




SriLankan  
Airlines

Annual Report 2003/2004



A photograph of a bright blue sky filled with soft, white clouds. A prominent, bright white contrail, likely from an aircraft, streaks diagonally across the upper portion of the frame. The overall scene is serene and expansive.

SriLankan; this word embodies the very essence of our spirit and outlook. Like the trails that mark the passage of our paths across the skies, everything we do is marked with a sense of national pride. The pride that comes from playing a vital role in the development of our country. The satisfaction we derive from nurturing professionalism among our people, empowering them with technology, tools and knowledge. Above all, the pride we feel in touching and enhancing the lives of our citizens. This gives us the impetus to fly even higher.



V I S I N



To be  
the most  
preferred airline  
in Asia.



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## **LEGAL FORM**

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Public Limited Liability Company

## **DIRECTORS**

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K Balapatabendi PC - *Chairman*

A Hewage

J M S Brito

S Ukwatte

T C Clark - *Managing Director*

G W Chapman

D E Mannion

P M Hill

*(Alternate to T C Clark)*

M Flanagan

*(Alternate to G W Chapman)*

Ghaith Al Ghaith

*(Alternate to D E Mannion)*

## **COMPANY SECRETARY**

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Mildred Peries

## **REGISTERED OFFICE**

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#22-01, East Tower

World Trade Center

Echelon Square

Colombo 1

Sri Lanka

## **AUDITORS**

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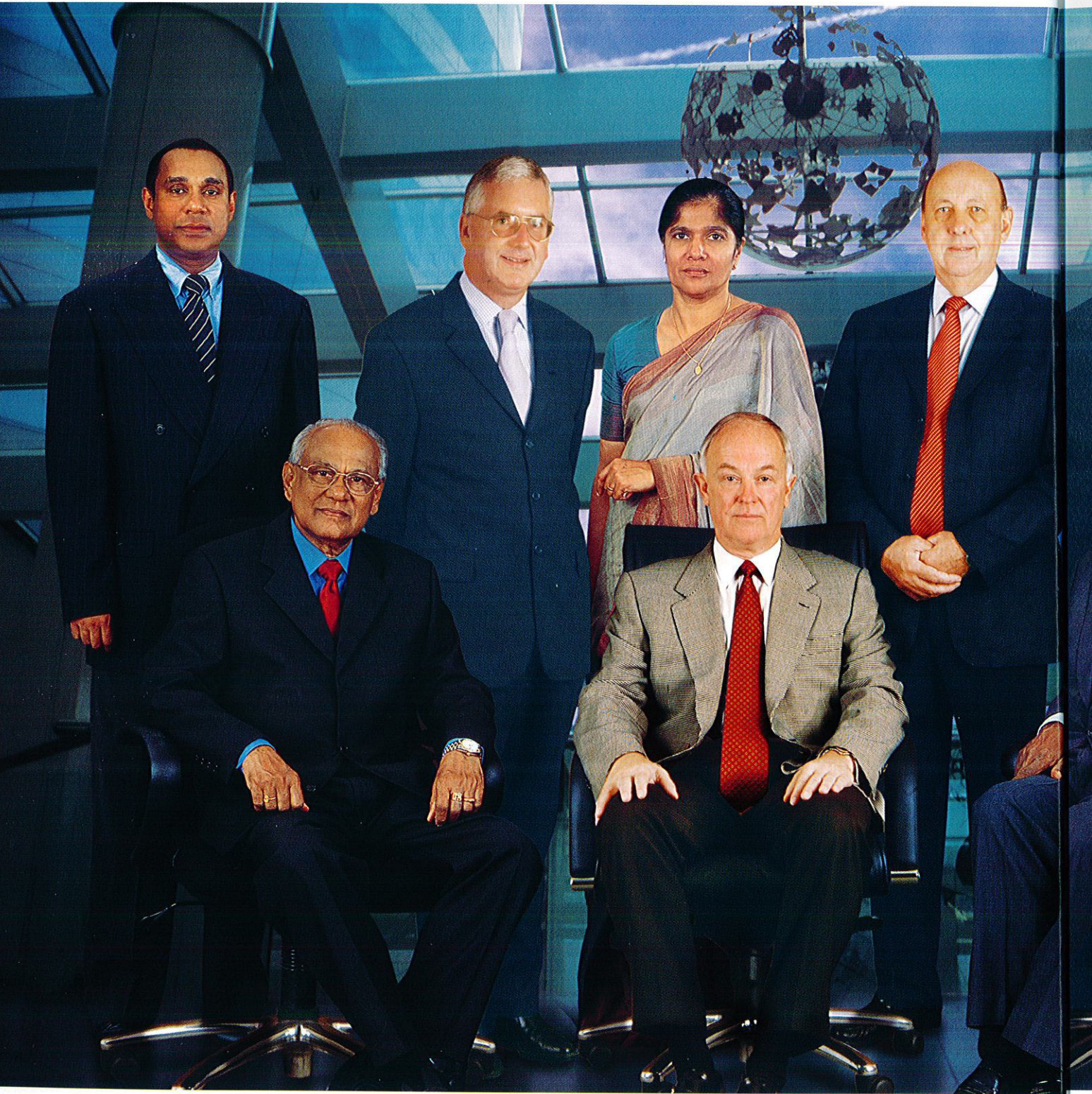
Ernst & Young

Chartered Accountants

PO Box 101

Colombo 10









*Seated Left to Right*

**K Balapatabendi PC**

Chairman. Senior Advisor to H.E. the President.  
A lawyer by profession and also a President's Counsel.

**Tim Clark**

Managing Director. President, Emirates Airline.

**A Hewage**

Director. Secretary, Ministry of Ports and Aviation and  
Ministry of Urban Public Utilities.

*Standing Left to Right*

**S Ukwatte**

Director. Chairman and Managing Director of Mount  
Lavinia Hotel Limited and a Hotelier by profession.

**Dermot Mannion**

Director. President, Group Support Services,  
Emirates Airline.

**Mildred Peries**

Company Secretary

**Peter Hill**

Chief Executive Officer

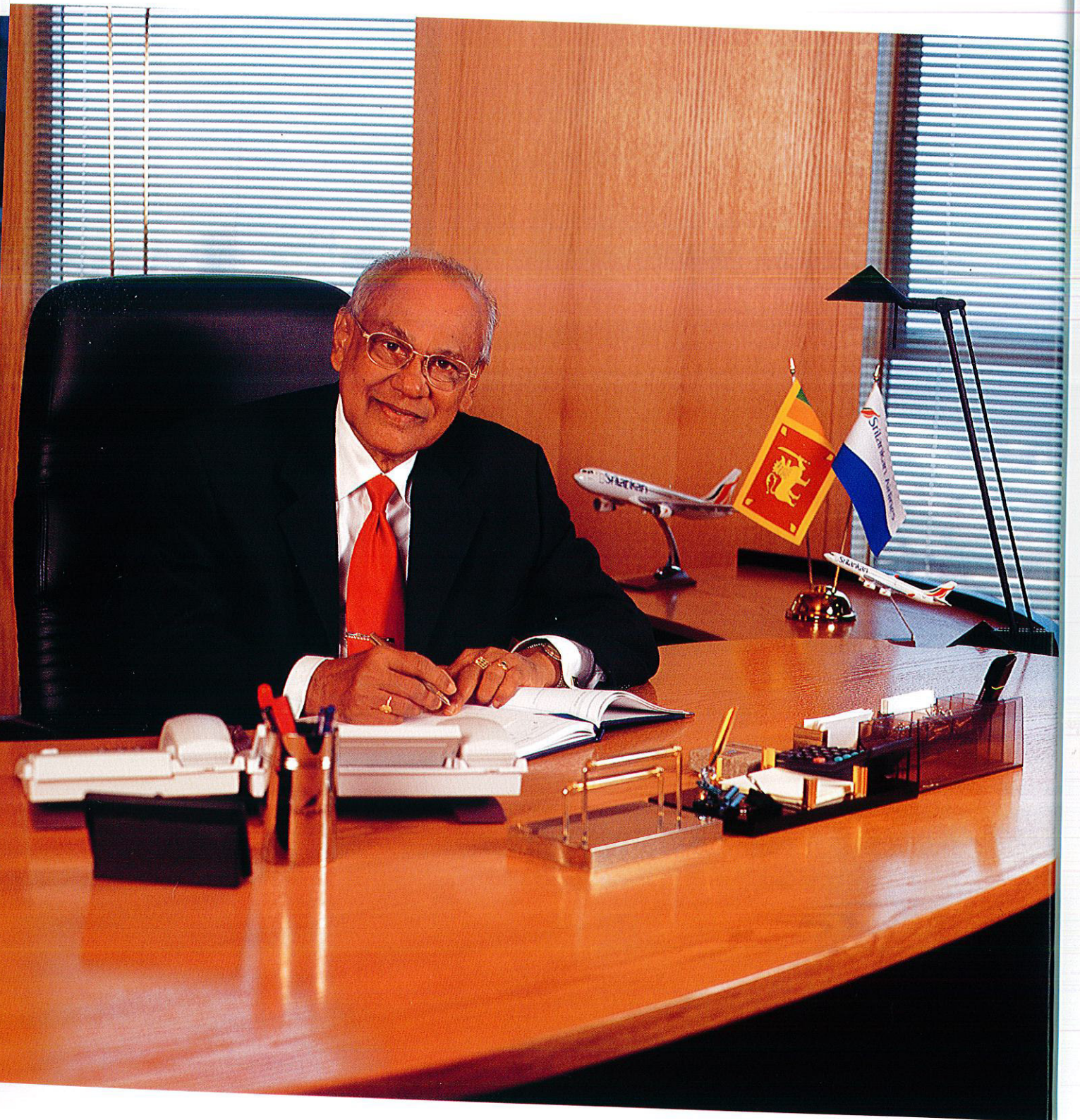
**Gary Chapman**

Director. President, Dnata and Associated Companies,  
Emirates Airline.

**J M S Brito**

Director. Deputy Chairman and Managing Director of  
Aitken Spence & Co. Ltd. and a Chartered Accountant  
by profession.







# C H A I R M A N ' S   S T A T E M E N T

SriLankan Airlines carried out a rapid but steady expansion programme in the year 2003/04, to take full advantage of emerging opportunities in the global market, opportunities that occurred both naturally due to the upturn in the international travel industry and the continued peace in Sri Lanka, and were created by this airline's bold and far-sighted strategies.

It is with pleasure that I inform shareholders that the Company's Net Profit increased by 94.97%, and the Group Net Profit (the airline and its subsidiary SriLankan Catering Services) increased by 75.87%.

Company Net Profit is 4.56 billion rupees, compared to 2.34 billion rupees the previous year, while Group Net Profit is 5.64 billion rupees, versus 3.20 billion rupees a year ago. Company Earnings Per Share increased 94.97%, from Rs. 45.40 to Rs. 88.51, while Group Earnings Per Share increased 75.87%, from Rs. 62.27 to Rs. 109.51.

This is only a beginning, and we expect 2004/05 to be even more satisfying. We are launching services to China, a move that will open up a whole new market of opportunities. We will continue to increase services to India, Calicut becoming the 10th destination in July. In the year under review, we launched services to Kochi and Hyderabad, and resumed services to Karachi. We greatly expanded our fleet to undertake these operations, acquiring two Airbus A320s, and two A340s. We intend obtaining more aircraft of both types very soon.

A number of commendable projects were commenced in the year under review. We now have an amphibious domestic service which serves 10 destinations all around the country. With the ability to cut a six-hour road journey to a half-hour in the comfort of an airplane away from the annoyance of road traffic, there is a high demand for the SriLankan Air Taxi, and we will soon have two more amphibious aircraft and increase the number of destinations.

SriLankan Cargo also increased its activities with a second Antonov AN12 freighter, and plans for further expansion. The Cargo Centre in Katunayake, already operating far above its intended capacity, set several new records for the amount of freight it handled during this year. These numbers are expected to further increase next year, when the Centre will more than double its present capacity.

SriLankan Catering Services has launched the rapid construction of its new Flight Kitchen, a 25 million US dollar project that will allow it to quadruple its capacity by September 2005 to cater to the increased airline traffic through Colombo.

The airline is heavily involved in the project to construct a new Business Class Lounge, that would add greatly to the comforts and facilities at Colombo's airport, which is also undergoing a major upgrading of its terminal facilities. The airline took full advantage of the prevailing climate of peace in the country, taking our services to the doorsteps of passengers in the Northeast by opening ticket offices in Jaffna, Trincomalee, Batticaloa and Vavuniya.

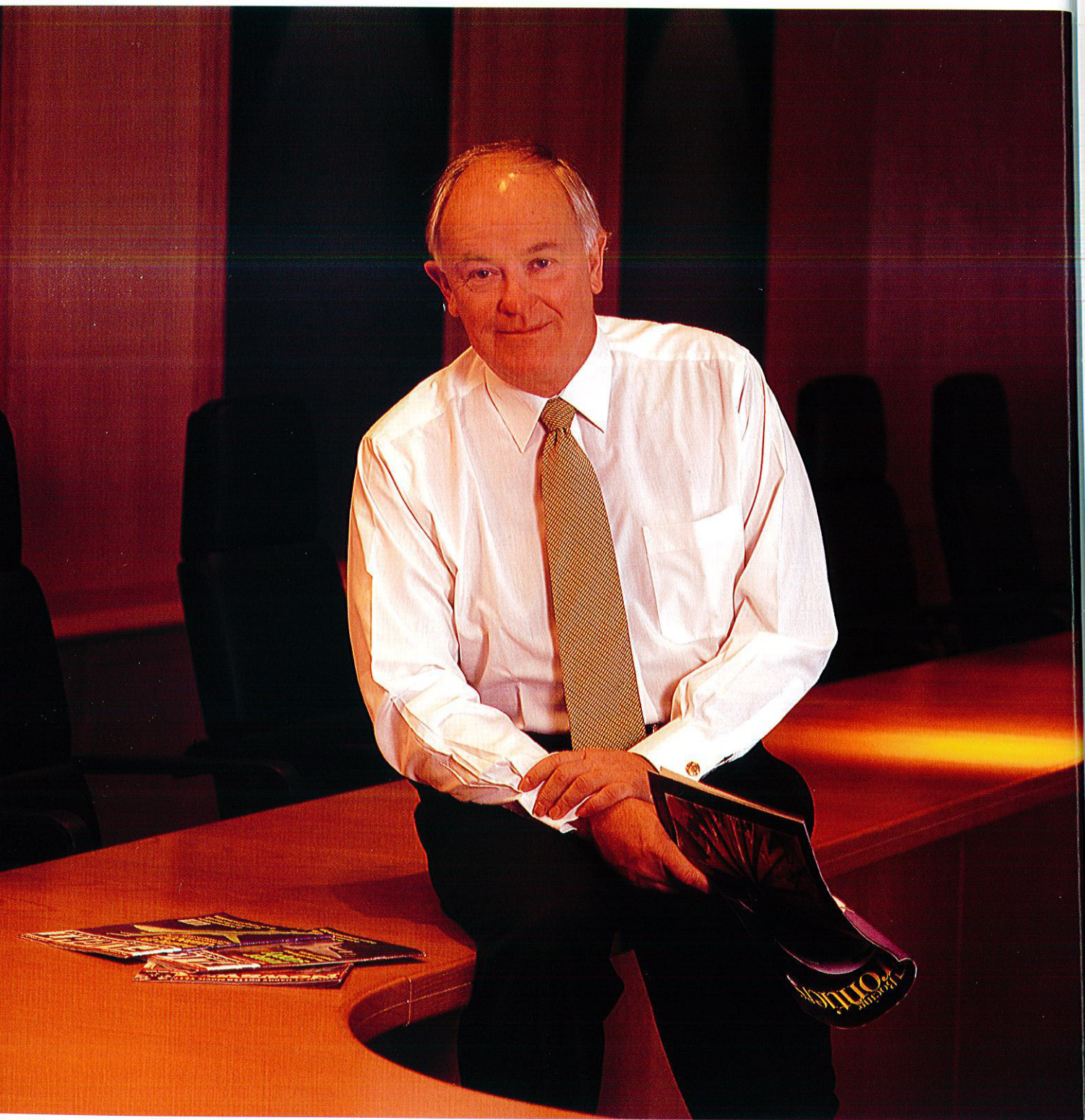
I have no doubt that a prosperous future awaits this airline. In conclusion, I extend my thanks to every member of the staff and management of SriLankan Airlines and SriLankan Catering Services, and the Board of Directors, for their unstinting support and hard work, which I am confident will continue throughout the next year.



**K. Balapatabendi PC**  
Chairman

16<sup>th</sup> June, 2004.







*“Net Profit for the Group has increased by 76%, and Revenue is up by 25%. We expect this trend to continue, as we tap into the vast potential in India and China, and also further exploit our existing markets,”*

**TIM CLARK**  
Managing Director

**Is SriLankan Airlines progressing according to your plans, in terms of expanded services and revenue?**

Yes. Revenue has increased by 25% over the previous year and the net profit for the Group is up 76%. We have taken advantage of the liberalisation of several bilateral agreements, particularly India, and expanded our services accordingly.

**Would you explain SriLankan Airlines' new strategy of increasing to daily frequencies at existing destinations?**

Daily frequencies are the key to our plan to develop Colombo into the regional hub of South Asia. We are steadily increasing all of our existing services to daily operations and all new routes will be based upon this strategy.

**What possibilities does SriLankan Airlines see in China?**

We see tremendous scope for us in both the Passenger and Cargo markets in China. Our research predicts that Sri Lanka and the Maldives will rapidly grow into popular tourist destinations with the Chinese leisure traveller. We also plan to commence dedicated cargo services into Shanghai this winter, to capture a share of the booming export cargo business.



**SriLankan is the largest foreign carrier into India. But you continue to add more destinations there. Would you tell us more about your strategy there?**

The Indian market has vast potential for SriLankan. The close proximity of Colombo to many South Indian cities makes it an ideal gateway for the international traveller. We will continue to add new Indian destinations and frequencies to existing ones, whilst developing Bandaranaike International Airport into the preferred hub of South Asia.

**Is SriLankan Airlines shifting its focus away from the traditional European markets?**

No. Where we can offer competitive services we will continue to develop these routes to meet customer demand. In certain markets, we are being threatened by government subsidised carriers, who are pricing their products way below cost in order to buy business. Such activities, if allowed to go unchecked, will result in us having to review our services to such markets.

**Are you happy with the manner in which SriLankan has coped with competition from several airlines from India operating to Colombo?**

Despite much media hype, the arrival of privately owned Indian carriers on the Sri Lanka route has had little impact on us. There has been some price reduction on local fares due to introductory offers by the new entrants, but we welcome the opening up of the skies between India and Sri Lanka.

**Is SriLankan Cargo planning to complement increased passenger services to the Subcontinent?**

All of our passenger aircraft carry cargo, so with our increased scheduled operations into India, cargo capacity has grown accordingly. With the introduction of a long range, dedicated cargo aircraft to commence services into China this winter, we expect our all-cargo operations to and from India to grow.

**SriLankan Catering Services has commenced work on a new Flight Kitchen that would quadruple its production capacity. Do you expect such a massive expansion in demand for onboard meals at the Bandaranaike International Airport?**

The existing Flight Kitchen is operating today at levels way above its designed capability, and with the substantial increases in the number of SriLankan flights and foreign operators through BIA in the last twelve months, the new kitchen can't come soon enough. With the increasing popularity of Sri Lanka as a leisure destination and the growth of BIA as the hub of South Asia, we are confident that our investment in the new Flight Kitchen is both necessary and financially beneficial.

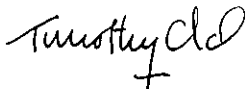


**SriLankan has been expanding its domestic services, by opening new ticket offices and through the launch of SriLankan Air Taxi. What are the prospects for increased business in these areas?**

We embarked upon a programme of developing regional offices throughout Sri Lanka, to take care of the needs of our expanding customer base outside Colombo. Many of these offices are now playing a significant role in the development of our domestic Air Taxi service. With three aircraft due to be in operation this Winter, several of the most popular routes will be upgraded to scheduled services, bringing more benefits to our customers in this growing market segment.

**Would you elaborate on the extensive measures that the company has undertaken to improve employee relations and involve its staff in the airline's future?**

The success of the Company over the last 25 years has been built around the friendliness, professionalism and dedication of our staff. Recognising that, we have developed with our staff a Vision for the future, to be the most preferred airline in Asia. Core values have been established that embrace every employee, with regular briefings taking place to keep everybody informed of our progress.



**Tim Clark**  
*Managing Director*  
16<sup>th</sup> June, 2004.







I am happy to report that the year under review has been another one of progress for SriLankan Airlines, in which we have achieved our target of a 20% year-on-year increase in revenue. Our target for the next year, 2004/05, is an increase of 28%, which I feel is achievable, although it is also ambitious.

The company budget calls for a Net Profit to be achieved in 2004/05, and I believe we can achieve that.

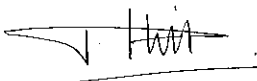
The year 2003/04 has been as exciting as it was challenging – exciting because of the many new products and services that SriLankan Airlines launched, many the result of innovative strategies from our management team, and challenging because the international airline industry continued to be buffeted by factors such as increased fuel prices, continued concern of air travel due to the threat of terrorism, and the tail end of the SARS scare.

Through it all, SriLankan continued to add more feathers to its cap, in the form of several global awards. We won “Best Overall Inflight Entertainment 2003” for a fleet size of 20 or less from the World Airline Entertainment Association, were First Runner-Up for “Best Cabin Staff 2003” in Skytrax’s global passenger survey, were named Best Economy Class Service among 62 airlines by the German magazine *Reise & Preise* (Travel & Price), and won “Best Airline in Central Asia” for the fourth consecutive year from Skytrax.

We launched a new Vision for this Airline – “To Be The Most Preferred Airline in Asia” – together with a new Mission, and a Company Song. These initiatives have obtained greater participation of our staff in the Company’s strategies, and we intend carrying out another survey among our employees this year to take heed of their opinions once again. Indications are that it will show a more positive employer-employee relationship in the year under review.

Looking to the future, we will undoubtedly continue our expansion of operations in India, which is our fastest growing market. We are very excited about this strategy, as it provides us with tremendous opportunities and we have staked an early claim to this gigantic market.

The many new initiatives undertaken by this Airline have not compromised our commitment to providing the highest quality service. We will never lose the human touch for which we are famous, no matter how many more aircraft we have, or how many frequencies and new destinations. With an enthusiastic staff led by an enterprising management team, I have no doubts whatsoever that SriLankan Airlines will continue to win accolades as never before.



**Peter Hill**  
*Chief Executive Officer*  
16<sup>th</sup> June, 2004.



ENABLING MORE PEOPLE  
TO EXPERIENCE THE  
PLEASURES OF PARADISE

*Tourism is the 3rd largest source of foreign revenue into our country. It's also the means by which literally thousands of Sri Lankans enhance their livelihoods. From those who operate the resorts that provide employment to the personnel in the hotel trade, to the suppliers, merchants, vendors and entrepreneurs whose goods and services benefit from the influx of tourists. We package, price and provide the means for millions of visitors to get to Sri Lanka and provide a steady source of income to the people of our country.*







*“We took a calculated decision to focus on the Subcontinent, using Colombo as the gateway to South Asia. We are only beginning to exploit the potential in this region.”*

**G.T. JEYASEELAN** - Head of Commercial.

**Would you elaborate on the significantly different strategy that SriLankan Airlines adopted in the past year?**

We have a dynamic strategy that adapts to suit the markets we focus on. We know there's huge potential to and from the Subcontinent, and are going all out to tap it. India can give us all the tourists we want, provided we have sufficient frequencies to as many cities as possible. We are exploring new high yielding destinations and finding ways to provide a better travel experience and meet the challenges posed by low priced airlines.

We are consistently pursuing our strategy of consolidating our position in different markets through increased frequencies.

**What is the airline's strategy towards other regions?**

We are consolidating and increasing frequencies to many existing destinations, a strategy that improves connectivity through the hub and increases profits from each of our stations.

We are very excited about the impending launch of services to China, which will be an economic powerhouse in the future with vast numbers travelling overseas. We are promoting Sri Lanka and the Maldives as destinations – Sri Lanka being a beautiful Buddhist country, and Male an exotic island getaway. Sri Lankans have always had an excellent relationship with China. Our countries have stood by each other over many years, and had trade relations for centuries. We are looking at more destinations in all of China's regions that have rapid economic development.

**How about SriLankan's plans for tourism into Sri Lanka?**

Our objective is to contribute to upmarket tourism. Such tourists require quality products, which we are providing. We are focusing on MICE tourism and other upmarket passenger segments. We recognize that time is precious and people will take shorter holidays. So we launched SriLankan Air Taxi, which gets people to any part of the island in less than an hour. It is a unique travel experience. Someone who arrives in Colombo on a cruise ship should be able to tour the country in a day – climb Sigiriya, sunbathe on the east coast, play a round of golf at Digane or Nuwara Eliya, see the picturesque hill country, shop in Colombo, and be back on board ship by evening.

We also have SriLankan Holidays and many other value added products – we work with our partners on adventure tourism, water sports, golf, cricket, rugby, etc - with which we are building a base for a strong future.

**Are the revenue targets that you set being achieved?**

Achieving financial targets every year is becoming a regular feature of our team. We are setting ourselves new challenges. Every step we take – in recruitment, training, new aircraft, new destinations, etc – is towards our ultimate goal to build a stronger and more profitable organization.

**What future trends do you see in the airline industry?**

Competition will be knowledge based. The information available and the effective use of that information will decide the success or failure of the players in the industry. It will be about working smarter rather than working harder. Therefore, we recognize the critical role of human capital and knowledge management and are preparing ourselves for the future. We are further developing our IT infrastructure and capabilities in online booking, e-ticketing, e-learning and electronic knowledge sharing, to achieve a sustainable competitive advantage. We expect our newly established e-commerce department to play a strategic role in the future.



## GOING THAT "EXTRA SMILE"

*You don't have to teach Sri Lankans about hospitality. It is already deeply ingrained in our psyche. Being voted 'The Friendliest Cabin Crew' or receiving equally flattering accolades from passengers and international arbiters of in-flight services, serves to remind those who fly our airline of the hospitality and warmth that awaits them in Sri Lanka itself. So no matter where and when we fly, SriLankan showcases the best of Sri Lanka to the world.*





**“Winning awards for excellent service has become a regular feature at SriLankan. Yet, each one is special, because it reaffirms our passengers’ faith in the high standards we set for ourselves.”**

**NIGEL O’SHEA**  
Acting Head of Service Delivery



**The staff of Service Delivery must be very proud of the many awards SriLankan has won for service.**

Yes, we certainly are proud. In the year under review, SriLankan was chosen First Runner-Up for “Best Cabin Staff 2003” in a global survey of 1.8 million passengers by Skytrax Research, and awarded “Best Overall Inflight Entertainment 2003” for a fleet size of 20 or less at the World Airline Entertainment Association’s Avion Awards. In addition, Skytrax named us “Best Airline in Central Asia” for the third consecutive year (we’ve just won it for the fourth consecutive year too), and readers of the German travel magazine Reise & Preise chose SriLankan as having the “Best Global Economy Class Service.” Even our competitors have taken note, because a Singapore Airlines survey of its customers ranked service at BIA, which is provided by SriLankan, as second globally.

These awards do not happen by luck, they are a direct result of a lot of hard work by a lot of dedicated and talented people who work for SriLankan.

**Tell us about SriLankan Airlines’ efforts to develop Bandaranaike International Airport.**

The smooth flow of all passengers through BIA, whether on SriLankan or other airlines, is our primary focus as we take care of all airport services, and we constantly come up with new ideas. A Fast Track Immigration Channel was set up on SriLankan’s request. We opened a new Baggage Service Counter, and SriLankan is one of the first airlines to use the Worldtracetracer system, which can be accessed on the Internet. We have a new Backup Check-in System, for use when the main system is unavailable, that ensures there would be minimal interruptions at check-in and departure. Our branding and visibility has increased with SriLankan Airlines signage installed throughout the airport last year.

Our new Business Class Lounge is scheduled for completion in October 2004, to provide all the facilities that today’s discerning traveller needs.

**Airport Service Support must be busy behind the scenes, coping with the increase in tourist arrivals.**

The number of flights through BIA increased by 32% last year. Not just our own network expansion, but with new airlines operating to Colombo and existing airlines increasing services. Revenue at Airport Service Support increased by 19%. We invested in new ground service equipment, and upgraded our ULD Management & Control System with enhanced features.

**On-Board Duty Free Sales figures are impressive, aren’t they?**

We’ve recorded the highest-ever sales revenue of LKR 305.09 million in the year under review, a 24.99% increase. We had discounts on selected items, and many incentive programmes to reward our cabin staff.

**Has Service Delivery expanded to meet the increased demand for services?**

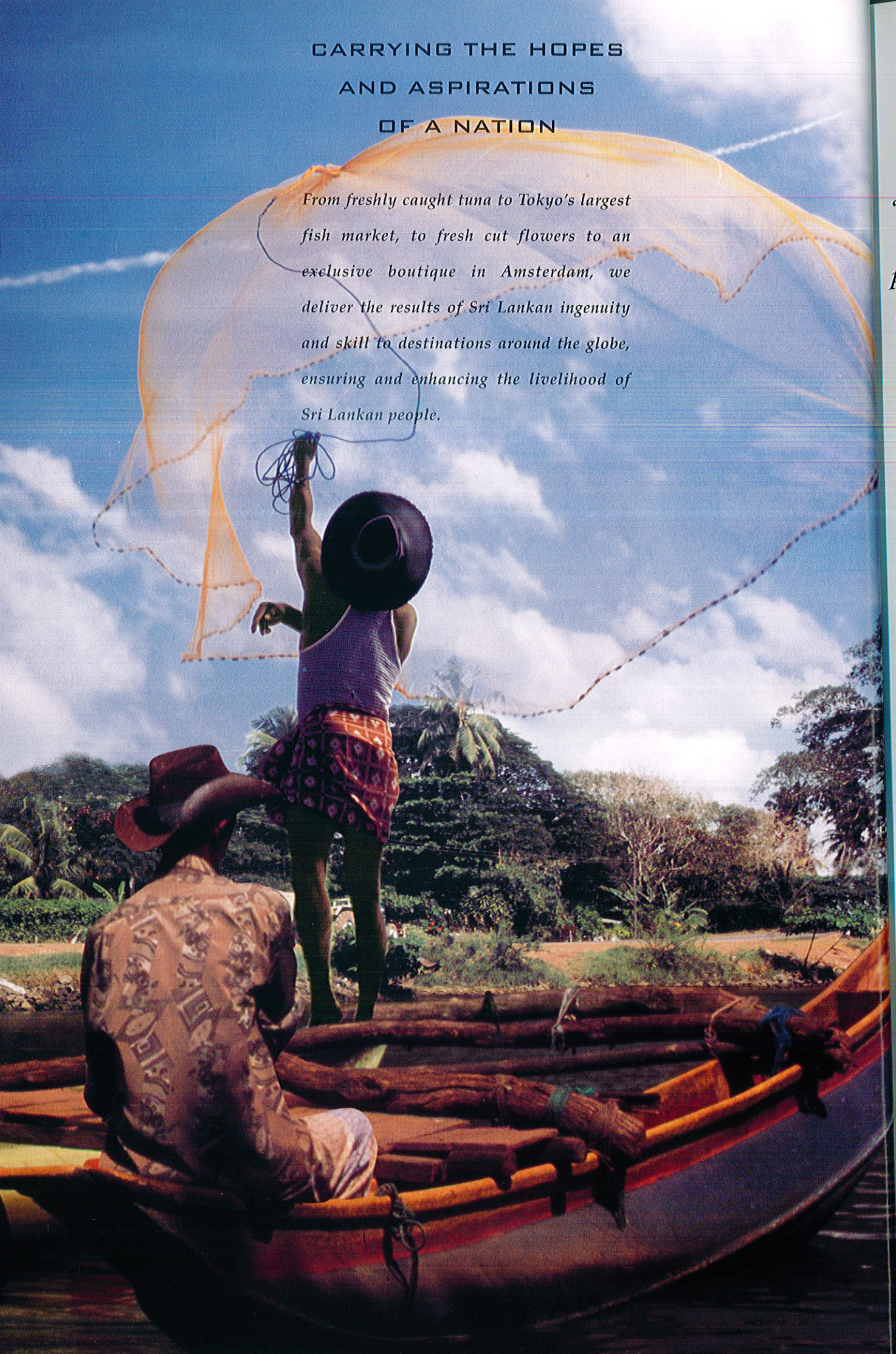
Service Delivery has expanded both in the air and on the ground to cope with SriLankan’s ever increasing fleet, as well as increased services by our customer airlines. We are recruiting many new Cabin Staff and they are being trained at the rate of about one group every month. We also invest in training for our existing Cabin Staff to ensure our standards are of the highest quality.

In Airport Services we are recruiting many new staff and that involves a lot of training. A new Airport Service Orientation Manual that was prepared in-house accelerated the training process and has helped us to achieve consistency of service standards.



CARRYING THE HOPES  
AND ASPIRATIONS  
OF A NATION

*From freshly caught tuna to Tokyo's largest fish market, to fresh cut flowers to an exclusive boutique in Amsterdam, we deliver the results of Sri Lankan ingenuity and skill to destinations around the globe, ensuring and enhancing the livelihood of Sri Lankan people.*





“SriLankan Cargo is going all out to make Colombo the ‘Hub in the Ocean’, and focusing on increasing profitability through even greater efficiency and an expanded network.”

**NALIN RODRIGO**  
Head of Cargo



**Are you happy with the progress and growth of SriLankan Cargo?**

The year ended saw the Cargo team delivering and surpassing its revenue goal of LKR 5.4 billion. It recorded a growth of 24% over the financial year 2002-03. The synergy of the core teams, the Colombo Hub, Revenue Optimization, Route Management, Marketing, Freighter Operations, and the Worldwide Sales team, produced a great result.

Our 'shipped as booked' policy has encouraged our customers to treat SriLankan Cargo as a reliable partner in the global and regional supply chains.

**How is the “Hub in the Ocean” strategy working?**

The Colombo hub was re-branded as the 'Hub in the Ocean' to highlight its strategic geographical location linking the markets of Europe, India, Far East and South East Asia and the Gulf. This strategy is in synergy with the airline's massive expansion in the Indian market.

A key aspect of our regional operations is our dedicated freighter service, for which we acquired a second Antonov AN12F last October.

**The Cargo Centre at Bandaranaike International Airport seems to be a hive of activity.**

The Cargo team is continuously streamlining processes with the target of making the Cargo Centre as super-efficient as possible. The voluntary participation of the Colombo Hub team won them a Merit award at the 8th Annual Taiki Akimoto 5S Awards competition conducted by JASTICA for professionalism, leadership, organization, cleanliness, self-discipline and standardization.

During the year under review, we repeatedly set new records for cargo handling, despite being handicapped by the size of the Cargo Centre. But this aspect will be taken care of soon since we will be doubling the Centre's capacity in early 2005.

**Is SriLankan Cargo continuing its policy of fully supporting local industries and exporters?**

Our continuous investment in infrastructure development at the 'Hub in the Ocean', sales offices, high service delivery standards and the network expansion, supported by a focused pricing strategy, is proof of our commitment to maintain the competitive edge of the Sri Lankan exporters and entrepreneurs.

**We've seen SriLankan Cargo getting involved in social responsibility efforts too.**

SriLankan Cargo contributed generously to the victims of natural disasters both in Sri Lanka and Iran by the timely carriage, at its own cost, of urgently needed medicines and other supplies.

**How does the future look from the Cargo team's point of view?**

The Cargo team is passionate about growth in the future – with our continuous network expansion into new destinations, addition of freighters, a greatly expanded Cargo Centre, and most importantly our commitment to our customers. We are raring to go, to make Colombo the Cargo Hub in the Ocean.



INTRODUCING THE WARMTH OF  
SRI LANKA TO THE WORLD

*All the world's a stage and we continue to keep Sri Lanka firmly in the spotlight. Whether it's giving Los Angeles theatre-goers a glimpse of our Kandyan drumming and dancing bravado, or enabling gourmets in Zurich to taste the fire and spice of our cuisine, we tirelessly promote the multi-faceted splendours of our country, overseas.*



*The only thing warmer than our beaches  
is the warmth of a SriLankan smile!*



“We are  
thinking bigger  
now within  
SriLankan Airlines.

*There was a time when we  
wanted to rub shoulders with  
the big boys and have our  
name up there with them. The  
time has come for us to do just  
that. We are an airline that  
people must take note of.*”

**CHANDANA DE SILVA**  
Head of Corporate Communications



**How has Corporate Communications expanded its activities to create awareness around the world?**

As SriLankan Airlines expands, it is vital that we create greater awareness in new markets, telling more people in more places what we are doing. Due to our rapid growth it is imperative today to have the airline represented in various regions, so we've appointed agencies to cover the world. It's important how people view SriLankan and Sri Lanka. We continue to change people's perceptions by showing them that both the country and the airline are not what they used to be. All types of media are important for us, and we work closely with many types of journalists, obtaining extensive coverage of airline events, disseminating information rapidly, and maintaining the presence of our brand in people's minds.

**The airline's advertising campaigns won many accolades recently.**

We won "Campaign of the Year" the most coveted award at the SLIM Awards 2004 from the Sri Lanka Institute of Marketing, among two Gold Medals and two Silver Medals. That campaign was well planned and executed with the objective of bringing people together, from ordinary Sri Lankans to the cream of society, to create a feeling of national pride that extended to the airline, being the National Carrier.

**The airline seems to be associated with many more public events these days.**

We have provided publicity for our branding in a different way through our promotions. We want to be known as a destination for events, so we actively promote rugby, surfing, golf, horseracing, and other sports like marathons and adventure sports that draw different types of tourists. This extends to creating awareness in places such as Dubai and Japan of such events, talking directly to consumers.

**Creating brand awareness for SriLankan is a company-wide concept isn't it?**

It is our role at Corporate Communications to ensure that SriLankan is at the top of the minds of consumers. To do this we must maintain brand consistency and clarity at every point of contact in the airline.

**Tell us why the Company launched SriLankan Cares, and what it stands for.**

PR is all about creating confidence between society and the airline. Our culture of warmth and friendship comes from our hearts and extends to all parts of society, not just our customers. We took the initiative to adopt an entire school, Meepagama Jayanthi Maha Vidyalaya in Kalawana, which was affected by floods. It is now our school, from the point of view of our hearts and minds. It is our objective to assist those children through their Ordinary Levels, Advanced Levels, and university into adulthood.

The SriLankan Cares project is now expanding from people to animals as the airline gets involved in protecting our endangered species of wildlife – a national treasure. That's the type of work that SriLankan Cares stands for.

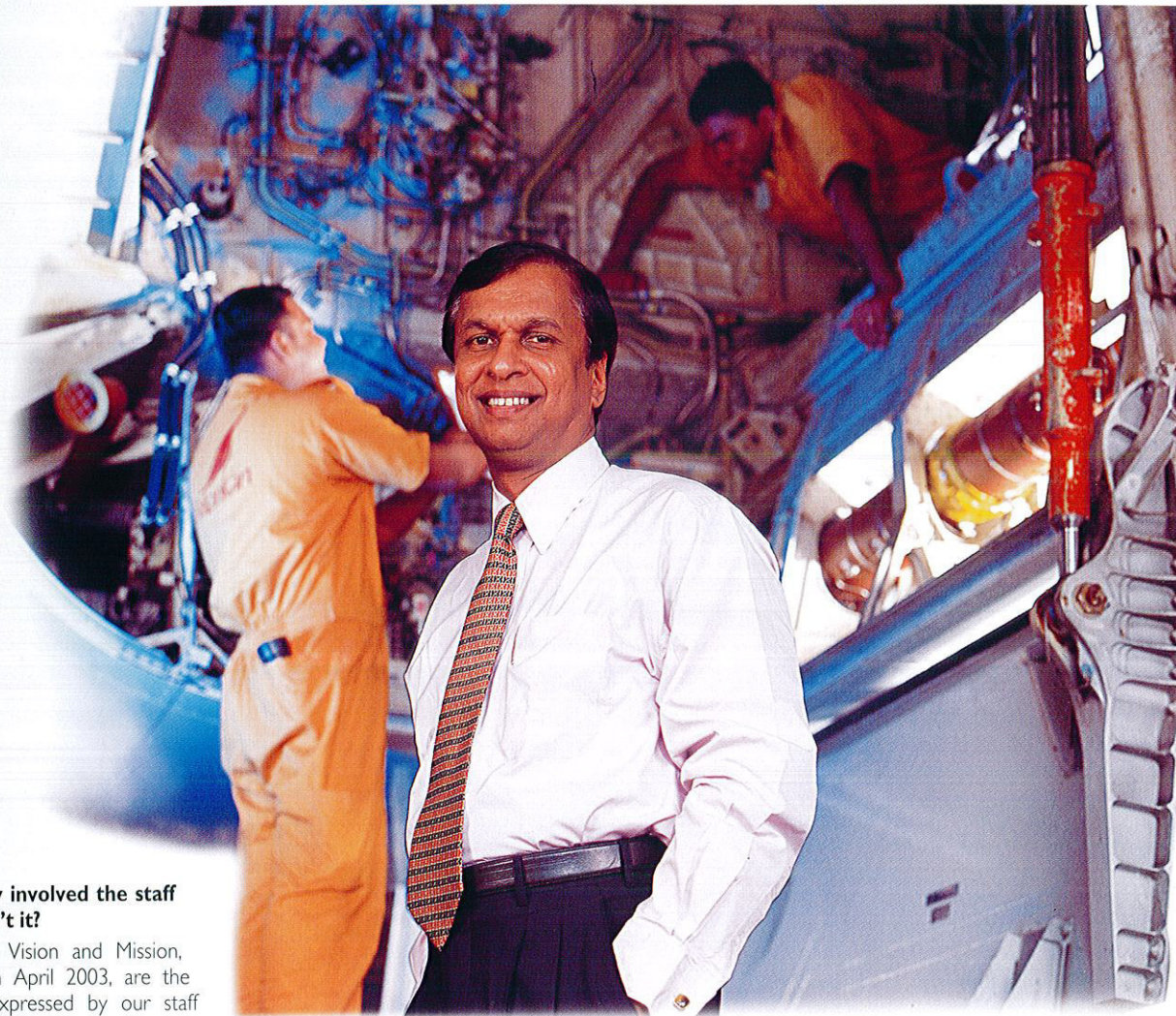


BRINGING OUT  
THE BEST IN OUR PEOPLE

*In order to compete with the best in the world, you have to be better than the best there is! We handpick those with the finest talents and hone their skills to razor sharpness, enabling our people to accept and overcome the most daunting challenges through professionalism and continuous training which in turn, helps us to keep flying at a higher altitude.*







**The Company actively involved the staff in the new Vision, didn't it?**

SriLankan Airlines' new Vision and Mission, which were launched in April 2003, are the products of opinions expressed by our staff through the Employee Opinion Survey that we conducted, in which we asked where they want the Company to be in the future.

Open and honest communication is very necessary to create a healthy working environment. The CEO has fortnightly discussions with a cross-section of members of the staff, and addresses staff every quarter through a specially prepared VCD. Heads of departments meet with their staff every week to communicate management decisions, and heads of divisions conduct town hall style discussions every month. We also keep our overseas and local staff informed of company happenings through our monthly newsletter, Monara, published in English and Sinhala, with special supplements for major events including quarterly and annual financial results.

**Would you tell us about some of the special programmes to enhance the skills of existing staff?**

We launched a series of programmes to encourage the personality and career growth of our employees. These include the Supervisory Development Programme, Officer Development Programme, Outbound Teambuilding Programme for Managers, and a programme of Succession Planning, Career Growth & Personal Development to train Executives and Managers for future roles. A programme is being conducted for selected Managers and Executives of the Company, to ensure that our future Country Managers are equipped with the required skills.

**Any developments in the area of employee relations?**

We successfully negotiated Collective Bargaining Agreements with many of the employee unions - the Jathika Sevaka Sangamaya, the Airline Pilots Guild of Sri Lanka, the Singapore Manual & Mercantile Workers Union, and the Association of Licensed Aircraft Engineers. These 3-year agreements benefit both the employees and the Company.

**HR has been working to infuse new talent into the Company, hasn't it?**

We recruited 26 Graduate Executive Trainees to the Company who underwent an exhaustive training programme for one year, and are expected to be future Managers of the Company.

**HR is actively involved in various social responsibility programmes, isn't it?**

Definitely. We provided a 3-months On-The-Job Training Programme for undergraduates from the University of Ruhuna, and conducted a programme in Business English for undergraduates from the University of Colombo.

**What about welfare measures and benefits to staff?**

We are constantly improving on facilities in this area. We now have an Agency Post Office at Katunayake for the benefit of the staff.

A new computerised system called MediCash enables staff to see their medical payments history, and check their present balance and the status of their claims.

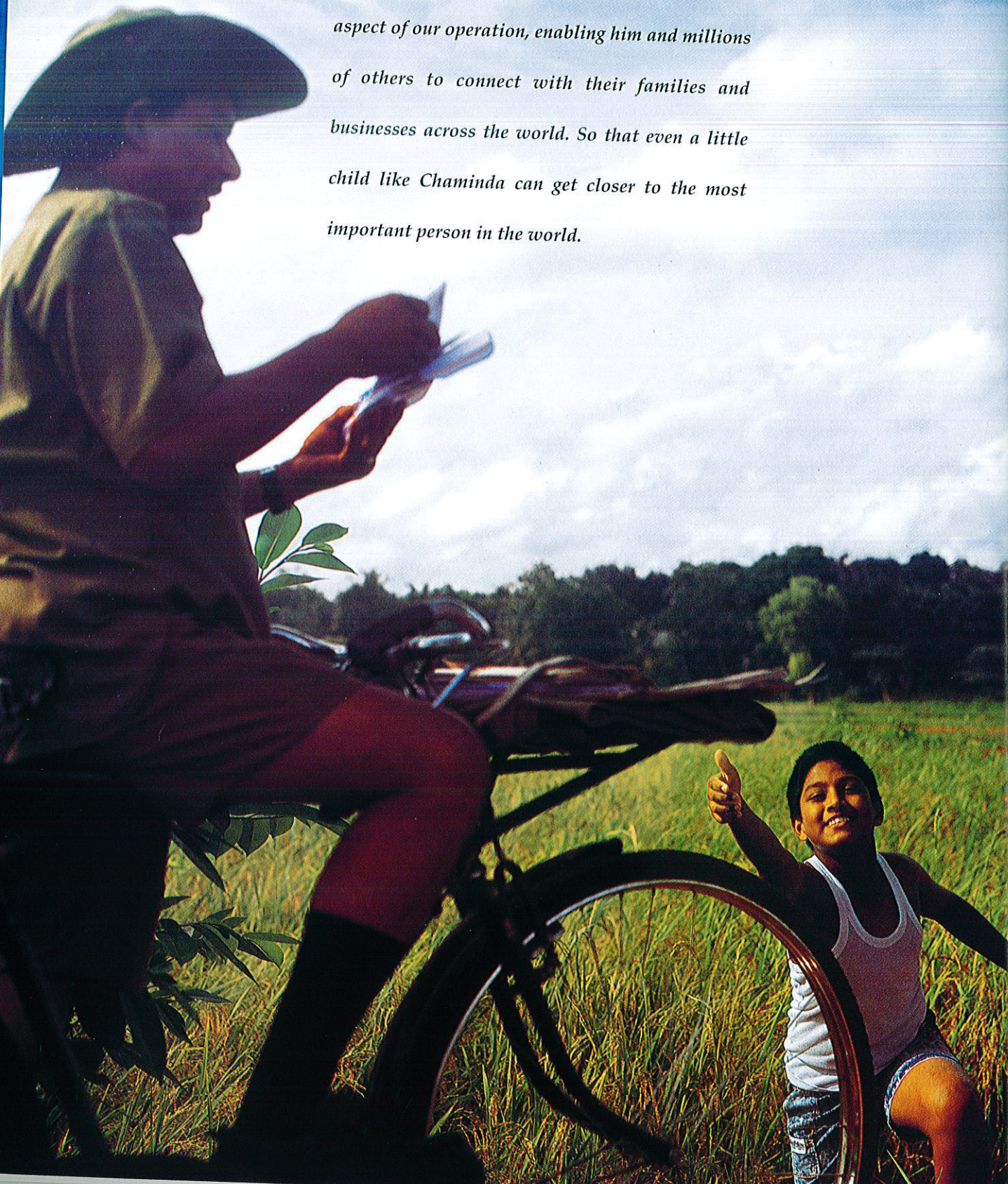
*“Human Resources has facilitated the promotion of greater productivity and infusion of new talent to the Company.”*

**SUNIL DISSANAYAKE**  
Head of Human Resources

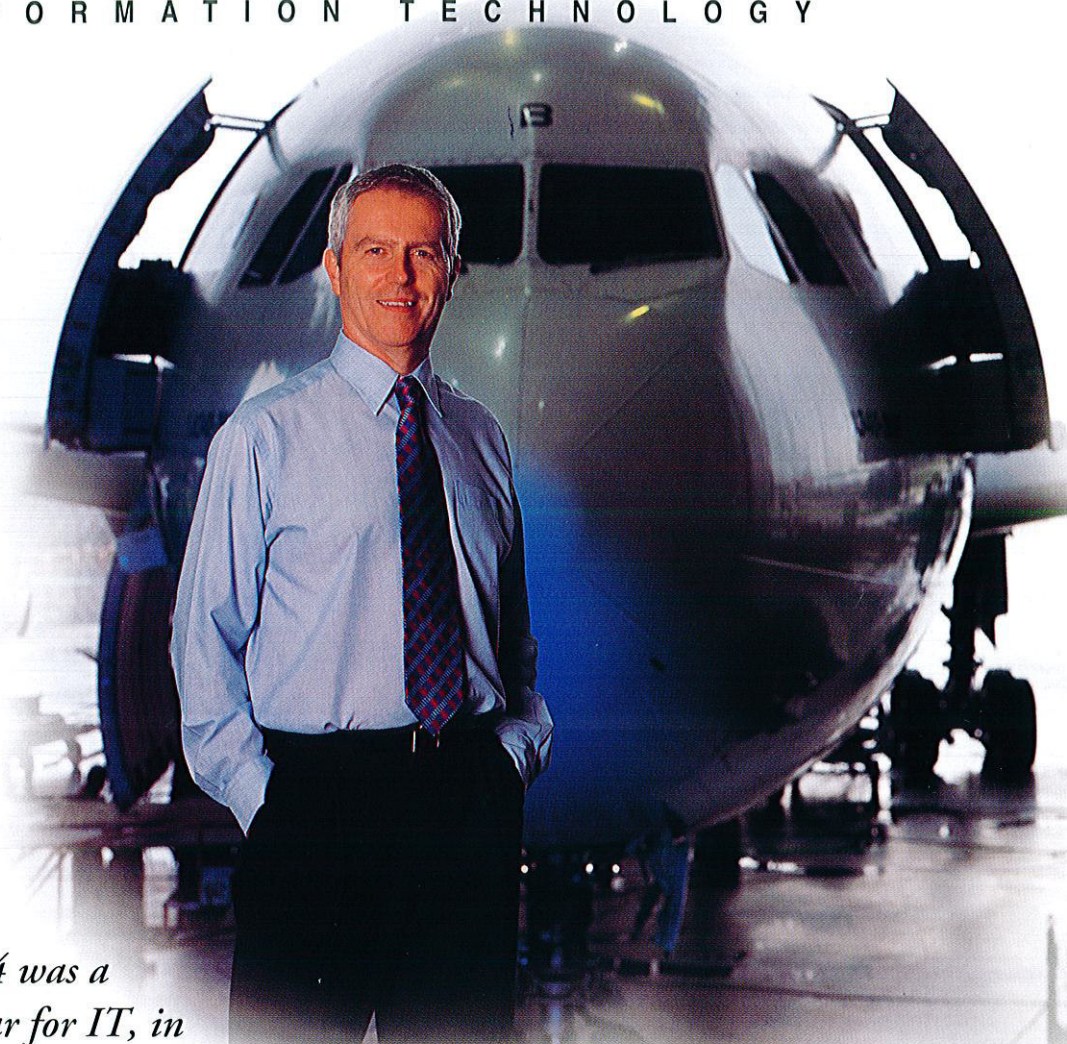


## NETWORKING HEARTS AND MINDS ACROSS THE PLANET

*As little Chaminda eagerly receives the latest news from his mother in Bahrain, he is probably unaware of the omnipresent role played by Information Technology in synchronizing every aspect of our operation, enabling him and millions of others to connect with their families and businesses across the world. So that even a little child like Chaminda can get closer to the most important person in the world.*







“2003/04 was a very busy year for IT, in which we completed a large number of important projects that applied more capable technology to better manage the Company’s business.”

**NIGEL O'SHEA**  
Head of IT

**The staff of IT has been busy throughout the network, haven't they?**

This year we brought 10 overseas offices on to the corporate network allowing the staff at these offices to enjoy the same IT facilities as staff in Headquarters. This brings about major improvements in communication and productivity, as well as being a motivating factor for staff. The offices were Bahrain, Bangalore, Delhi, Doha, Kuala Lumpur, Kuwait, London (Airport Office), Mumbai, Tokyo and Zurich. This brings the total number of offices connected to 16.

We installed the latest IT facilities and hardware at four new offices in Colombo – the Ticket Office and Skywards Service Centre at the World Trade Centre, the renovated Cargo Office in Colpetty, and the new Cargo Capacity Control Office in Fort. We also installed IT equipment in the newest PSA office in Jaffna.

**Would you tell us about some of the developments on the Company's website?**

Many new features were added including the ability to order Duty Free items, pre-order meals in Business Class and new facilities to support the Air Taxi operations. The other big change was the change of address from [www.srilankan.lk](http://www.srilankan.lk) to [www.srilankan.aero](http://www.srilankan.aero) to better reflect our status as an international airline.

**You've also installed many new systems.**

We migrated to Worldspan Fares, which allows passenger fares to be accessed by travel agents. We also introduced intelligent software to automate pre-flight checks on reservations to ensure time expired and non-ticketed reservations are deleted from the reservations system.

Another new system was Aircom, which manages the air to ground data communication messages from our aircraft fleet to the operational headquarters.

Crew Web is a website which allows pilots and cabin crew to view their rosters, keep track of training requirements, check their leave, and many other facilities, any time anywhere through the Internet.

Medicash allows staff to submit their medical claims through the company Intranet, automating a previously cumbersome manual process.

When government policy changed all national numbers to 10 digits, we implemented that change for over 1,300 telephone receivers, 60 fax machines and 200 dial-up connections in the SriLankan Airlines exchange, seamlessly, with no interruptions to service.

**The IT Division contributed to the development of SriLankan Airlines' adopted school, didn't it?**

We want the children of Meepagama Jayanthi Maha Vidyalaya to have a world of opportunities awaiting them when they finish school, and one way to ensure this is to focus on IT and English education. We constructed a computer room and a computer laboratory, with a total of 31 PCs, fully networked, with a large amount of accessories. The airline also gave the school's staff training in IT.

**Are you looking forward to a busy year?**

Definitely. Projects already planned include a fully automated Internet Booking Engine, the start of E-Ticketing, implementation of an E-Learning facility for our staff to undergo training through the PC on their desks, the introduction of a Document Management System and a new system for our aircraft engineering facility. We will also undertake two projects with Emirates, namely the development of a new generation Cargo system and the selection of a Duty Free Sales system.



## ENHANCING PROFITABILITY FOR NATIONAL PROGRESS

*Foreign exchange is the lifeblood of this country's economic progress. By operating a truly world class airline that offers unmatched standards of service and professionalism, we are able to offer more travellers not only a desirable holiday destination, but the best possible means of getting there, thus ensuring a continuing flow of foreign exchange that boosts the economic well-being of our island nation.*



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“The effective management of the Company’s financial resources, and the rapid flow of information to key decision-makers is a vital aspect of finance.”

**S.A. CHANDRASEKERA**  
Chief Financial Officer



**Would you tell us about the key advances in the Finance Division in terms of the flow of information?**

We continued to improve our internal processes and systems, thereby gaining further improvements in efficiency and productivity in management reporting and accounting activities.

The Station Accounting System – COMET - was successfully upgraded to Release 2.6. This system now covers all our major on-line stations.

The upgrading of RAPID Revenue Accounting System to its latest available version - Release 2.0 - commenced during the year. This upgrade provides enhanced functionality, and is expected to bring further improvements to the revenue accounting and reporting process.

**Tell us about how the Finance Division contributes to enhancing the Company’s bottom line.**

We participate actively in developing Long-term Business Plans together with other Divisions. Long-term Business Plans and Corporate Annual Budgets help all to focus on achieving the set targets and further improving our performance levels.

Comprehensive and relevant management information is provided to the Senior Management on a regular and timely basis, which enables effective decision-making.

Our concentration on managing exposure to foreign exchange and interest rate risk was enhanced over the past year. Exposure to foreign currency exchange rates is managed through natural hedging strategies. We invest our surplus funds in a prudent and profitable manner, limiting currency, interest rate and credit exposure within the framework for Financial Risk Management.

**Finance is adding value to the airline's expansion activities, isn't it?**

Finance participated in an active capacity in the acquisition of four aircraft on operating leases during the year. We will continue in this key role as the airline is planning to acquire several more aircraft over the next year to expand services.

**SriLankan has been very successful at managing costs throughout the Company. This must be a major area for Finance?**

Yes, we provide an advisory and a supervisory role here. Every Division and employee needs to be cost conscious in order to be competitive in the present market. We facilitate the process by providing information, evaluations, etc. on specific user requirements, in addition to inculcating cost discipline through budgetary controls.

What we have achieved in terms of cost reductions is evidence of an overall team effort of the whole Company. It needs to be mentioned that there is scope for more focus in this area.

We also serve in the 10-member IATA Currency Panel that coordinates efforts to minimise costs arising from issues relating to currency repatriation and blocked funds.



SUCCESSFULLY CATERING  
TO THE WORLD

*We not only possess the knowledge and experience to cater to the demanding tastes and palates of international travellers flying our airline but the ability to satisfy the equally high standards demanded by other airlines as well! The hunger to compete with the best in the world, underlines our inherent professionalism and allows us to make a considerable financial contribution to the overall operation of the national carrier.*

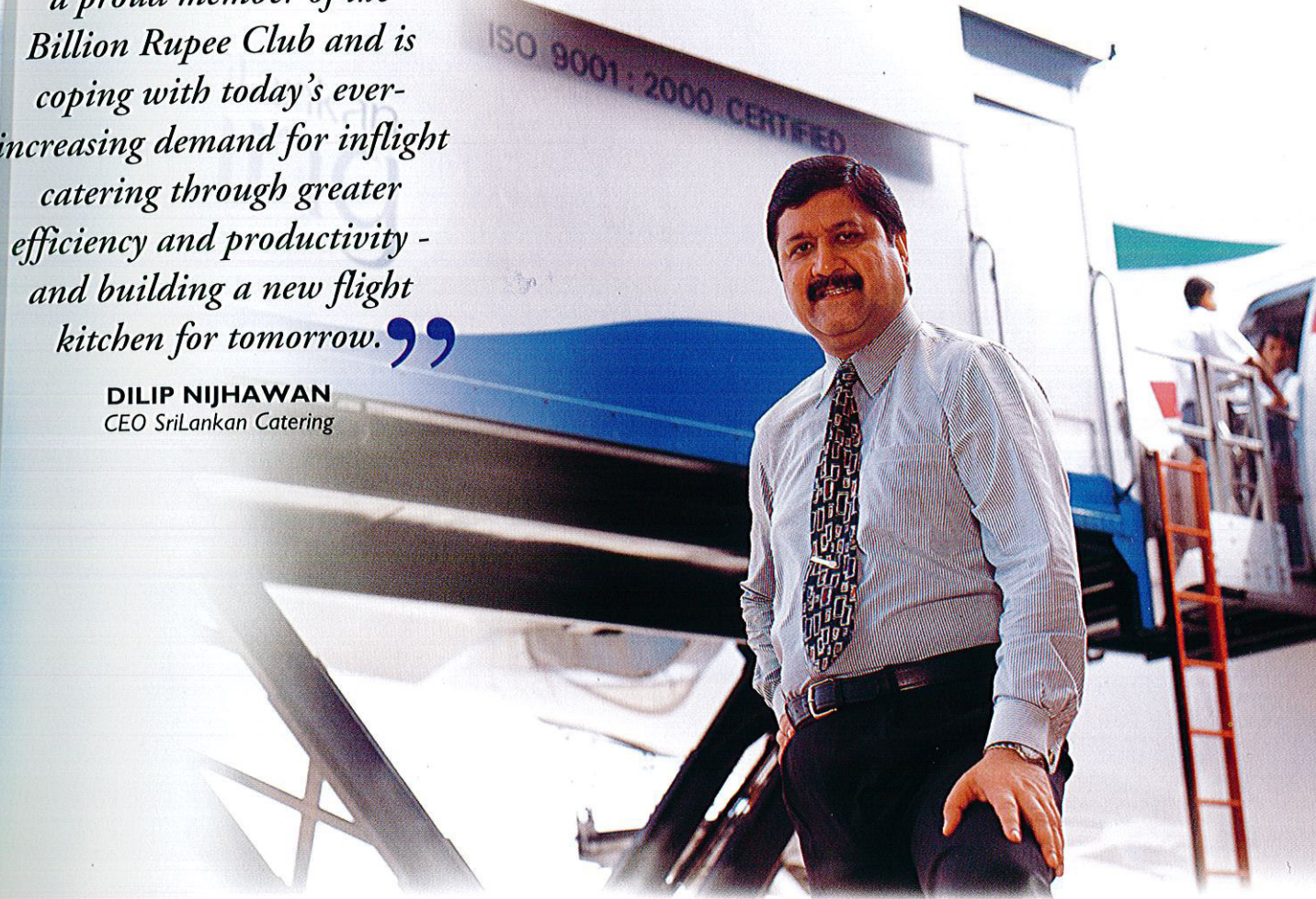




“ SriLankan

*Catering is now a proud member of the Billion Rupee Club and is coping with today's ever-increasing demand for inflight catering through greater efficiency and productivity - and building a new flight kitchen for tomorrow.*”

**DILIP NIJHAWAN**  
CEO SriLankan Catering



**The year under review was a milestone in the history of SriLankan Catering (Private) Limited, wasn't it?**

SriLankan Catering joined the Billion-Rupee Club this year, with a net profit of LKR 1.08 billion, which is an increase of 24.5% from LKR 868 million during the previous financial year. There aren't many companies in this country which are generating a net profit of over a billion and we are extremely proud of this achievement. Incidentally, the depreciation of the rupee in the previous financial year was insignificant at 0.28 cents and therefore the figures are purely a reflection of our performance. It's a great feeling.

**You've achieved this despite being restricted by the capacity of the present flight kitchen.**

Achieving this milestone is no mean feat given the limited size of our facility. The main element in achieving this profit was the manner in which our staff and the management team coped with the increase in demand, which was at times 261% of the installed capacity of 4,200 meals per day. In January 2004, we produced an average of 9,763 meals per day and went up to 11,000 meals on certain peak days.

**Your entire staff would probably breathe a sigh of relief when your new Flight Kitchen is completed.**

Yes! They definitely are looking forward to the new facility. With its completion we will quadruple our production capacity. The new Flight Kitchen will allow us to exploit many opportunities we have identified in the market. We expect it to propel the Company into the future as a leader in airline catering in the Asian region.

The Flight Kitchen facility will have a capacity to produce 4.75 million meals per year, and will have a covered area of 143,000 square feet, which will be on four levels spread over a 5-acre property in the airport premises. It will incorporate the latest technology and systems in aviation catering with state of the art equipment. Construction is scheduled to be completed in October 2005.

**You also have good news in the area of employee relations, don't you?**

SLC signed a three-year Collective Bargaining Agreement with effect from 1st April 2004, with its main employee union, the Jathika Sevaka Sangamaya, which is intended to benefit both the company and its employees. The terms of the agreement have been fully endorsed by all the employees including non-members of the incumbent union. I am happy to comment that all of them have opted to share its benefits.



**GROUNDWORK  
THAT KEEPS  
OUR REPUTATION BUOYANT**

*We have provided the means for hundreds of Sri Lankans to master the intricacies of technology. We have taken steps to improve their existing technical skills and put those acquired talents to optimum use on behalf of our airline as well as others. Our level of engineering has enabled us to operate as an independent profit centre and as a hub for attracting significant volumes of business from global customers.*





“ *The dedication of our Engineering & Maintenance teams, together with our technical crews, ensures a high average technical reliability. Airbus Industrie recognized our excellent standards by naming SriLankan as the most efficient operator of A330s among all the world’s airlines for the years 2002 and 2003, in the Small Fleet category.* ”



**CAPTAIN DICK HUTTON**  
Chief Technical Officer

**The Engineering & Maintenance Division certainly achieved a high standard in aircraft utilization efficiency and reliability, didn't it?**

During the past year, we have concentrated on increased efficiency in maintenance and in improving certain areas in technical and operational dispatch reliability. Our growing fleet of A340s, A330s and A320s requires increased dedication by our Engineering & Maintenance staff to ensure that aircraft are available at all times when they are needed for commercial operations. Our A320 fleet achieved an average technical reliability of 99.27%, the A330 fleet 98.78 %, and the A340s 98.31%, whilst maintaining industry leading utilization levels. All these figures are above average for Airbus fleets worldwide.

**And you also managed to keep the cost factor down.**

Maintaining such high levels of reliability with high utilization efficiency, contributes greatly to the reduction of costs from an airline standpoint i.e. unit costs will have significant improvement. In addition, we ensure that we obtain the maximum from the warranty clauses in maintenance and engineering contracts, employ modern cost reduction techniques, and obtain the best from suppliers and external overhaul providers.

All this has been achieved with a reduced team in terms of numbers, but our Engineering & Maintenance staff are dedicated and highly qualified. The internal engineering training programmes that we conduct are recognized in the region as being among the finest, and produce engineering staff who contribute to reduce costs continually from a budgetary point of view.

We also opened a Line Maintenance Office in Kochi in November 2003 and now certify aircraft of other airlines there.

**Has the Flight Operations Department maintained its reputation for punctuality?**

On the Flight Operations side, our technical crews over the past year have continued to contribute to Company viability through their best efforts at punctuality, while efficient flight planning by network controllers increased operational efficiency and at the same time reduced fuel costs and airtime expenditures.

**The SriLankan Air Taxi project added a new dimension to the airline's operations, didn't it?**

Flight Operations was called upon to plan and execute a domestic service in rapid time. The fact that it would be an amphibious service added to the challenge. I am pleased to say that SriLankan Air Taxi is proving to be a success, and continues to expand its number of destinations. We intend acquiring more amphibious aircraft to meet the demands of this expansion.

**You must view the Airbus Industrie Award as an outstanding achievement by your staff.**

Our achievements were recognized by Airbus Industrie in honouring SriLankan Airlines with its award of Worldwide Operational Excellence. This award underlines the achievements that we have realized over the last two years. I believe that with this dedicated team, we are well on our way to achieve even greater results.



BECAUSE  
EVERY LITTLE THING MATTERS

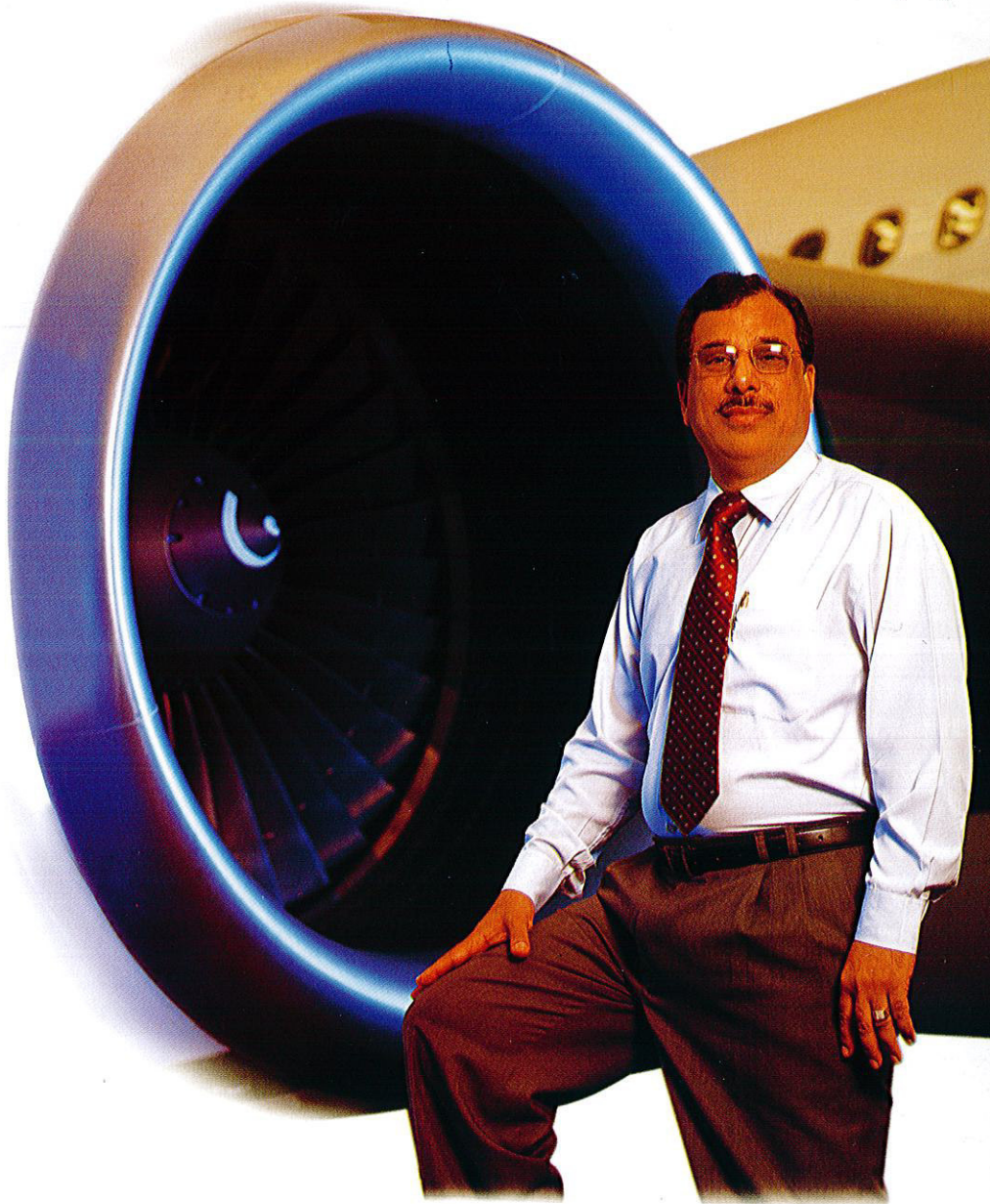
*From a small jigsaw puzzle to complex machinery, the procurement of every article undergoes rigorous planning and negotiation to make it cost-efficient and eliminate wastage. Constant innovation in the inventory management processes improves quality and overall efficiency, making us that much more competitive in the global arena. It's a business model, which not only ensures higher profit margins for the stakeholders but also delights the nation with a sense of pride.*





*“This division is involved in negotiating, procuring and inventory management of thousands of items, from paper clips to aviation fuel, and securing contracts for various services. Our objective is to provide better quality goods and services at lower costs.”*

**H.L. RIKHYE**  
 Head of  
 Procurement &  
 Logistics



**The Procurement & Logistics Division was formed in mid 2002. Could you describe its objectives?**

The Company identified the need to centralize procurement and logistics in order to introduce professionalism in negotiations and transparency in all procurement processes. Major areas such as Engineering Procurement, Commercial Procurement and Equipment & Services Procurement were included in 2002, and IT Procurement & Logistics was included in 2003. By end of 2004 all P&L activities would be centralized.

**How did your staff go about this task?**

We obtained feedback from user areas, including perceptions of existing service levels and issues they faced. We examined reports of internal and external auditors to understand deficiencies in the systems. Through these we determined that there was a need to improve certain areas - inventory management, systems and procedures, and professionalism in negotiating with suppliers. We teamed up with Emirates and SriLankan Catering Services to undertake joint procurements that reduced costs due to bulk purchasing. We instituted a "just in time" philosophy of inventory management that avoids the costs of over-stocking and stock-out situations, and a "first-in, first-out" system that eliminates wastage. We standardized equipment for 3-5 year periods, which helped in reducing inventory holding costs further. We undertook Business Process Re-engineering (BPR) of all systems and procedures involved in procurement, and put in place an action plan to improve the procurement processes.

**Did this involve upgrading skills of staff?**

I am happy with the progress of the division's staff in upgrading of skills and various programs organized. These include training at various levels in professional negotiation skills and inventory management, through various programmes including those of IATA and the Institute of Supply & Materials Management. The division includes Commercial Procurement, Equipment & Services Procurement, Procurement & Logistics related to Aircraft, and Properties & Facilities.

**What are the future objectives of P&L?**

We must support the Company's expansion of its fleet and operations through reduced costs by only marginal addition to our inventory. We have been successful in this so far. We are writing a Corporate Procurement Policy that would further standardize procurement throughout the Company. We are also introducing better Performance Monitoring Systems and Cost Reduction Strategies to further identify opportunities for cost reductions. We believe in continuous improvement and continued innovation to achieve the division's motto: "Providing better quality products at lower costs."





*SriLankan Cares.  
Taking social responsibility  
to a higher plane*

SriLankan Airlines takes pride in being the leader among companies in uplifting the community. The airline launched SriLankan Cares, the official charitable arm of the company, which especially re-affirms its growing commitment to the empowerment of children through education, good health and a clean environment by way of numerous projects throughout the country.

SriLankan Cares was launched by Miss World Rosanna Davison at a gathering of diplomats, corporate customers, and Gold members of Skywards, as the airline encourages the participation of its customers and partners.

The main effort of SriLankan Cares is centered on Meepagama Jayanthi Maha Vidyalaya, a school of nearly 1,000 students in Kalawana that was in dire need of assistance after floods ravaged the area. SriLankan was initially involved in flood relief there by ferrying relief supplies free of charge from overseas, and through efforts to gather and distribute food, medicines and clothing from the company's staff.

The national carrier went further by adopting this school and is carrying out a massive programme to upgrade its services and facilities, with the target of uplifting its standards to rival those of the finest schools in Colombo. The airline's vision is to have 90% of the students pass their Ordinary Level examinations with proficiency in computers and English, and for at least 5% to enter university. SriLankan recently completed construction of a new building at a cost of Rs. 4.7 million, which houses seven classrooms. The airline has built a fully equipped computer classroom at the school complete with 31 PCs, and conducted two IT Training Programmes for the school's academic staff at SriLankan's Human Resource Development Centre. SriLankan also constructed a playground with equipment for younger students, conducted a medical camp for nearly 400 students, gifted shoes and spectacles, and organized a volunteer programme by the airline's staff in the school premises.

Another SriLankan Cares project turned the dreams of 53 teenagers into reality by taking them on a day's outing to the Maldives. The children were drawn from all districts of the country and selected through a national competition through the newspapers. None of them had flown before, and many had not even seen Colombo.

Another programme is the Annual Schoolbook Distribution Project that donates 30,000 books to 3,000 children in 14 schools in 9 districts. SriLankan is also heavily involved in the Healthy Schools Project of the Colombo Municipal Council, which is uplifting the environment of hundreds of schools in the city.

The airline continues to work closely with universities to promote practical skills. Thirteen undergraduates from the University of Ruhuna underwent three months on-the-job training at SriLankan, and 12 from the University of Colombo received coaching in Business English.

The company applauds the projects of many of its staff in the area of social responsibility. These include the Flight Attendants Union's annual visit to the Children's Ward of the National Cancer Institute to entertain patients and distribute items; the Christmas On Wings annual programme that raises funds for a project, this year the Nayakakanda Orphanage; and the efforts of the Staff Welfare Society of SriLankan Airlines, which provided computer training for 10 children of employees, and continues its annual programme of awarding a scholarship to the best performer in the Year 5 Scholarship Exam among children of members of the staff.

SriLankan Cares also organized a programme in the beach slum area of Dehiwala-Mount Lavinia, where Miss World spoke to a group of 500 women on the importance of education in uplifting deprived communities, and distributed schoolbooks and pencil boxes at Morning Star School, an educational institute for street children.



# RECORD OF EVENTS

Significant Events at SriLankan in 2003/04

## April 2003

- Launch of Vision "To Be The Most Preferred Airline in Asia," Mission, and Company Song
- Batticaloa Ticket Office opened
- Third Airbus A320 joins the fleet
- Kochi becomes SriLankan's 8th destination in India
- Skywards wins six Freddie Awards including "Programme of the Year."

## July 2003

- Ticket Office opened in Jaffna

## June 2003

- Karachi service re-launched
- "Best Airline in Central Asia" for the third consecutive year in Skytrax survey
- Ticketing Office and Skywards Centre opened at Colombo's World Trade Centre
- First Runner-Up for "Best Cabin Staff 2003" in Skytrax global passenger survey

## September 2003

- "Best Overall Inflight Entertainment 2003" for a fleet of 20 or less, by World Airline Entertainment Association

## December 2003

- SriLankan Air Taxi domestic service launched with Cessna Caravan aircraft
- Singapore Airlines customer survey ranks service at Colombo Airport 2nd globally

## January 2004

- SriLankan Cargo wins Taiki Akimoto 5S Merit Award

## March 2004

- "Campaign of the Year" from Sri Lanka Institute of Marketing

## October 2003

- SriLankan acquires fourth and fifth Airbus A340s
- Trincomalee Ticket Office opened
- SriLankan Cargo acquires 2nd Antonov AN12 freighter aircraft
- "Best Global Economy Class Service" by German travel magazine Reise & Preise

## February 2004

- SriLankan acquires 4th Airbus A320 aircraft
- Hyderabad becomes SriLankan's 9th destination in India



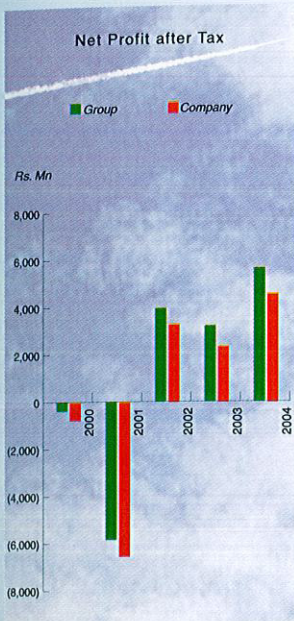
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# Review of Operations

A Record Profit



## NET PROFIT - GROUP

Net profit after tax Rs. 5,635.51 million, up 75.87 percent. (2003: Rs. 3,204.41 million).

Operating profit before finance cost and tax Rs. 5,942.38 million, up 48.09 percent. (2003: Rs. 4,012.68 million).

## NET PROFIT - COMPANY

Net profit after tax Rs. 4,555.14 million, up 94.97 percent. (2003: Rs. 2,336.38 million).

Operating profit before finance cost and tax Rs. 4,822.89 million, up 55.17 percent. (2003: Rs. 3,108.05 million).

## EARNINGS PER SHARE

Earnings per share of Rs. 88.51, up 94.97 percent. (2003: Rs. 45.40).

## REVENUE

Operating revenue of the Group Rs. 46,191.34 million, up 25.19 percent. (2003: Rs. 36,896.88 million).

Operating revenue of the Company Rs. 45,397.54 million, up 25.29 percent. (2003: Rs. 36,235.04 million).

Passenger revenue Rs. 36,455.04 million, up 26.35 percent. (2003: Rs. 28,851.76 million).

Cargo revenue Rs. 5,334.04 million, up 24.32 percent. (2003: Rs. 4,290.42 million).

Revenue from Air terminal services Rs. 2,655.13 million, up 19.01 percent. (2003: Rs. 2,230.93 million).

Revenue from flight catering Rs. 818.16 million, up 18.64 percent. (2003: Rs. 689.62 million).

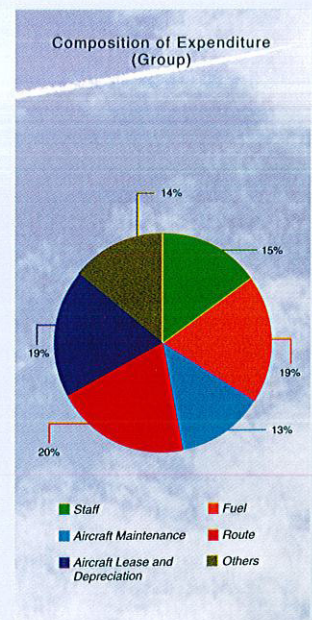
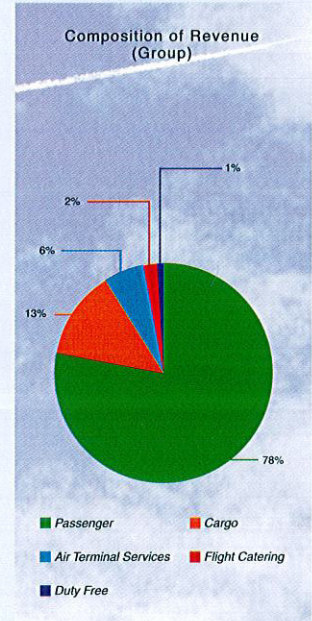
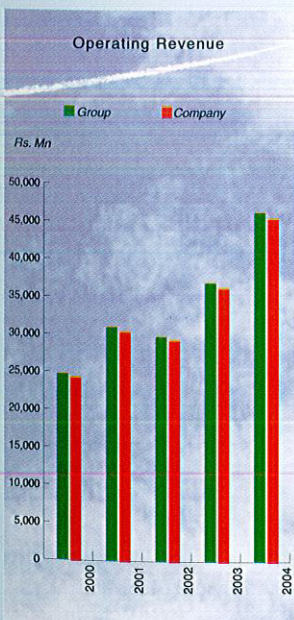
Revenue from in-flight duty-free sales Rs. 305.09 million, up 25 percent. (2003: Rs. 244.07 million).

## EXPENDITURE

Operating expenditure of the Group Rs. 41,993.93 million, up 22.65 percent. (2003: Rs. 34,237.54 million).

Operating expenditure of the Company Rs. 42,308.15 million, up 22.79 percent. (2003: Rs. 34,454.90 million).

Staff costs rose 13.03 percent due to annual pay reviews and increase in staffing levels to support growth.





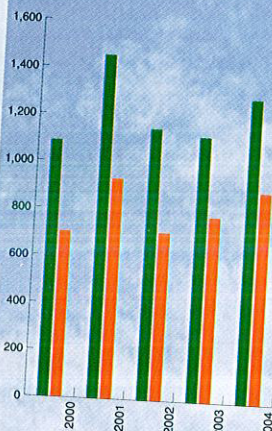
# Review of Operations

A Record Profit

Capacity

Produced Utilised

ATK (Mn)



Aviation Fuel costs rose 24.28 percent due to a 7.90 percent increase in average fuel prices and a 13.38 percent increase in consumption.

Aircraft Maintenance costs rose 93.46 percent due to the increase in the number of scheduled events.

Route costs increased 11.83 percent due to increase in frequencies by 27.14 percent, and the appreciation of European currencies.

Increase in other costs was due to higher spending on Marketing and Advertising to achieve higher revenues.

## OPERATIONAL PERFORMANCE

Capacity production increased 14.98 percent with the addition of one A320 and two A340-300 aircraft to the fleet.

Number of frequencies increased 27.14 percent, primarily to destinations in India and Europe.

Passenger carriage grew 14.34 percent to 2.06 million. (2003: 1.81 million)

Cargo carriage grew 15.31 percent to 54,943 tonnes. (2003: 47,650 tonnes)

Seat factor fell by 1.00 percentage points to 75.08 percent and overall load factor dropped to 69.51 percent from 69.98 percent.

Unit yield improved 10.10 percent to Rs. 47.33 per tonne kilometer. (2003: Rs. 42.99).

Unit cost increased 6.04 percent to Rs.32.49 per capacity tonne kilometer. (2003: Rs. 30.64).

Breakeven load factor improved by 2.62 percentage points to 68.66 percent as a result of the improvement in unit yield.

Load Factor

Overall Break-even

%



Passenger Numbers

Passengers in 000's



## FINANCIAL POSITION

Total Equity of the Group improved 80.58 percent to Rs.11,475.61 million. (2003: Rs. 6,354.73 million)

Total Equity of the Company improved 114.75 percent to Rs.7,561.53 million. (2003: Rs.3,521.02 million)

Group's liquid funds increased 58.47 percent to Rs.13,279.16 million. (2003: Rs.8,379.67 million)

Liquid funds of the Company increased 59.07 percent to Rs.13,111.42 million. (2003: Rs. 8,242.37 million)

Working capital of the Group increased 69.85 percent to Rs.8,080.45 million. (2003: Rs. 4,757.39 million)

Working capital of the Company increased 109.52 percent to Rs.4,341.60 million. (2003: Rs. 2,072.21 million)

Net Worth (Group)

Rs. Mn





## Report of the Directors

The Directors have pleasure in submitting their Report and Audited Accounts for the year ended 31<sup>st</sup> March 2004. The Accounts are set out on pages 42 to 67.

### PRINCIPAL ACTIVITIES

The principal activities of the Company is the operation of international scheduled and non-scheduled air services for the carriage of passengers, freight and mail as the designated carrier of Sri Lanka. Providing Air Terminal services at the Bandaranaike International Airport and the sale of duty free goods on-board, constitute other main activities of the Company.

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

### DIRECTORS IN OFFICE

The names of the present Directors of the Company are listed below:

Mr. K Balapatabendi PC	-	Chairman
Mr. A Hewage		
Mr. J M S Brito		
Mr. S Ukwatte		
Mr. T C Clark	-	Managing Director
Mr. G W Chapman		
Mr. D E Mannion		
Mr. P M Hill	-	Alternate Director to T C Clark
Mr. M Flanagan	-	Alternate Director to G W Chapman
Mr. Ghaith Al Ghaith	-	Alternate Director to D E Mannion

Mr D S J Pelpola who was the Chairman during the period 01<sup>st</sup> April 2003 to 31<sup>st</sup> March 2004 tendered his resignation as Chairman on 6<sup>th</sup> April 2004 but continued to perform the statutory duties of his office until the appointment of Mr K Balapatabendi PC, as Chairman on 21<sup>st</sup> May 2004.

Messrs R C De Silva, M P Haradasa and A L Gooneratne, Directors who were on the Board during the period 01<sup>st</sup> April 2003 to 31<sup>st</sup> March 2004 tendered their resignations effective 06<sup>th</sup> April 2004.

Messrs A Hewage, J M S Brito and S Ukwatte were appointed as Directors effective 21<sup>st</sup> May 2004.

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

Mr. K Balapatabendi PC	-	Chairman
Mr. D E Mannion		
Mr. A Hewage		
Mr. J M S Brito		
Mr. D Nijhawan	-	Alternate Director to D E Mannion

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



## Report of the Directors

### ACCOUNTS

The Consolidated profit for the year ended 31<sup>st</sup> March 2004 before finance cost and income tax expenses amounted to Rs. 5,942.38 million. Consolidated net profit for the year after finance cost and income tax expenses amounted to Rs. 5,635.51 million.

### RESERVES

There were no material transfers to or from reserves or provisions during the year ended 31<sup>st</sup> March 2004, 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 46 to 53.

### PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment are shown in Note 9 to the accounts.

### BANK AND OTHER BORROWINGS

Bank loans and other borrowings, including obligations under finance leases of the Company are shown under Note 16 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.

16<sup>th</sup> June 2004

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 31<sup>st</sup> March 2004, 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 42 to 67 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 the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### Opinion- Company

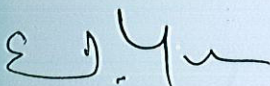
In our opinion, so far as appears from our examination, the Company maintained proper books of account for the year ended 31<sup>st</sup> March 2004 and proper returns adequate for the purpose of our audit have been received from stations not visited by us and to the best of our information and according 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 31<sup>st</sup> March 2004, and its profit and cash flows for the year then ended.

### 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 31<sup>st</sup> March 2004, 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.

### 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 31<sup>st</sup> March 2004, except as stated in Note 22 to these financial statements.



**Ernst & Young**  
Chartered Accountants  
Colombo

16<sup>th</sup> June 2004



# Income Statement

Year Ended 31 March 2004

	Note	Group 2004 Rs. M	Restated Group 2003 Rs. M	Company 2004 Rs. M	Restated Company 2003 Rs. M
<b>Revenue</b>					
	3	46,191.34	36,896.88	45,397.54	36,235.04
Cost of Sales		(35,182.00)	(28,608.39)	(35,952.15)	(29,216.75)
Gross Profit		11,009.34	8,288.49	9,445.39	7,018.29
Other Income		1,744.97	1,353.34	1,733.50	1,327.91
Distribution & Marketing Costs	4	(4,856.95)	(3,793.75)	(4,856.95)	(3,793.75)
Administrative Expenses		(1,954.98)	(1,835.40)	(1,499.05)	(1,444.40)
<b>Profit from Operating Activities</b>		5,942.38	4,012.68	4,822.89	3,108.05
Finance Cost	5	(462.20)	(761.85)	(462.20)	(761.85)
<b>Profit from Ordinary Activities Before Tax</b>		5,480.18	3,250.83	4,360.69	2,346.20
Income Tax Expense	7	155.33	(46.42)	194.45	(9.82)
<b>Net Profit for the Year</b>		5,635.51	3,204.41	4,555.14	2,336.38
Basic Earnings Per Share (Rs.)	8	109.51	62.27	88.51	45.40
Dividends Per Share (Rs.)		-	10.00	-	10.00

The accounting policies and notes on pages 46 to 67 form an integral part of these financial statements.

16<sup>th</sup> June 2004

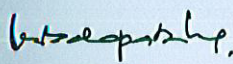


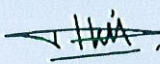
## Balance Sheet

As at 31 March 2004

	Note	Group 2004 Rs. M	Restated Group 2003 Rs. M	Company 2004 Rs. M	Restated Company 2003 Rs. M
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, Plant & Equipment	9	10,525.77	11,508.30	10,203.34	11,218.59
Investments	10.1	25.49	25.49	95.89	95.89
		<u>10,551.26</u>	<u>11,533.79</u>	<u>10,299.23</u>	<u>11,314.48</u>
<b>Current Assets</b>					
Inventories	11	2,303.69	2,194.97	2,234.96	2,136.98
Trade and Other Receivables	12.1	8,655.24	7,972.66	8,424.76	7,794.71
Investments	10.2	153.62	121.79	153.62	121.79
Cash and Bank Balances	13.1	13,552.72	8,798.67	13,384.92	8,659.85
		<u>24,665.27</u>	<u>19,088.09</u>	<u>24,198.26</u>	<u>18,713.33</u>
<b>Total Assets</b>		<u>35,216.53</u>	<u>30,621.88</u>	<u>34,497.49</u>	<u>30,027.81</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and Reserves</b>					
Issued Capital	14.2	5,146.35	5,146.35	5,146.35	5,146.35
Reserves	15	159.27	159.27	129.04	129.04
Accumulated Profits/(Losses)		6,169.99	1,049.11	2,286.14	(1,754.37)
		<u>11,475.61</u>	<u>6,354.73</u>	<u>7,561.53</u>	<u>3,521.02</u>
<b>Total Equity</b>		<u>11,475.61</u>	<u>6,354.73</u>	<u>7,561.53</u>	<u>3,521.02</u>
<b>Non-Current Liabilities</b>					
Interest Bearing Liabilities	16	6,118.42	9,054.57	6,118.42	9,054.57
Retirement Benefit Obligations	17	1,037.68	881.88	960.88	811.10
		<u>7,156.10</u>	<u>9,936.45</u>	<u>7,079.30</u>	<u>9,865.67</u>
<b>Current Liabilities</b>					
Trade and Other Payables	18	13,154.80	10,852.23	16,428.49	13,126.85
Income Tax Payable		194.63	349.98	192.84	387.30
Bank Overdraft	13.2	273.56	419.00	273.50	417.48
Interest Bearing Liabilities	16	2,961.83	2,709.49	2,961.83	2,709.49
		<u>16,584.82</u>	<u>14,330.70</u>	<u>19,856.66</u>	<u>16,641.12</u>
<b>Total Equity and Liabilities</b>		<u>35,216.53</u>	<u>30,621.88</u>	<u>34,497.49</u>	<u>30,027.81</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 46 to 67 form an integral part of these financial statements.

16<sup>th</sup> June 2004



# Statement of Changes in Equity

Year Ended 31 March 2004

GROUP	Note	Share Capital	Capital Reserve	Revenue Reserve	General Reserve	Accumulated Profits/(Losses)	Total
		Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M
Balance as at 31 March 2002		5,146.35	105.20	0.63	53.44	3,165.86	8,471.48
Effects of changes in accounting policy	19	-	-	-	-	(5,321.16)	(5,321.16)
<b>Restated Balance as at 31 March 2002</b>		<u>5,146.35</u>	<u>105.20</u>	<u>0.63</u>	<u>53.44</u>	<u>(2,155.30)</u>	<u>3,150.32</u>
Net Profit for the year		-	-	-	-	3,204.41	3,204.41
<b>Restated Balance as at 31 March 2003</b>		<u>5,146.35</u>	<u>105.20</u>	<u>0.63</u>	<u>53.44</u>	<u>1,049.11</u>	<u>6,354.73</u>
Dividends		-	-	-	-	(514.63)	(514.63)
Net Profit for the year		-	-	-	-	5,635.51	5,635.51
<b>Balance as at 31 March 2004</b>		<u>5,146.35</u>	<u>105.20</u>	<u>0.63</u>	<u>53.44</u>	<u>6,169.99</u>	<u>11,475.61</u>

COMPANY	Note	Share Capital	Capital Reserve	General Reserve	Accumulated Profits/(Losses)	Total
		Rs. M	Rs. M	Rs. M	Rs. M	Rs. M
Balance as at 31 March 2002		5,146.35	75.60	53.44	1,230.41	6,505.80
Effects of changes in accounting policy	19	-	-	-	(5,321.16)	(5,321.16)
<b>Restated Balance as at 31 March 2002</b>		<u>5,146.35</u>	<u>75.60</u>	<u>53.44</u>	<u>(4,090.75)</u>	<u>1,184.64</u>
Net Profit for the year		-	-	-	2,336.38	2,336.38
<b>Restated Balance as at 31 March 2003</b>		<u>5,146.35</u>	<u>75.60</u>	<u>53.44</u>	<u>(1,754.37)</u>	<u>3,521.02</u>
Dividends		-	-	-	(514.63)	(514.63)
Net Profit for the year		-	-	-	4,555.14	4,555.14
<b>Balance as at 31 March 2004</b>		<u>5,146.35</u>	<u>75.60</u>	<u>53.44</u>	<u>2,286.14</u>	<u>7,561.53</u>

The accounting policies and notes on pages 46 to 67 form an integral part of these financial statements.

16<sup>th</sup> June 2004



## Cash Flow Statement

Year Ended 31 March 2004

	Note	Group 2004 Rs. M	Restated Group 2003 Rs. M	Company 2004 Rs. M	Restated Company 2003 Rs. M
<b>Cash Flows From / (Used in) Operating Activities</b>					
Net Profit before Income Tax Expense		5,480.18	3,250.83	4,360.69	2,346.20
Adjustments for					
Depreciation		1,655.79	1,761.02	1,622.64	1,742.20
Transferred from Property, Plant and Equipment		115.75	-	115.75	-
Amortisation of Pre-delivery Payments		112.13	112.13	112.13	112.13
(Profit)/Loss on sale of Property, Plant & Equipment		3.00	(3.22)	3.01	(3.22)
Finance Costs		462.20	761.85	462.20	761.85
Provision for Slow Moving Stocks		(5.01)	24.44	(5.01)	24.44
Provision for Unsettled Advances		13.64	-	13.64	-
Provision for Gratuity		192.36	245.05	182.46	238.92
Income from Sale & Revaluation of Shares		(31.83)	(290.57)	(31.83)	(290.57)
Operating Profit before Working Capital Changes		7,998.21	5,861.53	6,835.68	4,931.95
(Increase)/Decrease in Inventories		(103.71)	(225.68)	(92.97)	(211.58)
(Increase)/Decrease in Trade and Other Receivables		(808.35)	(1,401.66)	(755.82)	(1,342.25)
Increase/(Decrease) in Trade and Other Payables		2,220.68	4,108.17	3,203.59	4,856.92
Cash Generated from Operations		9,306.83	8,342.36	9,190.48	8,235.04
Finance Costs Paid		(321.54)	(606.85)	(321.54)	(606.85)
Gratuity Paid		(36.56)	(33.22)	(32.68)	(32.39)
Income Tax Paid		-	(4.68)	-	-
Net Cash Flows from/(used in) Operating Activities		8,948.73	7,697.61	8,836.26	7,595.80
<b>Cash Flows From/(Used in) Investing Activities</b>					
Acquisition of Property, Plant & Equipment		(806.60)	(261.82)	(740.73)	(204.82)
Proceeds from sale of Property, Plant & Equipment		14.59	12.78	14.58	12.78
Proceeds from sale of Investments		-	143.29	-	143.29
Net Cash Flows from/(used in) Investing Activities		(792.01)	(105.75)	(726.15)	(48.75)
<b>Cash Flows From/(Used in) Financing Activities</b>					
Repayment of Interest Bearing Liabilities		(131.87)	(130.17)	(131.87)	(130.17)
Principal Payments under Finance Lease Liabilities		(2,594.89)	(2,332.41)	(2,594.89)	(2,332.41)
Dividends Paid		(530.47)	-	(514.30)	-
Net Cash Flows from/(used in) Financing Activities		(3,257.23)	(2,462.58)	(3,241.06)	(2,462.58)
Net Increase/(Decrease) in Cash and Cash Equivalents		4,899.49	5,129.28	4,869.05	5,084.47
Cash and Cash Equivalents at the beginning of the year	13.2	8,379.67	3,250.39	8,242.37	3,157.90
Cash and Cash Equivalents at the end of the year	13.2	13,279.16	8,379.67	13,111.42	8,242.37

The accounting policies and notes on pages 46 to 67 form an integral part of these financial statements.



# Notes to the Financial Statements

Year Ended 31 March 2004

## 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 activities of the Company is the operation of international scheduled, 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. DATE OF AUTHORISATION FOR ISSUE

The financial statements of Sri Lankan Airlines Ltd. for the year ended 31<sup>st</sup> March 2004, were authorized for issue, in accordance with the resolution of the Board of Directors on 16<sup>th</sup> June 2004.

### 1.4. NUMBER OF EMPLOYEES

The number of employees in service as at 31<sup>st</sup> March 2004 was 4,714. (31<sup>st</sup> March 2003 – 4,182).

## 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 31<sup>st</sup> March 2004, and for the year then ended, comply with the Sri Lanka Accounting Standards.

These financial statements presented in Sri Lanka Rupees have been prepared on a historical cost basis, except for 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 changes in accounting policy more fully described in note 2.1.3, are consistent with those used in the previous year.

Certain comparative amounts have been re-classified to conform to current year's presentation.

#### 2.1.3 Changes in Accounting Policies

In the current year, the Company changed its policy on accounting for unrealised exchange differences arising on the translation of long-term foreign currency borrowings and finance leases to be in compliance with Sri Lanka Accounting Standard No. 21. The change in accounting policy is more fully described in note 19 to the financial statements.

#### 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) Ltd.



## Notes to the Financial Statements

Year Ended 31 March 2004

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

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

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

### 2.1.5 Foreign Currency Translation

- (i) All foreign currency transactions are converted into Sri Lankan Rupees, which is the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.
- (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 31<sup>st</sup> March 2004.
- (iii) Unrealised exchange differences arising on the translation of long-term foreign currency borrowings and finance leases as at the balance sheet date are dealt with in the income statement as currency gains/(losses).
- (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*

The Company has signed an agreement under Section 17 of the Greater Colombo Economic Commission Law No. 4 of 1978 which exempts it from the payment of income tax, corporate tax and tax on dividends and royalties for an initial period of seven years from 01<sup>st</sup> September 1979, subsequently extended for a period of three years from 01<sup>st</sup> August 1986, and thereafter a period of five years from 01<sup>st</sup> 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 31<sup>st</sup> March 1998.

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

#### *The Subsidiary - SriLankan Catering (Private) Ltd.*

Income from the Flight Kitchen and the Transit Restaurant operated by the Subsidiary was exempted from income tax for a period of 15 years upto 19<sup>th</sup> August 1995, in terms of agreements entered to under Section 17 of the Greater Colombo Economic Commission Law No. 4 of 1978. At the expiry of this period of exemption and until 31<sup>st</sup> March 2006, the Subsidiary is liable for income tax at a concessionary rate of 2% of the turnover of the Flight Kitchen and the Transit Restaurant. The income from the Public Restaurant is liable at the normal rate of corporate tax.



# Notes to the Financial Statements

Year Ended 31 March 2004

(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 the assets will be fully depreciated before the expiry of the tax holiday period.

## 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 1992/93 to 1994/95 as part of the cost of such aircraft.

Exchange losses on long-term loans obtained to meet pre-delivery payments in respect of new aircraft are regarded as an adjustment to borrowing costs. Such exchange losses amounting to Rs. 242.15 million have been capitalised during the financial years 1992/93 to 1994/95 as part of the cost of 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.

*The Subsidiary - SriLankan Catering (Private) Ltd*

Inventories held at the Restaurants are valued on the basis of first in first out. All other inventories are valued on the basis of weighted average cost.

### 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.



# Notes to the Financial Statements

Year Ended 31 March 2004

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

#### 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.



# Notes to the Financial Statements

Year Ended 31 March 2004

## 2.2.5 Leases

### *Finance Leases*

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

Costs of major modifications and re-configuration of aircraft are capitalised as part of aircraft cost and depreciated over the remaining term of the lease or the estimated useful life of the modifications/re-configuration, whichever is the shorter.

### *Operating Leases*

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

Costs of major modifications and re-configuration of aircraft are capitalised as part of aircraft cost and depreciated over the remaining term of the lease.

### *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.



## Notes to the Financial Statements

Year Ended 31 March 2004

## 2.3 LIABILITIES AND PROVISIONS

## 2.3.1 Provisions

## (a) General

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

## (b) Aircraft Maintenance and 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.

## 2.3.2 Retirement Benefit Obligations

## (a) Defined Benefit Plan-Gratuity

*The Company*

All employees based in Sri Lanka with 5 or more year's 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 31<sup>st</sup> March 2003 was undertaken in April 2003 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 Credit 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<br>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. 156.27 million.

Based on these assumptions, the actuarial present value of the accrued benefits as at 31<sup>st</sup> March 2004 is Rs. 876.06 million. The gratuity liability is not externally funded. This item is grouped under "Retirement Benefit Obligations" in the Balance Sheet (refer note 17).

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



# Notes to the Financial Statements

Year Ended 31 March 2004

## *The Subsidiary - SriLankan Catering (Private) 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 Benefit Costs. 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.

### 2.3.3 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.

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

Actual revenue adjustments are dealt with in the income statement.

#### (b) Dividend and Interest

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



## Notes to the Financial Statements

Year Ended 31 March 2004

(c) Rental Income

Rental income is recognised on an accrual basis.

(d) Royalties

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

### 2.4.2 Expenditure Recognition

Expenses are recognised 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.



# Notes to the Financial Statements

Year Ended 31 March 2004

## 3 REVENUE

	Group 2004 Rs. M	Group 2003 Rs. M	Company 2004 Rs. M	Company 2003 Rs. M
Total Revenue	<u>46,191.34</u>	<u>36,896.88</u>	<u>45,397.54</u>	<u>36,235.04</u>

### 3.1 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 passengers and cargo, and the provision of air terminal services are zero rated.

\* All other income derived in Sri Lanka is liable at the standard rate of 15%.

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

	Group 2004 Rs. M	Group 2003 Rs. M	Company 2004 Rs. M	Company 2003 Rs. M
Rendering of Services				
Scheduled Services - Passenger	36,455.04	28,851.76	36,455.04	28,851.76
- Excess baggage	486.36	514.59	486.36	514.59
- Cargo	5,334.04	4,290.42	5,354.14	4,309.67
- Mail	77.45	75.49	77.45	75.49
	<u>42,352.89</u>	<u>33,732.26</u>	<u>42,372.99</u>	<u>33,751.51</u>
Non-Scheduled services	60.07	-	60.07	-
Duty Free	305.09	244.07	305.09	244.07
Air terminal & other Services	2,655.13	2,230.93	2,659.39	2,239.46
Flight Catering	818.16	689.62	-	-
Total	<u>46,191.34</u>	<u>36,896.88</u>	<u>45,397.54</u>	<u>36,235.04</u>

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

#### Group

#### Analysis of Turnover by Geographical Segment

	Group 2004 Rs. M	Group 2003 Rs. M
Asia	24,352.61	19,916.73
Europe & Africa	14,087.82	11,073.39
Middle East	5,862.52	4,626.67
North & South America	1,446.18	1,017.36
South West Pacific	442.21	262.73
Total	<u>46,191.34</u>	<u>36,896.88</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 2004

## 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	
2004 Rs. M	2004 Rs. M	2004 Rs. M	2003 Rs. M	2003 Rs. M	2003 Rs. M	
Revenue	45,397.54	1,972.39	46,191.34	36,235.04	1,607.33	36,896.88
Net Profit/(Loss) After Tax	4,555.14	1,080.37	5,635.51	2,336.38	868.03	3,204.41
Assets	34,497.49	4,277.93	35,216.53	30,027.81	3,114.91	30,621.88
Liabilities	26,935.96	288.02	23,740.92	26,506.79	235.77	24,267.15
Operating Expenses	42,308.15	864.38	41,993.93	34,454.90	728.12	34,237.54
Depreciation & Amortisation	1,734.77	33.15	1,767.92	1,854.33	18.82	1,873.15

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 2004 Rs. M	Group 2003 Rs. M	Company 2004 Rs. M	Company 2003 Rs. M
Interest Income				
Rental Income	220.52	173.56	219.64	166.69
Miscellaneous Revenue	0.45	0.72	0.45	0.72
Income from Sale of Shares	75.17	352.86	74.08	349.92
Profit/(Loss) on Disposal of Property, Plant and Equipment	-	290.57	-	290.57
Realised Gain on Exchange	(3.00)	3.22	(3.01)	3.22
	<u>1,451.83</u>	<u>532.41</u>	<u>1,442.34</u>	<u>516.79</u>
	<u>1,744.97</u>	<u>1,353.34</u>	<u>1,733.50</u>	<u>1,327.91</u>

## 5 PROFIT/(LOSS) FROM OPERATING ACTIVITIES INCLUDES THE FOLLOWING:

	Group 2004 Rs. M	Group 2003 Rs. M	Company 2004 Rs. M	Company 2003 Rs. M
Advertising and Marketing Costs	4,856.95	3,793.75	4,856.95	3,793.75
Auditors' Remuneration	2.05	1.83	1.65	1.45
Depreciation	1,655.79	1,761.02	1,622.64	1,742.20
Staff Costs	5,632.48	4,911.33	5,448.50	4,738.99
Defined Benefit Plan Costs - Gratuity	192.36	245.09	182.46	238.92
Defined Contribution Plan Costs - EPF & ETF	441.39	387.39	425.01	371.30
Gain on Fuel Risk Management Programme	(117.51)	(208.27)	(117.51)	(208.27)

## 6 FINANCE COST

	Group 2004 Rs. M	Group 2003 Rs. M	Company 2004 Rs. M	Company 2003 Rs. M
Interest Expense on Loans, Borrowings & Overdrafts	47.27	37.06	47.27	37.06
Finance Charges on Lease Liabilities	371.96	539.30	371.96	539.30
Currency Losses	42.97	185.49	42.97	185.49
	<u>462.20</u>	<u>761.85</u>	<u>462.20</u>	<u>761.85</u>



# Notes to the Financial Statements

Year Ended 31 March 2004

7 INCOME TAX EXPENSE	Group 2004 Rs. M	Group 2003 Rs. M	Company 2004 Rs. M	Company 2003 Rs. M
<b>Current Income Tax</b>				
Current Tax Expense for the Year	(155.33)	46.42	(194.45)	9.82
	<u>(155.33)</u>	<u>46.42</u>	<u>(194.45)</u>	<u>9.82</u>

Income tax expense for the year includes a reversal of a provision of Rs. 197.27 million in respect of prior years.

## 8 EARNINGS PER SHARE

8.1 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.

8.2 The following reflects the income and share data used in the Basic Earnings Per Share computations.

	Group 2004 Rs. M	Group 2003 Rs. M	Company 2004 Rs. M	Company 2003 Rs. M
<b>Amount used as the Numerator:</b>				
Net Profit attributable to ordinary shareholders for Basic Earnings Per Share	5,635.51	3,204.41	4,555.14	2,336.38
	Group 2004 Number	Group 2003 Number	Company 2004 Number	Company 2003 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
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## 9 PROPERTY, PLANT & EQUIPMENT - GROUP

9.1 Gross Carrying Amounts	Balance As at 01-04-2003 Rs. M	Acquisitions and Modifications Rs. M	Adjustments and Transfers Rs. M	Disposals during the Year Rs. M	Balance As at 31-03-2004 Rs. M
<b>At Cost/Cost Incurred Since Last Revaluation</b>					
Land and Buildings	765.21	7.22	(1.73)	(5.73)	764.97
Equipment	3,412.39	447.14	(0.52)	(157.01)	3,702.00
Aircraft Reconfiguration Cost	18.76	54.34	-	-	73.10
Aircraft Related Equipment	3,755.79	273.31	(113.50)	(0.66)	3,914.94
	<u>7,952.15</u>	<u>782.01</u>	<u>(115.75)</u>	<u>(163.40)</u>	<u>8,455.01</u>
<b>Assets on Finance Leases</b>					
Aircraft and Related Equipment	16,556.49	-	-	-	16,556.49
	<u>16,556.49</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,556.49</u>
<b>At Valuation</b>					
Land and Buildings	107.77	-	-	-	107.77
	<u>107.77</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107.77</u>
<b>Total Value of Depreciable Assets</b>	<u>24,616.41</u>	<u>782.01</u>	<u>(115.75)</u>	<u>(163.40)</u>	<u>25,119.27</u>



## Notes to the Financial Statements

Year Ended 31 March 2004

## 9 PROPERTY, PLANT &amp; EQUIPMENT - GROUP (Contd.)

## 9.2 In the Course of Construction

	Balance as at 01-04-2003	Incurred During the Year	Adjustments during the Year	Disposals/ Transfers	Balance as at 31-03-2004
	Rs M	Rs M	Rs M	Rs M	Rs M
Building Work in Progress	213.65	24.59	-	-	238.24
<b>Total Gross Carrying Amount</b>	<u>24,830.06</u>	<u>806.60</u>	<u>(115.75)</u>	<u>(163.40)</u>	<u>25,357.51</u>

## 9.3 Depreciation

	Balance as at 01-04-2003	Charge for the Year/ Transfers	Disposals	Balance as at 31-03-2004
	Rs M	Rs M	Rs M	Rs M
<b>At Cost/Cost Incurred Since Last Revaluation</b>				
Land and Buildings	615.32	38.31	(4.91)	648.72
Equipment	2,822.00	367.79	(140.63)	3,049.16
Aircraft Reconfiguration Cost	9.15	10.02	-	19.17
Aircraft Related Equipment	2,448.52	251.93	(0.27)	2,700.18
	<u>5,894.99</u>	<u>668.05</u>	<u>(145.81)</u>	<u>6,417.23</u>
<b>Assets on Finance Leases</b>				
Aircraft and Related Equipment	7,330.58	985.65	-	8,316.23
	<u>7,330.58</u>	<u>985.65</u>	<u>-</u>	<u>8,316.23</u>
<b>At Valuation</b>				
Land and Buildings	96.19	2.09	-	98.28
	<u>96.19</u>	<u>2.09</u>	<u>-</u>	<u>98.28</u>
<b>Total Depreciation</b>	<u>13,321.76</u>	<u>1,655.79</u>	<u>(145.81)</u>	<u>14,831.74</u>

## 9.4 Net Book Values

	Group 2004 Rs M	Group 2003 Rs M
At Cost/Cost Incurred Since Last Revaluation		
On Finance Leases	2,037.78	2,057.16
At Valuation	8,240.26	9,225.91
In the Course of Construction	9.49	11.58
<b>Total Carrying Amount of Property, Plant &amp; Equipment</b>	<u>238.24</u>	<u>213.65</u>
	<u>10,525.77</u>	<u>11,508.30</u>

9.5 Building work-in progress represents an amount of Rs. 238.24 million paid to project consultants for preparing the designs for a new flight kitchen to be constructed for the Subsidiary - Srilankan Catering (Private) Limited.



## Notes to the Financial Statements

Year Ended 31 March 2004

## 9 (a) PROPERTY, PLANT &amp; EQUIPMENT - COMPANY

9 (a).1 Gross Carrying Amounts	Balance as at 01-04-2003 Rs. M	Acquisitions and Modifications Rs. M	Adjustments and Transfers Rs. M	Disposals during the Year Rs. M	Balance as at 31-03-2004 Rs. M
<b>At Cost/Cost Incurred Since Last Revaluation</b>					
Land and Buildings	661.65	7.22	(1.73)	(5.73)	661.41
Equipment	3,005.36	405.86	(0.52)	(154.88)	3,255.82
Aircraft Reconfiguration Cost	18.76	54.34	-	-	73.10
Aircraft Related Equipment	3,755.79	273.31	(113.50)	(0.66)	3,914.94
	<u>7,441.56</u>	<u>740.73</u>	<u>(115.75)</u>	<u>(161.27)</u>	<u>7,905.27</u>
<b>Assets on Finance Leases</b>					
Aircraft & Related Equipment	16,556.49	-	-	-	16,556.49
	<u>16,556.49</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,556.49</u>
<b>At Valuation</b>					
Land and Buildings	107.77	-	-	-	107.77
	<u>107.77</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107.77</u>
<b>Total Value of Depreciable Assets</b>	<u>24,105.82</u>	<u>740.73</u>	<u>(115.75)</u>	<u>(161.27)</u>	<u>24,569.53</u>
<b>9 (a).2 In the Course of Construction</b>					
	Balance as at 01-04-2003 Rs. M	Incurred during the Year Rs. M	Adjustments during the Year Rs. M	Disposals/ Transfers Rs. M	Balance as at 31-03-2004 Rs. M
Building Work in Progress	-	-	-	-	-
<b>Total Gross Carrying Amount</b>	<u>24,105.82</u>	<u>740.73</u>	<u>(115.75)</u>	<u>(161.27)</u>	<u>24,569.53</u>
<b>9 (a).3 Depreciation</b>					
	Balance as at 01-04-2003 Rs. M	Charge for the Year/ Transfers Rs. M	Disposals Rs. M	Balance as at 31-03-2004 Rs. M	
<b>At Cost/Cost Incurred Since Last Revaluation</b>					
Land and Buildings	524.98	33.82	(4.91)	553.89	
Equipment	2,477.81	339.13	(138.50)	2,678.44	
Aircraft Reconfiguration Cost	9.15	10.02	-	19.17	
Aircraft Related Equipment	2,448.52	251.93	(0.27)	2,700.18	
	<u>5,460.46</u>	<u>634.90</u>	<u>(143.68)</u>	<u>5,951.68</u>	
<b>Assets on Finance Leases</b>					
Aircraft & Related Equipment	7,330.58	985.65	-	8,316.23	
	<u>7,330.58</u>	<u>985.65</u>	<u>-</u>	<u>8,316.23</u>	
<b>At Valuation</b>					
Land and Buildings	96.19	2.09	-	98.28	
	<u>96.19</u>	<u>2.09</u>	<u>-</u>	<u>98.28</u>	
<b>Total Depreciation</b>	<u>12,887.23</u>	<u>1,622.64</u>	<u>(143.68)</u>	<u>14,366.19</u>	



## Notes to the Financial Statements

Year Ended 31 March 2004

## 9 (a).4 Net Book Values

	Company 2004 Rs. M	Company 2003 Rs. M
At Cost/Cost Incurred Since Last Revaluation		
On Finance Leases	1,953.59	1,981.10
At Valuation	8,240.26	9,225.91
In the Course of Construction	9.49	11.58
<b>Total Carrying Amount of Property, Plant &amp; Equipment</b>	<b>10,203.34</b>	<b>11,218.59</b>

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

Property owned by the Company and situated at No. 12 Sir Baron Jayatileka Mawatha, Colombo 1.

## Valuer -

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.

9 (a).6 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs. 740.73 million (2003 - Rs. 204.82 million). Cash payments amounting to Rs. 740.73 million (2003 - Rs. 204.82 million) were made during the year for purchase of Property, Plant and Equipment.

9 (a).7 Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs. 4,526.53 million (2003 - Rs. 3,963.01 million).

## 10 INVESTMENTS

## 10.1 Non-Current - Un-Quoted

Name of Company	Country of Incorporation	Holding %	Cost 2004 Rs. M	Directors' Valuation 2004 Rs. M	Cost 2003 Rs. M	Directors' Valuation 2003 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	25.49	25.49
			<u>95.89</u>	<u>95.89</u>	<u>95.89</u>	<u>95.89</u>

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

## 10.2 Current-Quoted

	Market Value 2004 Rs. M	Carrying Value 2004 Rs. M	Market Value 2003 Rs. M	Carrying Value 2003 Rs. M
Investment in France Telecom Shares	153.62	153.62	121.79	121.79
	<u>153.62</u>	<u>153.62</u>	<u>121.79</u>	<u>121.79</u>



## Notes to the Financial Statements

Year Ended 31 March 2004

## 11 INVENTORIES

	Group 2004 Rs. M	Group 2003 Rs. M	Company 2004 Rs. M	Company 2003 Rs. M
Consumable Stocks	2,303.69	2,194.97	2,234.96	2,136.98
Total Inventories at lower of cost and net realisable value	<u>2,303.69</u>	<u>2,194.97</u>	<u>2,234.96</u>	<u>2,136.98</u>

## 12 TRADE AND OTHER RECEIVABLES

	Group 2004 Rs. M	Group 2003 Rs. M	Company 2004 Rs. M	Company 2003 Rs. M
<b>12.1 Summary</b>				
Trade Debtors - Related parties (12.2)	89.21	188.21	96.86	191.96
- Others	3,757.10	4,030.80	3,610.77	3,898.89
Less: Provision for doubtful debts	(190.03)	(416.33)	(190.03)	(416.33)
	<u>3,656.28</u>	<u>3,802.68</u>	<u>3,517.60</u>	<u>3,674.52</u>
Other Debtors	2,582.92	1,835.12	2,582.92	1,835.12
Advances and Prepayments	<u>2,392.39</u>	<u>2,306.20</u>	<u>2,304.04</u>	<u>2,259.98</u>
	<u>8,631.59</u>	<u>7,944.00</u>	<u>8,404.56</u>	<u>7,769.62</u>
Loans and Advances to Company officers (12.3)	23.65	28.66	20.20	25.09
	<u>8,655.24</u>	<u>7,972.66</u>	<u>8,424.76</u>	<u>7,794.71</u>

## 12.2 Trade dues receivable from related parties:

SriLankan Catering (Private) Ltd.	-	-	7.65	3.75
Emirates	89.21	188.21	89.21	188.21
	<u>89.21</u>	<u>188.21</u>	<u>96.86</u>	<u>191.96</u>

## 12.3 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	2.79	2.02	2.70	1.89
Loans granted during the year	3.92	2.65	-	2.00
Repayments	(2.69)	(1.88)	(1.01)	(1.19)
Balance as at the end of the year	<u>4.02</u>	<u>2.79</u>	<u>1.69</u>	<u>2.70</u>



## Notes to the Financial Statements

Year Ended 31 March 2004

<b>13 CASH AND CASH EQUIVALENTS</b>		<b>Group 2004 Rs. M</b>	<b>Group 2003 Rs. M</b>	<b>Company 2004 Rs. M</b>	<b>Company 2003 Rs. M</b>
<b>Components of Cash and Cash Equivalents</b>					
<b>13.1 Favourable Cash and Cash Equivalents Balance</b>					
Cash and Bank Balances		761.49	819.67	593.69	697.87
Fixed and Call Deposits		12,791.23	7,964.48	12,791.23	7,961.98
Treasury Bills		-	14.52	-	-
		<u>13,552.72</u>	<u>8,798.67</u>	<u>13,384.92</u>	<u>8,659.85</u>
<b>13.2 Unfavourable Cash and Cash Equivalents Balance</b>					
Bank Overdrafts		(273.56)	(419.00)	(273.50)	(417.48)
<b>Total Cash and Cash Equivalents for the purpose of Cash Flow Statement</b>		<u>13,279.16</u>	<u>8,379.67</u>	<u>13,111.42</u>	<u>8,242.37</u>
<b>14 SHARE CAPITAL</b>					
<b>14.1 Authorised</b>					
Number of Shares	Ordinary Shares		Par Value Rs.	<b>Company 2004 Number</b>	Company 2003 Number
			100/-	150,000,000	150,000,000
				<u>150,000,000</u>	<u>150,000,000</u>
Nominal Value	Ordinary Shares			Rs. M	Rs. M
			100/-	15,000.00	15,000.00
				<u>15,000.00</u>	<u>15,000.00</u>
<b>14.2 Issued and Fully Paid</b>					
Number of Shares	Ordinary Shares		Par Value Rs.	<b>Company 2004 Number</b>	Company 2003 Number
			100/-	51,463,463	51,463,463
				<u>51,463,463</u>	<u>51,463,463</u>
Nominal Value	Ordinary Shares			Rs. M	Rs. M
			100/-	5,146.35	5,146.35
				<u>5,146.35</u>	<u>5,146.35</u>



# Notes to the Financial Statements

Year Ended 31 March 2004

## 15 RESERVES

	Group 2004 Rs. M	Group 2003 Rs. M	Company 2004 Rs. M	Company 2003 Rs. M
<b>Summary</b>				
Capital Reserves (15.1)	105.20	105.20	75.60	75.60
Revenue Reserves (15.2)	0.63	0.63	-	-
General Reserves (15.3)	53.44	53.44	53.44	53.44
	<u>159.27</u>	<u>159.27</u>	<u>129.04</u>	<u>129.04</u>

### 15.1 Capital Reserves

	Group 2004 Rs. M	Group 2003 Rs. M	Company 2004 Rs. M	Company 2003 Rs. M
At 1 <sup>st</sup> April	105.20	105.20	75.60	75.60
At 31 <sup>st</sup> March	<u>105.20</u>	<u>105.20</u>	<u>75.60</u>	<u>75.60</u>

Capital Reserves represents;

*The Group:*

- The difference between book value and the restated value of property - Rs. 75.60 million. (See Note 9 (a).5 - Company)
- Reserve on Consolidation - Rs. 8.00 million.
- Bonus Issue - Rs. 21.60 million.

*The Company:*

- The difference between book value and the restated value of property - Rs. 75.60 million. (See Note 9 (a).5 - Company)

### 15.2 Revenue Reserves

	Group 2004 Rs. M	Group 2003 Rs. M	Company 2004 Rs. M	Company 2003 Rs. M
At 1 <sup>st</sup> April	0.63	0.63	-	-
At 31 <sup>st</sup> March	<u>0.63</u>	<u>0.63</u>	<u>-</u>	<u>-</u>

### 15.3 General Reserves

	Group 2004 Rs. M	Group 2003 Rs. M	Company 2004 Rs. M	Company 2003 Rs. M
At 1 <sup>st</sup> April	53.44	53.44	53.44	53.44
At 31 <sup>st</sup> 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 2004

## 16 INTEREST BEARING LIABILITIES - GROUP/COMPANY

	Amount Repayable Within 1 Year Rs. M	2004 Amount Repayable After 1 Year Rs. M	Total Rs. M	Amount Repayable Within 1 Year Rs. M	2003 Amount Repayable After 1 Year Rs. M	Total Rs. M
Finance Leases (16.1)	2,830.71	5,879.23	8,709.94	2,578.74	8,685.30	11,264.04
Long-Term Loans (16.3)	131.12	239.19	370.31	130.75	369.27	500.02
	<u>2,961.83</u>	<u>6,118.42</u>	<u>9,080.25</u>	<u>2,709.49</u>	<u>9,054.57</u>	<u>11,764.06</u>

## 16.1 Finance Lease Liabilities

	Balance as at 01-04-2003 Rs. M	Additions during the year Rs. M	Payments during the year Rs. M	Restatements Rs. M	Balance as at 31-03-2004 Rs. M	Classified in the Balance Sheet as	
						Current 31-03-2004 Rs. M	Non-Current 31-03-2004 Rs. M
Finance Leases (16.2)	11,264.04	-	(2,594.89)	40.79	8,709.94	2,830.71	5,879.23
	<u>11,264.04</u>	<u>-</u>	<u>(2,594.89)</u>	<u>40.79</u>	<u>8,709.94</u>	<u>2,830.71</u>	<u>5,879.23</u>

## 16.2 Finance Lease Liabilities

	2004 USD M	2004 Rs. M	2003 USD M	2003 Rs. M
Within one year	29.12	2,830.71	26.61	2,578.74
Between:				
- One and two years				
- two and three years	31.88	3,098.52	29.12	2,822.70
- three and four years	28.61	2,780.71	31.88	3,089.75
- four and five years	-	-	28.61	2,772.85
- after five years	-	-	-	-
	<u>89.61</u>	<u>8,709.94</u>	<u>116.22</u>	<u>11,264.04</u>
Amount due within one year included under current liabilities	<u>(29.12)</u>	<u>(2,830.71)</u>	<u>(26.61)</u>	<u>(2,578.74)</u>
	<u>60.49</u>	<u>5,879.23</u>	<u>89.61</u>	<u>8,685.30</u>

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

	USD M	Rs. M
Within one year	3.73	362.82
Between:		
- One and two years		
- two and three years	2.88	280.13
- three and four years	1.08	168.81
- four and five years	-	-
- after five years	-	-
	<u>7.69</u>	<u>811.76</u>

Interest rates applicable to the finance leases ranged from 2.1263 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. 6,393.82 million).

Conversion rate - 1 US Dollar = Rs. 97.20 (Rs. 96.925 in 2003).



## Notes to the Financial Statements

Year Ended 31 March 2004

## 16.3 Long-term Loans

	Balance as at 01-04-2003 Rs. M	Additions during the year Rs. M	Payments during the year Rs. M	Restatments Rs. M	Balance as at 31-03-2004 Rs. M	Classified in the Balance Sheet as	
						Current 31-03-2004 Rs. M	Non-Current 31-03-2004 Rs. M
Finance Leases (16.4)	500.02	-	(131.87)	2.16	370.31	131.12	239.19
	<u>500.02</u>	<u>-</u>	<u>(131.87)</u>	<u>2.16</u>	<u>370.31</u>	<u>131.12</u>	<u>239.19</u>

## 16.4

	2004 USD M	2004 Rs. M	2003 USD M	2003 Rs. M
Bank Loans Payable	-	-	-	-
Long-term Loans Payable				
Within one year	1.35	131.12	1.35	130.75
Between:				
- One and two years	1.35	131.12	1.35	130.75
- two and three years	0.73	71.36	1.35	130.75
- three and four years	0.12	11.59	0.73	71.16
- four and five years	0.12	11.59	0.12	11.56
- after five years	0.14	13.53	0.26	25.05
	<u>3.81</u>	<u>370.31</u>	<u>5.16</u>	<u>500.02</u>
Amount due within one year included under current liabilities	<u>(1.35)</u>	<u>(131.12)</u>	<u>(1.35)</u>	<u>(130.75)</u>
	<u>2.46</u>	<u>239.19</u>	<u>3.81</u>	<u>369.27</u>

Loans are repayable on various dates upto the year 2007 at varying interest rates which ranged from 2.1263 percent to 9.1141 percent per annum during the year. The outstanding aircraft spares loan amounting to US Dollars 3.07 million (Rs. 298.40 million) is guaranteed by the Government of Sri Lanka.

Conversion rate - 1 US Dollar = Rs. 97.20 (Rs. 96.925 in 2003).

## 17 RETIREMENT BENEFIT OBLIGATIONS

## 17.1 Group

	Balance as at 01-04-2003 Rs. M	Charge for the year Rs. M	Payments during the year Rs. M	Balance as at 31-03-2004 Rs. M
Provision for Gratuity	881.88	192.36	(36.56)	1,037.68
	<u>881.88</u>	<u>192.36</u>	<u>(36.56)</u>	<u>1,037.68</u>

## 17.2 Company

	Balance as at 01-04-2003 Rs. M	Charge for the year Rs. M	Payments during the year Rs. M	Balance as at 31-03-2004 Rs. M
Provision for Gratuity	811.10	182.46	(32.68)	960.88
	<u>811.10</u>	<u>182.46</u>	<u>(32.68)</u>	<u>960.88</u>



# Notes to the Financial Statements

Year Ended 31 March 2004

**18 TRADE AND OTHER PAYABLES**

	Group 2004 Rs. M	Group 2003 Rs. M	Company 2004 Rs. M	Company 2003 Rs. M
Trade Payables - Related parties (18.1)	24.98	41.57	3,515.48	2,493.59
- Others	6,855.80	5,772.04	6,825.40	5,737.95
Dividends Payable	0.72	16.56	0.72	0.39
Sundry Creditors including accrued expenses	355.00	204.68	168.59	77.54
Sales in Advance of Carriage	5,918.30	4,817.38	5,918.30	4,817.38
	<u>13,154.80</u>	<u>10,852.23</u>	<u>16,428.49</u>	<u>13,126.85</u>

**18.1 TRADE DUES PAYABLE TO RELATED PARTIES**

	2004 Rs. M	2003 Rs. M	2004 Rs. M	2003 Rs. M
SriLankan Catering (Private) Ltd.	-	-	3,490.50	2,452.02
Emirates	24.98	41.57	24.98	41.57
	<u>24.98</u>	<u>41.57</u>	<u>3,515.48</u>	<u>2,493.59</u>

**19 EFFECTS OF CHANGES IN ACCOUNTING POLICIES****Prior year Accumulated Profits/(Losses) after Adjustments**

	2004 Rs. M	2003 Rs. M
Opening retained earnings as previously reported	2,559.61	1,230.41
Change in accounting policy - Net adjustment resulting from adoption of SLAS 21 for long term foreign currency borrowings and finance leases.	(4,313.98)	(5,321.16)
Opening retained earnings as restated	(1,754.37)	(4,090.75)
Net Profit	4,555.14	2,336.38
Dividends	(514.63)	-
Closing retained earnings	<u>2,286.14</u>	<u>(1,754.37)</u>

In the current year, the Company changed its policy on accounting for unrealised exchange differences arising on the translation of long term foreign currency borrowings and finance leases to be in compliance with Sri Lanka Accounting Standard (SLAS) No. 21 "The Effects of Changes in Foreign Exchange Rates". SLAS 21 requires such exchange differences to be recognised as gains/(losses) in the period in which they arise. (Refer Accounting Policy 2.1.5)

In previous years, unrealised exchange differences arising on the translation of foreign currency borrowings and finance leases which financed specific aircraft were recorded in an exchange equalisation account and amortised as currency gains/(losses) over the period during which the foreign currency liability was outstanding.

This change in accounting policy has been accounted for retrospectively. The comparative statements of 2003 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:

	2004 Rs. M	2003 Rs. M	Prior to 2003 Rs. M
Increase/(Decrease) in Currency Losses	<u>(1,154.31)</u>	<u>(1,007.18)</u>	<u>5,321.16</u>



# Notes to the Financial Statements

Year Ended 31 March 2004

## 20 COMMITMENTS AND CONTINGENCIES

### 20.1 Capital Expenditure Commitments

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

	Group		Company	
	2004 Rs. M	2003 Rs. M	2004 Rs. M	2003 Rs. M
Contracted but not provided for	583.79	378.82	583.79	378.82
Authorised by the Board, but not contracted for	2,099.10	2,019.88	101.75	295.03
	<u>2,682.89</u>	<u>2,398.70</u>	<u>685.54</u>	<u>673.85</u>

### 20.2 Operating Lease Commitments

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

	Non Cancellable Operating Leases	
	2004 Rs. M	2003 Rs. M
Not later than 1 year	5,950.23	4,716.77
Later than one year and not later than 5 years	22,458.56	18,284.52
Later than 5 years	13,685.06	18,023.33
	<u>42,093.85</u>	<u>41,024.62</u>

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

### 20.3 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. 468.62 million.
- All employees based in Sri Lanka with 5 or more years of service with the Company are entitled to the payment of gratuity, under the Payment of Gratuity Act No. 12 of 1983. An actuarial valuation of the gratuity liability of the Company as at 31<sup>st</sup> March 2003 was undertaken in April 2003 by Actuarial & Management Consultants (Pvt) Limited. The actuarial valuation assumed a salary escalation rate of 13% per annum in respect of salaries denoted in Sri Lankan Rupees, a salary escalation rate of 3% per annum in respect of salaries denoted in US Dollars, and a discount rate of 10% per annum. Based on these assumptions the actuarial present value of accrued benefits, as at 31<sup>st</sup> March 2004 is Rs. 876.06 million. If the method of making a provision for all employees as required under the Payment of Gratuity Act No. 12 of 1983 were to be adopted, the gratuity liability of the Company as at 31<sup>st</sup> March 2004 would be Rs. 888.59 million. Hence there is a contingent liability of Rs. 12.53 million which would crystallise if the Company ceases to be a going concern.

## 21 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The Company took delivery of an Airbus A320-200 aircraft under an operating lease agreement in April 2004. The lease commenced on 23<sup>rd</sup> April 2004 and is due to expire on 1<sup>st</sup> February 2007.

The total future commitment under this lease agreement is valued at Rs. 355.75 million (USD 3.66 million).

Conversion rate - 1 US Dollar = Rs. 97.20.



## Notes to the Financial Statements

Year Ended 31 March 2004

**22 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 31<sup>st</sup> March 1998, has nominated three Directors to the Board of the Company. The nominee Directors as at 31<sup>st</sup> March 2004 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 23.2.

The Company has nominated four Directors to the Board of SriLankan Catering (Private) Ltd., with whom the Company has a contract for catering, the value of which is disclosed in note 23.1.

The current Directors of SriLankan Catering (Private) Ltd. are;

Mr. K Balapatabendi PC	Chairman
Mr. D E Mannion	
Mr. A Hewage	
Mr. J M S Brito	
Mr. D Nijhawan	Alternate Director to Mr. D E Mannion

**23 RELATED PARTY DISCLOSURES**

**23.1** SriLankan Catering (Private) Ltd. 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 31<sup>st</sup> March 2004, the value of flight catering services provided to the Company amounted to Rs. 1,154.24 million, while freight and air tickets provided by the Company to SriLankan Catering (Private) Ltd., amounted to Rs. 24.36 million.

**23.2** 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:

	2004 USD	2004 Rs.	2003 USD	2003 Rs.
(a) Purchase of computer systems and services	(5,740,334)	(557,960,448)	(4,952,520)	(480,023,001)
(b) Purchase of other goods and services	(3,866,346)	(375,808,804)	(1,563,097)	(151,503,177)
(c) Net receipt on transactions relating to international air transport, settled through the IATA Clearing House	5,008,301	486,806,857	1,119,617	108,518,878
(d) Amortisation of profit on termination of fuel risk management programme	1,214,250	117,513,493	1,905,175	208,265,092
(e) Galileo segment commission	429,149	41,713,299	304,589	29,522,289
(f) Inflight catering	3,717,711	361,361,544	3,474,305	336,747,018
(g) Frequent flyer programme	(846,834)	(82,688,928)	(341,422)	(33,092,327)
Total	(84,103)	(9,062,987)	(53,353)	18,434,772



# Ten Year Review

Year Ended 31 March 2004

		1995	1996	1997	1998	1999	2000	2001	2002	Restated 2003	2004
<b>INCOME STATEMENT</b>											
Operating revenue	Rs. Million	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	45,397.54
Operating expenditure	Rs. Million	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	42,308.15
Net profit/(loss)	Rs. Million	650.05	118.53	449.51	2,361.36	2,518.63	(750.41)	(6,507.95)	3,272.21	2,336.38	4,555.14
<b>BALANCE SHEET</b>											
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	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	10,203.34
Current assets	Rs. Million	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	24,198.26
Total assets	Rs. Million	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	34,497.49
Current Liabilities	Rs. Million	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	19,856.66
<b>YIELD/UNIT COST</b>											
Overall yield	Rs. tkm	27.8	26.5	27.4	29.3	31.3	31.8	30.2	38.6	43.0	47.3
Unit cost	Rs. tkm	17.6	16.7	20.3	20.8	20.4	22.9	25.7	27.5	30.6	32.5
Breakeven load factor	%	63.1	63.1	74.4	70.9	65.2	72.0	85.2	71.3	71.3	68.7
Revenue per RPK	Rs./RPK	2.9	2.9	3.0	3.2	3.3	3.4	3.1	3.8	4.3	4.9
<b>PRODUCTION</b>											
Passenger capacity	ASK Millions	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	9,692.08
Overall capacity	ATK Millions	672.27	772.27	746.78	757.42	832.69	1,088.38	1,454.78	1,148.73	1,121.89	1,289.94
<b>TRAFFIC</b>											
Passengers carried	Nos. Thousands	1,081	1,149	1,196	1,201	1,260	1,475	1,891	1,615	1,806	2,065
Passengers carried	RPK Millions	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	7,276.35
Passenger load factor	%	70.06	70.17	72.45	73.24	71.14	67.92	68.38	68.51	76.08	75.08
Cargo carried	Tonnes	28,748	35,409	35,039	36,478	35,566	41,670	58,618	46,067	47,650	54,943
Cargo load carried	RTK Millions	119.77	166.23	164.43	173.62	156.61	195.67	266.75	186.47	200.45	240.90
Overall load carried	RTK Millions	454.19	514.81	522.09	547.14	554.90	703.28	932.72	711.72	785.11	896.59
Cargo load factor	%	52.15	61.56	61.94	65.40	57.50	57.53	54.77	44.19	46.22	52.08
Overall load factor	%	67.56	66.66	69.91	72.24	66.64	64.62	64.11	61.96	69.98	69.51
<b>STAFF</b>											
Average strength	Nos.	4,584	4,880	4,965	4,823	4,832	5,070	5,196	4,049	4,182	4,714
Revenue per employee	Rs.	2,978,028	3,034,410	3,145,881	3,647,522	3,967,597	4,803,614	5,857,792	7,249,422	8,664,524	9,630,365
Capacity per employee	Tonne-km	146,656	158,252	150,409	157,043	172,329	214,670	279,981	283,706	268,266	273,640
Load carried per employee	Tonne-km	99,082	105,494	105,153	113,444	114,838	138,713	179,507	175,777	187,735	190,197
<b>FLEET</b>											
L1011-500	Nos.	2	2	2	2	2	-	-	-	-	-
L1011-100	Nos.	1	1	1	1	1	-	-	-	-	-
L1011-50	Nos.	1	1	1	1	1	-	-	-	-	-
A320-200	Nos.	2	2	2	2	2	2	2	1	2	3
A330-200	Nos.	-	-	-	-	-	4	6	4	4	4
A340-300	Nos.	3	3	3	3	3	4	4	3	3	5
Aircraft in service at year end	Nos.	9	9	9	9	9	10	12	8	9	12



**Available Seat Kilometres (ASK)**

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

**Available Tonne Kilometres (ATK)**

This is the measure of transport production.

The ATK produced by a flight are the capacity for payload of the aircraft measured in tonnes multiplied by the distance flown.

**Revenue Passenger Kilometres (RPK)**

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

**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.



## SriLankan Directory

## Worldwide Office Network

## 1. HEAD OFFICE

22-01 East Tower, World Trade Center,  
Echelon Square, Colombo 1, Sri Lanka.  
Tel: General Admin: 0197 33 5555  
Reservations: 242 1161  
Reconfirmations: 019733 5500  
Cargo: 019733 3278/79/88  
Fax: Admin: 019733 5122  
www.srilankan.aero  
www.srilankancargo.com  
Email: ulweb@srilankan.aero

## Customer Affairs

Tel: 019733 1413, Fax: 019733 5145.  
Email: customer@srilankan.aero

## Skywards

Tel: 019733 3333, Fax: 019733 5333.  
Email: skywards.cmb@srilankan.aero

## 2. AUSTRALIA

## ADELAIDE:

World Aviation Systems,  
1st Floor, Avion House,  
249-251 Pulteney St. Adelaide 5000.  
Tel: admin (618) 8306 8400  
Res:tktg:8306 8411,  
Fax: (618) 8306 8439.  
Email: wasadl@worlaviation.com.au  
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Queensland 4000.  
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## MELBOURNE: SRILANKAN AIRLINES,

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Victoria 3000.  
Tel: admin (613) 9920 3860  
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Email: wasmel@worldaviation.com.au

## PERTH:

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Tel: admin (618) 9229 9211  
Res:tktg: 9229 9212/9229 9399  
Fax: admin (618) 9229 9390.  
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## SYDNEY:

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Office: World Aviation Systems,  
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Sydney 2000, NSW.  
Tel: (612) 9244 2800, Fax: 9244 2810.  
SriLankan Reservations:  
World Aviation Systems,  
64 York St, Sydney, NSW 2000.  
Tel: (612) 9244 2234/9299 3829  
Fax: (612) 9290 3306.  
Email: wassyd@worlaviation.com.au

## 3. BAHRAIN

## MANAMA:

SriLankan Airlines,  
c/o Bahrain International Travel,  
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Chamber of Commerce Bldg,  
King Faizal St, PO Box 1142, Manama.  
Tel: (973) 22 4819,  
Fax: (973) 22 9915.  
Email: ulbahadmin@srilankan.aero

## 4. BANGLADESH

## CHITTAGONG:

Bengal Airlift, 58 Agrabad,  
CA, 1st Floor, Chittagong.  
Tel: (31) 71 4299/3768/2145,  
Fax: (31) 71 6400.

## DHAKA:

Bengal Airlift, 12-14 Gulshan CA,  
Gulshan-2, Dhaka 1213.  
Tel: (880 2) 988 1112/6634/7  
Fax: (880 2) 881 1335.  
Email: bal@ctg-bd.net

## 5. BELGIUM

## BRUSSELS:

SriLankan Airlines,  
c/o Kales Airline Services BV,  
Ave des Arts 27,  
Kunstlaan, 1040, Brussels.  
Tel: (32 2) 500 1885/7  
Fax: (32 2) 512 0010.  
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## 6. BRAZIL

## RIO DE JANEIRO:

SriLankan Airlines,  
c/o Varig Airlines, Av Almirante,  
Rm 391, Sala 308 Bloco A,  
Castelo, CEP 20021-010.  
Tel: 272 5421, Fax: 272 5720/00  
Res: 292 6600, 220 3871, 212 2363.

## 7. BULGARIA

## SOFIA:

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12 Narodono Subranie Square, Sofia.  
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## 8. CANADA

## MONTREAL:

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## Notice of Meeting

Notice is hereby given that the Twenty Sixth Annual General Meeting of the Shareholders of SriLankan Airlines Limited will be held at the 'Cat'seye Ballroom' of the Ceylon Continental Hotel, No.48 Janadhipathi Mawatha, Colombo 1, on 21 September 2004, at 10.00 a.m for the following purposes.

### **Agenda**

1. To receive and adopt the Directors' Report, Audited Accounts for the period ended 31 March 2004 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

16<sup>th</sup> August 2004  
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 K Balapatabendi PC | of Colombo or failing him |
| Mr A Hewage           | of Colombo or failing him |
| Mr J M S Brito        | of Colombo or failing him |
| Mr S Ukwatta          | 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/our proxy to represent me/us and on my/our behalf at the Twenty Sixth Annual General Meeting of the Shareholders of SriLankan Airlines Limited to be held on **21 September 2004, at 10.00 a.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 Four.

.....  
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

16<sup>th</sup> August 2004



