as to Completion

1. Perfect the Form of Proxy after filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company at the under noted address not less than 48 hours before the time appointed for the holding of the meeting.

By Order of the Board

Company Secretary
SriLankan Airlines Limited
#22-01, East Tower
World Trade Centre
Colombo 1

6th June 2003

