



Reach  
for the sky.  
for the sky.

## Corporate Information

**Name of the Company**  
SriLankan Airlines Limited

**Legal Form**  
Public Limited Liability Company  
Incorporated in Sri Lanka in 1979

**Company Registration Number**  
PB 67

**Directors**  
Dr P B Jayasundera - *Chairman*  
Nishanta Wickramasinghe  
- *Executive Director*  
Lalith De Silva  
Sunil G Wijesinha  
Tim Clark  
Gary Chapman  
Nigel Hopkins  
P M Hill  
- Alternate to T C Clark  
M Flanagan  
- Alternate to G W Chapman  
Ghaith Al Ghaith  
- Alternate to N J Hopkins

**Company Secretary**  
Mildred Peries

**Auditors**  
Ernst & Young  
Chartered Accountants  
P O Box 101  
Colombo 10

**Registered Office**  
#22-01, East Tower  
World Trade Center  
Echelon Square  
Colombo 1  
Sri Lanka

**Bankers**  
Bank of Ceylon  
National Development Bank  
Citi Bank N.A  
HongKong & Shanghai Banking  
Corporation  
Hatton National Bank  
Sampath Bank  
Commercial Bank  
Deutsche Bank  
Nations Trust Bank  
Standard Chartered Bank

**Contact Details**  
#22-01, East Tower  
World Trade Center  
Echelon Square  
Colombo 1  
Sri Lanka  
Telephone : + 94 (0) 19733 5555  
Facsimile : + 94 (0) 19733 5122  
Website : [www.srilankan.aero](http://www.srilankan.aero)



*“We see the opportunity in every challenge instead of the challenge in every opportunity.”*

## Our Vision

To be the most preferred airline in Asia.

## Our Mission

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



*“Don’t shrink away from challenges...keep reaching for that star, that sky.”*

## Reach for the sky.

SriLankan Airlines has overcome many challenges during the past 29 years. With our greatest strength, our employees, we are ready to face any challenge in the future as we see opportunity in every challenge.

The National Carrier has won many awards and collected many accolades both locally and internationally during the year under review.

In keeping with our vision and mission we will strive to reach for the sky with our world famous friendly service and equally famous friendly smile.

# Company Information



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## Our Destinations

41 Destinations in 22 countries across Europe, the Middle East, South Asia, Southeast Asia and Far East.

# 22 countries

Bahrain	Maldives
Belgium	Netherlands
China	Oman
France	Pakistan
Germany	Qatar
Hong Kong	Saudi Arabia
India	Singapore
Ireland	Sri Lanka
Japan	Thailand
Kuwait	United Arab Emirates
Malaysia	United Kingdom

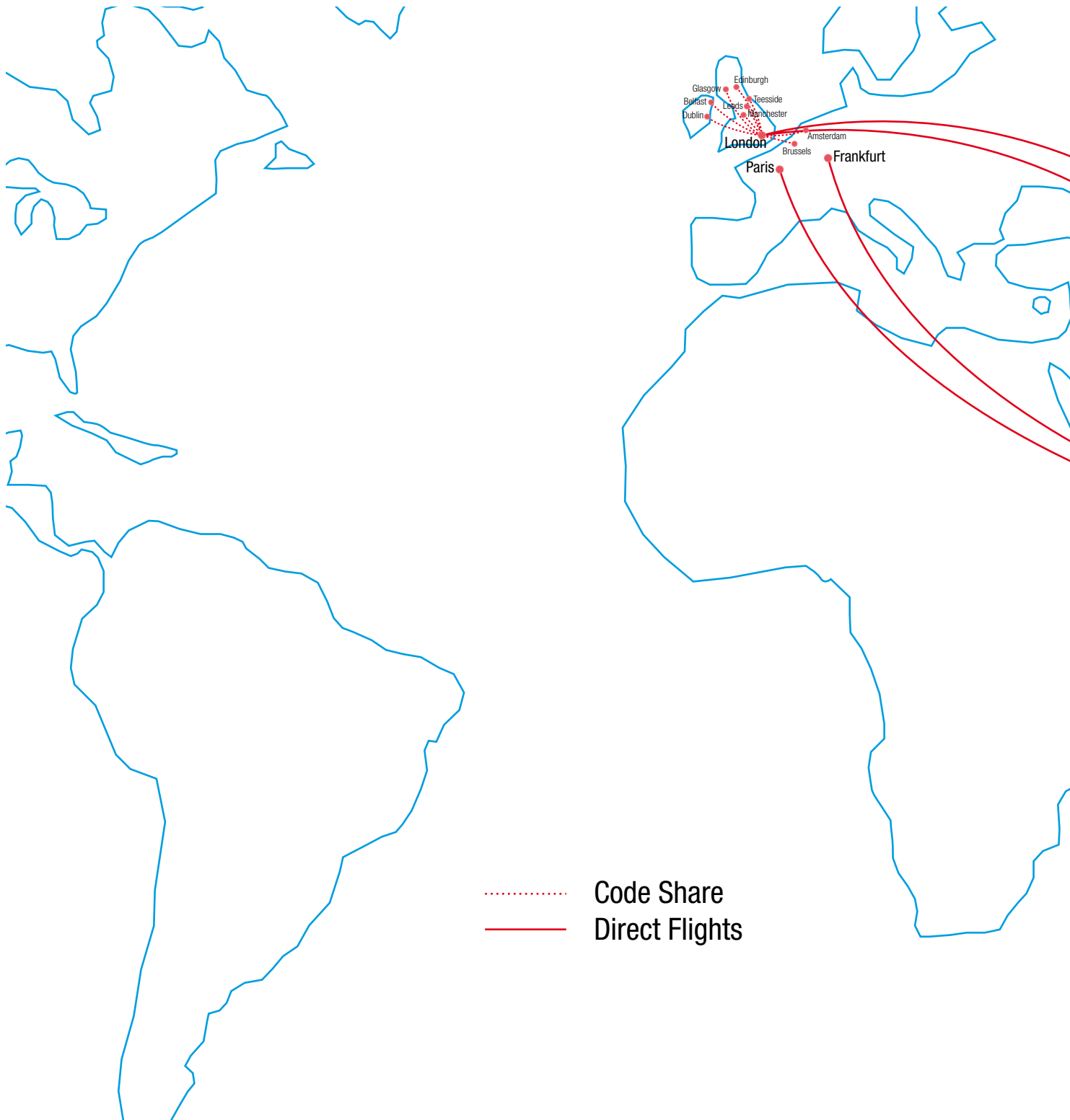
# 41 destinations

Abu Dhabi  
Amsterdam  
Bahrain  
Bangalore  
Bangkok  
Beijing  
Belfast  
Bombay  
Brussels  
Calicut  
Coimbatore  
Colombo  
Dammam  
Doha  
Dubai  
Dublin  
Edinburgh  
Frankfurt  
Glasgow  
Goa  
Hong Kong

Hyderabad  
Jeddah  
Karachi  
Kochi  
Kuala Lumpur  
Kuwait  
Leeds Bradford  
London  
Madras  
Male  
Manchester  
Muscat  
New Delhi  
Paris  
Riyadh  
Singapore  
Durham Tees Valley  
Tiruchirapally  
Tokyo  
Trivandrum



Our Destinations





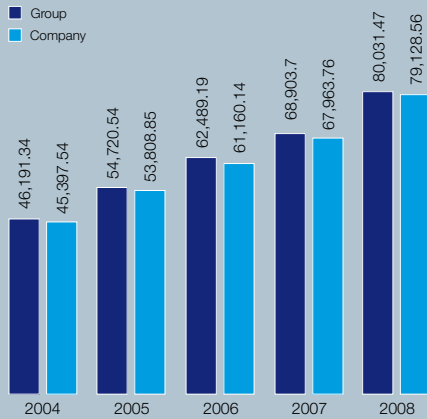
# 7 Our Destinations



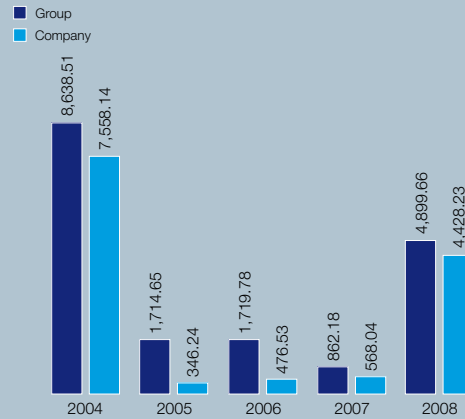
## Financial Highlights

Year ended 31 March		Group		% Change	Company		% Change
		2008	2007		2008	2007	
<b>Financial</b>							
Revenue	Rs. Million	80,031.47	68,903.70	16.15	79,128.56	67,963.76	16.43
Operating Expenditure	Rs. Million	81,794.32	69,206.60	18.19	82,154.01	69,406.68	18.37
Profit Before Tax	Rs. Million	4,938.80	930.06	431.02	4,454.76	571.89	678.95
Net Profit for the Year	Rs. Million	4,899.66	862.18	468.29	4,428.23	568.04	679.56
Total Assets	Rs. Million	51,283.80	41,592.71	23.30	47,940.10	37,916.19	26.44
Shareholders' Funds	Rs. Million	22,797.71	17,898.05	27.38	15,536.00	11,107.77	39.87
<b>Traffic</b>							
Passenger capacity	ASK Millions				12,599.58	12,375.62	1.81
Overall capacity	ATK Millions				1,741.10	1,695.91	2.66
Passengers carried	RPK Millions				9,793.05	9,535.79	2.70
Overall load carried	RTK Millions				1,232.62	1,150.84	7.11
Passenger load factor	%				77.73	77.05	0.68
Overall load factor	%				70.80	67.86	2.94
Breakeven load factor	%				76.18	72.34	3.84
<b>Staff Productivity</b>							
Average Strength	Nos.	5,685	5,839	(2.64)	5,113	5,272	(3.02)
Revenue per employee	Rs. Million	14.08	11.80	19.32	15.48	12.89	20.09
Value added per employee	Rs. Million	3.74	2.71	38.00	3.87	2.78	39.21
<b>Aircraft Fleet as at 31 March 2008</b>							
On Operating Lease							
A320-200	Nos.	5					
A330-200	Nos.	4					
A340-300	Nos.	5					
<b>Aircraft in service</b>							
at year end	Nos.	14					

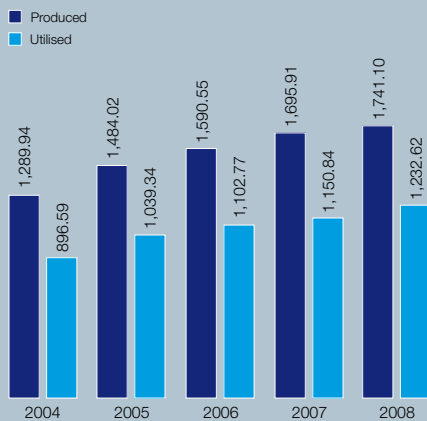
### Revenue (Rs. Million)



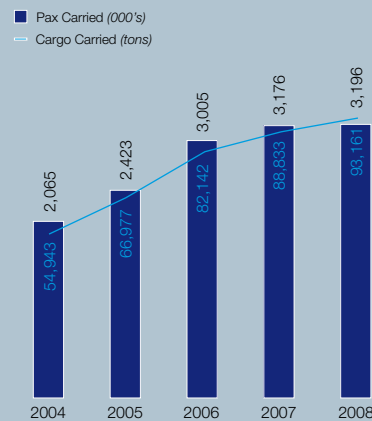
### Net Profit After Tax (Rs. Million)



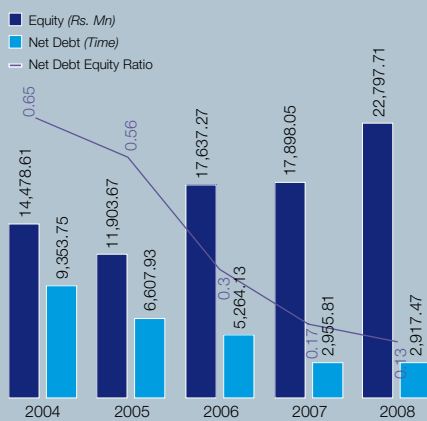
### Capacity (ATK million)



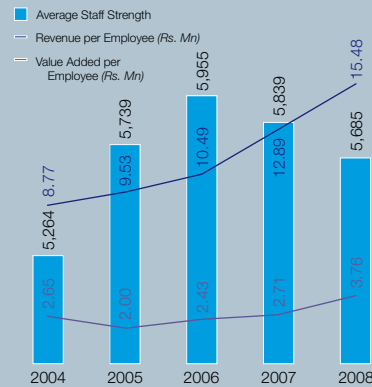
### Passenger and Cargo Carriage



### Group Net Debt and Equity



### Group Average Staff Strength and Productivity



## Significant Events 2007-08

### 2007

#### April

- SriLankan Engineering carries out major maintenance overhaul on an Airbus A330-200 of Emirates

#### May

- A second Emirates Airbus A330-200 receives a major maintenance overhaul at SriLankan Engineering
- SriLankan Technical Training conducts 35-day programme in Avionics for Aircraft Engineers of Pakistani airline Airblue

#### June

- SriLankan Engineering receives prestigious EASA 145 Certification from European Aviation Safety Agency
- Cabin Reconfiguration on an A321 aircraft of Airblue carried out by SriLankan Engineering
- Launch of Customer E-newsletter "Your World"

#### July

- SriLankan Engineering carries out Cabin Reconfiguration on a second A321 aircraft of Airblue

#### August

- International Aviation Academy conducts 7-day programme in Maldives on Basic Cargo Handling for Island Aviation of Maldives

#### September

- Etihad chooses SriLankan as its codeshare partner to Colombo

#### October

- Coimbatore becomes 11th destination in India
- SriLankan begins Ground Handling for own flights in Chennai, Trichy and Coimbatore with SriLankan branded ground equipment and staff
- SriLankan receives IOSA safety and quality certification from IATA

#### November

- SriLankan becomes first foreign carrier to achieve 100 flights per week to India, with the addition of a 11th flight to Trichy
- SriLankan Technical Training receives EASA 147 Accreditation from European Aviation Safety Agency to train foreign and local aircraft engineers and technicians

## December

- On-Line Check-In Facility launched for greater convenience of passengers

## 2008

### January

- SriLankan Catering receives HACCP-Codex Alimentarius and ISO 22000:2005 accreditation

### February

- SriLankan Technical Training conducts programme in A319, A320, and A321 maintenance for Aircraft Engineers of Pakistani airline Airblue

### March

- Launch of SriLankan's new Frequent Flyer Programme "FlySmiLes"
- A new era begins with the ending of the Management Contract with Emirates. Management of the National Carrier returns to the Government of Sri Lanka



Cabin reconfiguration on an A321 Airblue



First passenger using On-line Check-in facility



Launch of FlySmiLes frequent flyer programme



## Accolades 2007-08

SriLankan Airlines has firmly established itself as a global frontrunner among airlines of its size, being the recipient of more than 50 awards in the new millennium alone, in addition to numerous accolades it received in the eighties and nineties.

During the year under review, SriLankan won recognition on no less than ten different occasions. Sri Lanka's National Carrier was a familiar name at awards ceremonies from Hong Kong to Bali, and New Delhi to Kuala Lumpur.

A key factor which differentiates SriLankan from other airlines is the all-round nature of our achievements. Our passengers and industry experts took note of us for much more than our famous Unique Selling Points of Warmth, Friendship and Caring.

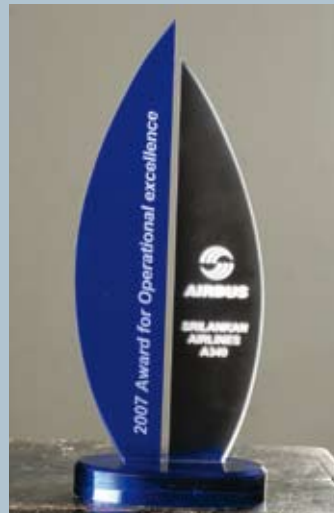
In the year 2007/08, SriLankan won honours for our Inflight Cuisine, Sales Performance, Promotional Efforts at Industry Exhibitions, our Annual Report, our Human Resource Management Skills, and our Global and Local Marketing Campaigns. In addition, our Service, on board and on the ground at airports and ticketing offices around the world, also won several awards.

These awards are proof indeed that the SriLankan Airlines family of employees work hard towards successfully achieving recognition as a multi-dimensional organisation.

- Gold Award for Best Airline Marketing Campaign from the Pacific Asia Travel Association for 'Home Away From Home' campaign presented in Bali
- Airbus Industrie presents SriLankan Airlines with Global Award for Operational Excellence among all small airlines that operate the Airbus A340 aircraft



PATA Gold Award 2007



Airbus Global Award 2007



KLIA Award 2007

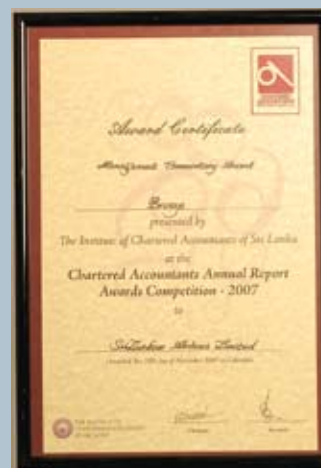
- SriLankan Catering wins two Silver Medals and a Bronze Medal at Hong Kong International Culinary Classic
- Named Foreign Carrier of the Year for South Asia at the Kuala Lumpur International Airport Awards (KLIA) for the second successive year
- Gold Award at Human Resource Management Awards 2007 "Super Ten" from Association of HR Professionals in Colombo
- SriLankan Catering wins 23 medals (6 Gold, 6 Silver, 11 Bronze) at Culinary Art 2007 in Colombo
- A survey of 10,000 readers of UK's Daily Telegraph places SriLankan first runner-up among Asia's finest airlines
- Online poll by German travel magazine Reise & Preise ranks SriLankan 5th globally
- SriLankan Airlines Annual Report receives a Silver Award in the "Service Category" and the Bronze Award for the best "Management Commentary" at Annual Report Awards 2007 presented by the Institute of Chartered Accountants of Sri Lanka (ICASL)
- Awarded one Silver and one Bronze medal at Chillies 2008 Advertising Awards in Colombo, in the Radio category for its "B4UR27" campaign promoting special fares for young people
- Most Dynamic Participant & Exhibitor Award at South Asia Travel & Tourism Expo (SATTE) in New Delhi



HRM Gold Award 2007



Annual Report Silver Award 2007



Annual Report Bronze Award 2007



## Milestones

- **1979** – Government of Sri Lanka announces formation of new National Carrier with management assistance from Singapore Airlines. Air Lanka is incorporated
- **1979** – First Boeing 707 is acquired
- **1979** – Maiden flight to Bangkok on 1st September. Services are launched to Bahrain, Frankfurt, London, Singapore, Kuala Lumpur, Dubai, Paris, Zurich, Madras and Male
- **1980** – Air Lanka Catering Services is launched as a joint venture between Air Lanka and Thai Airways
- **1980** – Acquisition of first Lockheed L1011 Tristar
- **1980** – Air Lanka acquires a Boeing 737
- **1984** – A Boeing 747-200 is acquired
- **1990** – Air Lanka leases three Ilyushin IL-86's to operate mercy flights for Sri Lankans fleeing Gulf War
- **1993** – First Airbus A320-200 is purchased
- **1994** – Arrival of first Airbus A340-300
- **1998** – Partial privatisation of Air Lanka. Emirates Airline acquires 40% stakeholding and receives a 10-year management contract
- **1998** – Thai Airways' shares in Air Lanka Catering Services are purchased by SriLankan Airlines
- **1999** – Air Lanka is rebranded as SriLankan Airlines with new logo and livery
- **1999** – Acquisition of first Airbus A330-200
- **2000** – Launch of SriLankan Cargo's dedicated freighter service using Antonov AN12F aircraft
- **2003** – Launch of SriLankan Air Taxi domestic service
- **2004** – Launch of SriLankan Cares charity arm of the Airline
- **2006** – SriLankan Catering commissions new state of the art flight kitchen
- **2006** – Launch of International Aviation Academy
- **2006** – Goa becomes SriLankan's 50th destination
- **2007** – SriLankan becomes first foreign carrier to have 100 flights per week to India
- **2008** – Management of SriLankan changes over to the Government of Sri Lanka upon expiry of contract period with Emirates





Management of SriLankan changes over to the Government of Sri Lanka



SriLankan Catering commissions new state of the art flight kitchen



Air Lanka is re-branded as SriLankan Airlines with new logo and livery



# Management Information



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## Board of Directors and CEO



*L to R Seated:*

**Mildred Peries** - Company Secretary

**Dr P B Jayasundera** - Chairman

**Tim Clark**

*L to R Standing:*

**Sunil Wijesinha**

**Manoj Gunawardena** - Chief Executive Officer

**Nigel Hopkins**

**Gary Chapman**

**Nishanta Wickremasinghe** - Executive Director

**Lalith De Silva**

**Dr. P. B. Jayasundera** - Chairman  
Secretary, Ministry of Finance & Planning  
Secretary to the Treasury

**Nishanta Wickremasinghe** - Executive Director  
General Manager of James Finlay Plantation Holdings Limited

**Lalith De Silva** - Director  
Senior Advisor to Saudi Telecom

**Sunil Wijesinha** - Director  
Chairman and Managing Director of Dankotuwa Porcelain PLC

**Tim Clark** - Director  
President, Emirates Airlines

**Gary Chapman** - Director  
President, Group Services and Dnata/Emirates

**Nigel Hopkins** - Director  
Executive Vice President Service Departments/Emirates

**Manoj Gunawardena** - Chief Executive Officer

**Mildred Peries** - Company Secretary





## Chairman's Report

It is with great pleasure that I present the Annual Report of SriLankan Airlines Limited and the SriLankan Airlines Group to our shareholders for the financial year 2007/08. The year was arguably a crucial milestone for SriLankan Airlines. It marked the closing of a 10 year management contract with Emirates and the dawn of a New Era that is much looked forward to.

Global Aviation Industry as a whole is in the throes of its largest ever crisis, brought about by the steep increase and uncertain direction of fuel prices driven by a combination of price speculation in global markets and increasing demand from the expanding economies of Asia. The International Air Transport Association (IATA) in its latest industry forecast for 2008, is projecting a total loss of USD 2.3 billion based on oil price of USD 106.5/BBL of crude (Brent). The prevailing price movements make such

**“SriLankan Airlines faces a challenging future, as does the entire global air transport industry, buffeted by volatile fuel prices and global economic slow down.”**

projections unrealistic and pose a much challenging business outlook. The growth pattern of air passenger transportation is expected to trail off due to the likelihood of global economic slowdown and the rising cost of air travel.

Sri Lanka's Gross Domestic Product recorded a growth of 6.8 percent during 2007 in comparison to global economic growth of 5.3 percent. It is significant that this was the third successive year that Sri Lanka's growth has been maintained above 6 percent, for the first time in the country's history. Per capita income rose to USD 1,617 in 2007, from USD 1,355 in 2006. Unemployment dropped significantly to 6.0 percent

from the previous year's 6.5 percent. However, the impact of global price shocks of fuel and food, raised annual average inflation to 15.8 percent and the tourism and travel industry continued to stagnate due to the compression of tourist arrivals.

The Government has prioritised the development of infrastructure facilities consisting of ports, airports, power generation, roads and bridges, water supply and irrigation in support of higher economic growth. Modernisation of the Bandaranaike International Airport cargo terminal, the construction of the country's second International Airport in Weerawila, the expansion of the Colombo Port, development of the Hambantota Port, and the construction of several expressways to connect the airport to the capital city are some key priority investments made to position Sri Lanka as a regional travel and cargo hub. These investments will provide a much more conducive environment to position the business strategies of SriLankan Airlines for the medium term.

However, in the short term SriLankan Airlines faces a challenging future, as does the entire global air transport industry, buffeted by volatile fuel prices and global economic slow down. The Group is also confronted with a large Operating Loss of Rs. 588 million in the financial year under review although it was mitigated by the profit on sale of three Airbus A340 aircraft. As the quantum of funds raised through the sale of three A340 aircraft, will be utilised towards re-fleeting of the A320 narrowbody fleet and planned refurbishment of cabins on the widebody fleet, the management and the staff are compelled to adopt a turnaround plan to curtail its operational losses and improve future outlook. In this context the Board regrets that it is unable to recommend dividends for the year under review.

SriLankan Airlines looks toward the future with renewed confidence. We have begun a New Era, with a new Board of Directors and a committed and professionally competent Senior Management Team led by a newly appointed Chief Executive Officer. The Board of Directors is encouraged with the commitment and dedication of the entire staff towards making the Company commercially viable at this challenging time. We now have in place a comprehensive Business Turnaround Plan, which the Chief Executive Officer has elaborated in his review. It is expected to bring the business back to an even keel, and improve its prospects for the future. The Board of Directors look forward to the fullest support and cooperation of all our employees, stakeholders, passengers, customers and business partners towards successful implementation of the business turnaround plan.

On behalf of the Board of Directors, I express my gratitude to the 5,685 members of the staff of SriLankan Airlines Limited and SriLankan Catering (Pvt) Limited. The dedication and commitment that they have shown to their Company will be instrumental in the year ahead. I must make a special mention of the many employee unions, who extended their whole hearted cooperation during the transition of the management in April 2008 and remain firmly committed to make our venture a success.



**P. B. Jayasundera**  
*Chairman*

17 June 2008



## Executive Director's Report

The year under review was an important one in the history of the Airline, as it brought about a change in the management control of the Company upon the expiry of the shareholders agreement with the Investor, Emirates.

The Government of Sri Lanka reconstituted its nominees on the Board, and a new CEO and Senior Management Team was appointed to chart the future of this Airline.

### **Changeover of Management**

The 10-year Shareholders Agreement expired on 31 March 2008, upon which the Government of Sri Lanka took over the management of the Airline.

Your Board acted swiftly to ensure a smooth transition, with the Management Team playing an increasingly active role in the day-to-day operations of the Airline.

A comprehensive study was carried out to evaluate the Airline's current operations to mitigate any issues arising from this transition of the management and systems. A second study was carried out to formulate a strategic plan for the medium term, which identified areas of concern, and opportunities for growth and curtailment of costs.

**“Despite the financial challenges facing the Airline, SriLankan remains steadfast in its commitment to the country...”**

The Government provided the fullest support to the Board, with much time and effort being dedicated by His Excellency President Mahinda Rajapaksa, who displayed a keen interest in the activities and future of the National Carrier.

His Excellency the President addressed the staff on 3 April 2008 at Bandaranaike International Airport and said: “Taking

back the management of SriLankan will not bring prosperity by itself. What we have done is to take the responsibility into our own hands. If this Airline does not achieve success in the future, we have no-one to blame but ourselves.”

The Board appointed a new Chief Executive Officer and filled vacancies in the Senior Management Team. A comprehensive Business Turnaround Plan has been drawn up to stem the Airline's losses and bring the Company back to an even keel, which is already being implemented. Details of this are found in the Chief Executive Officer's Review in this annual report.

### **A Successful Transition**

The change in management brought with it some changes in partnerships and contracts that had been implemented over the previous decade. These included contracts with Emirates and its group companies, and those with independent suppliers which were linked to the previous management contract.



- The Airline's management was successful in negotiating the continuation of all of its many computer systems, on very favourable terms that are identical or similar to those we earlier had.
- SriLankan Airlines launched a new frequent flyer programme, FlySmiLes, as the Airline's partnership with the Skywards programme ended on 31 March 2008.
- The change in codeshare arrangements where SriLankan passengers were flown on Emirates flights, and vice versa, was also carried out on 31 March 2008. Our management team is now actively evaluating possibilities of codeshares with other airlines that have reputations for excellent service.
- The management team was also successful in its discussions with international financiers with regard to its aircraft leases, ensuring that there was no disruption to the Airline's flight operations.

#### **New Board and Management Team**

His Excellency the President underlined the importance of the National Carrier, by appointing as Chairman Dr. P.B. Jayasundera, Secretary of the Ministry of Finance & Planning and Secretary to the Treasury. Dr. Jayasundera is no stranger to the Airline, having earlier served on the Board of Directors from December 1999 to May 2001.

I take pleasure in welcoming to the Board Mr. Lalith de Silva, who earlier served as Consultant connected with the transition of SriLankan Airlines, and Mr. Sunil Wijesinha, who is a well-known personality in the corporate sector.

The Board is pleased to introduce Mr. Manoj Gunawardena as Chief Executive Officer. Mr. Gunawardena has an impressive track record of 26 years at SriLankan, during which time he gathered considerable experience in many areas of the Company



## Executive Director's Report

including Commercial, Sales, Cargo Operations & Marketing, Logistics, Inflight, and Corporate Communications. We are confident that he and his new Senior Management Team will guide this Airline towards greater success.

### **Our Role in Supporting Sri Lanka**

The changeover of management brought with it a renewed emphasis throughout the Airline of the need to support the country and the Government in every possible sphere. As the National Carrier, SriLankan has a unique role to play in projecting Sri Lanka's image overseas, and in assisting the development of the country.

One of the key areas of focus is in obtaining positive publicity for Sri Lanka as a destination, in support of the country's Tourism industry. A series of initiatives have been planned in partnership with the Ministry of Tourism and the Sri Lanka Tourism Promotions Bureau in key thrust markets identified in Europe, Asia and the Middle East.

The Airline has been granted priority in overseas travel of government officials and will seek to facilitate this segment of passengers. Meanwhile our leisure arm SriLankan Holidays will provide greater opportunities for the public in Sri Lanka to broaden their horizons by travelling overseas.

SriLankan will also play a pivotal role in the growth of the country's export industries, which are important sources of foreign exchange. This includes providing rapid and convenient air cargo facilities for fruits, vegetables, tuna, ornamental fish, garments, and other exports. The Airline also works closely with the Export Development Board in these ventures.

The National Carrier will also support the development of aviation in Sri Lanka, especially through its comprehensive range of services to other airlines and passengers at Bandaranaike International Airport.

### **SriLankan Cares' New Project in the Southern Province**

The spirit of Caring, Warmth and Friendship for which this Airline is acclaimed globally, is exemplified by its charity arm – SriLankan Cares.

Since its incorporation as an independent charitable trust several years ago, SriLankan Cares has won acclaim for its work throughout the country, most notably the Rs. 80 million project that gave new life to the Tsunami-shattered Al Bahriya Maha Vidyalaya in Kalmunai, and the adoption of Meepagama Jayanthi Maha Vidyalaya in Kalawana.

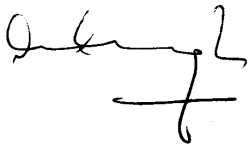
Despite the financial challenges facing the Airline, SriLankan remains steadfast in its commitment to the country through SriLankan Cares.

Within a few weeks, SriLankan Cares will commence a new project in the Southern Province, where it will adopt Debarawewa Navodya Primary School. This project will upgrade this school of 3,000 children with new buildings and facilities, and transform it into a new centre of learning in the South.

**Conclusion**

I shall conclude by thanking all our stakeholders for their support during the year under review, including the staff of the SriLankan Airlines Group, and their anticipated assistance and co-operation in the coming year.

I am certain that with the support of all its staff and key stakeholders, this Airline will achieve greater heights in the year to come, for its shareholders, passengers, business partners, and our Nation.



**Nishanta Wickremasinghe**  
*Executive Director*

17 June 2008



## Chief Executive Officer's Review

I am pleased to present this review for the year 2007/08, and more importantly, our new Business Turnaround Plan for the year ahead which is expected to bring this Airline back to profitability.

### **Business Turnaround Plan 2008/09**

The Company's Business Turnaround Plan has identified the areas in which the Airline needs significant change. Foremost among these is the recognition that the Airline recorded a loss of Rs. 6,156 million (USD 57 million) from its core business in airline activity during the year under review. These losses have been mitigated by the other activities of the Group, mainly in Ground Handling Services, Aircraft Maintenance, Duty Free Sales, and Inflight Catering. This is not a sustainable situation, and the Plan contains concrete steps to turn this core business area to profitability.

The Plan, which was prepared by the Senior Management Team after considering inputs from the various departments of the Airline, sets out a range of specific measures to enhance revenue and reduce costs across a broad spectrum of operational areas. Importantly, it provides specific quantified targets in value terms for each action. Our projections show that the cumulative effect will be a return to profitability in the medium term for our Airline operations, barring further unforeseen challenges.

*"The Company's Business Turnaround Plan has identified the areas in which the Airline needs significant change."*

The Company recognises that our employees include individuals with a wealth of experience in the airline industry, and we will be continuously fine-tuning the Plan to include new ideas that we are confident will flow from them.

### **Implementation of Initial Steps**

The initial activities of the Plan have already been implemented. Some of these would be on a continuous basis. They include:

#### **Network & Route Rationalisation**

- Reducing of frequencies on less profitable routes
- Increasing frequencies to more profitable destinations
- Matching of aircraft types to specific routes to increase profitability

#### **Revenue Enhancement Measures**

- Increase network revenue by using revenue management optimising models
- Pricing in a sensible manner and passing our true costs down to the customer
- Maximising sales opportunities through E-Marketing, SriLankan Holidays, and other non-traditional channels and markets

#### **Management of Costs & Overheads**

- Redrawing of the Company's organisational structure
- Focus on the Company's top ten cost items, to reduce usage, whilst negotiating lower prices from suppliers

- Tangible reductions of all departmental budgets and other non-fuel expenses
- Curtailing of corporate sponsorships and advertising

#### **Fuel Efficiency Gap Analysis**

Fuel will remain the most critical focal area for every airline, and SriLankan Airlines has already moved to mitigate the adverse impact of rising prices. A team of consultants from the International Air Transport Association (IATA) conducted a thorough examination of fuel usage at SriLankan, and compiled a set of recommendations. This is targeted to reduce fuel consumption by 3% during the next 12 month period amounting to savings of Rs. 1,200 million, and eventually rising up to 5%.

#### **Other Measures**

Other measures that will be taken before the end of the calendar year 2008 include:

- A new Policy on Corporate Whistle Blowing, to encourage reporting by staff of unsafe, unsound, and unprofitable practices. This would provide added incentives for staff to involve themselves in the decision-making process, in addition to the Company's present "suggestions and rewards" schemes in this area.
- Shifting of the Company's Colombo operations to Katunayake. The key dividend from this will be to bring all decision-making under one roof to improve efficiency and competitiveness. This will also reduce the cost of rental in Colombo's World Trade Centre.

Series of activities are planned with the objectives of further increasing punctuality and operational efficiency, and upgrading the Company's products to match the finest industry standards. They include:

- Re-fleeting of the A320 fleet
- Refurbishment of cabins on the A330 and A340 fleets
- Improving of service at each customer touch point



## Chief Executive Officer's Review

### **Towards Our Vision of Being the Best Airline in Asia**

SriLankan Airlines will adopt a new approach towards taking this Airline forward to become the Best in Asia.

Being the best does not mean being the biggest or the most profitable. It means being the airline that passengers recognise as having the highest standards, the one whose superior service global travellers will prefer over other airlines. We are confident that this Vision is within our reach.

This Airline has already earned a string of global accolades for service, both in the air and on the ground. It is an integral part of the Business Turnaround Plan to further uplift the standards of service at all customer touch points, beginning with our Call Centre, down through the Ticketing Offices, Overseas Offices, Airport Services, and Inflight Services.

### **Development of a Customer Charter**

The Company has begun the process to develop a Customer Charter, which will define in detail the rights and entitlements of customers, and elaborate on the duties and responsibilities of our staff towards them.

The Customer Charter will be written specifically to cater to the requirements of SriLankan's customers, while using pertinent models and methodologies of the most modern and sophisticated global institutions.

### **Enhancing Employee Productivity**

It is the objective of the Company to significantly enhance Employee Productivity, as a stepping stone towards turning this Airline towards profitability. The management is now working very successfully in this area, and expects significant and visible results within a short period.

It is of significance that every one of the employee unions of SriLankan is actively participating in this important exercise, which will ensure a high level of commitment on the part of our staff towards enhancing employee productivity and creating a successful Customer Charter.

This involves the development of different models in working patterns and working hours, and steps to significantly reduce absenteeism and less productive work practices.

The Airline's Staff Productivity during the year under review rose significantly. Revenue per Employee in the Company stood at Rs. 15.48 million, a 20.09% increase over the previous year's Rs. 12.89 million. The Group's Revenue per Employee recorded Rs. 14.08 million, up 19.32% from the previous Rs. 11.80 million.

Average Staff Strength during the year was 5,113 employees, a slight decrease over last year's 5,272. Group Staff Strength was 5,685, down slightly from 5,839.

### **Core Indicators for Airline Operations**

The Airline recorded significant growth in almost all its areas of operation during the year under review. Geographically, increases were seen in the Company's operations in Asia, Europe, the Middle East, and the Americas.

- The Airline carried 3,196,106 passengers during the year under review, an increase of 0.65% over the previous year's 3,175,583 passengers. This is in line with the marginal growth in passenger capacity.
- Passenger Capacity increased by 1.81% due to the Airline's increased operations, totalling 12,599.58 million Available Seat Kilometres (ASK) as opposed to the previous 12,375.62 million ASK.
- Revenue from Passenger Sales recorded a significant increase of Rs. 63,808.34 million, up from Rs. 53,862.32 million in the previous year. The Airline recorded 9,793.05 million Revenue Passenger Kilometres (RPK) during the year, an increase of 2.70% over the previous year's 9,535.79 million RPK.
- Overall Load Carried increased by 7.11% to total 1,232.62 million Revenue Tonne Kilometres (RTK), compared to 1,150.84 million RTK the previous year. Overall Capacity increased by 2.66% to 1,741.10 million Available Tonne Kilometres (ATK), as opposed to the previous 1,695.91 million ATK.
- Passenger Load Factor increased by 0.68 percentage points to average 77.73% during the year under review, up from 77.05%. Overall Load Factor also increased significantly to 70.80% from the previous year's 67.86%.
- Cargo carriage recorded a significant increase to total Rs. 10,689.73 million, compared to Rs. 9,354.17 million.
- However, increased fuel costs drove the Breakeven Load Factor up to 76.18% from the previous year's 72.34%.
- Excess Baggage contributed Rs. 619.34 million, down from Rs. 690.73 million.
- Mail services recorded revenue of Rs. 89.29 million, up from the previous year's Rs. 76.36 million.

### **Diversification of Revenue Streams**

SriLankan Airlines will continue to strengthen its diverse portfolio of products and services, which are expected to contribute substantially to the Company's profitability.

Among these is the Company's Ground Handling Service for customer airlines at Bandaranaike International Airport (BIA) – both within the terminals and on the Apron areas – which accounted for



## Chief Executive Officer's Review

Rs. 3,407.99 million during the year under review. This is a marginal decrease from the previous year's Rs. 3,415.20 million, on account of reduced traffic by other airlines to Sri Lanka.

On-Board Duty Free Sales recorded a healthy increase to post an all-time high of Rs. 499.68 million, from the previous year's Rs. 353.69 million.

Much is expected of the Airline's leisure arm, SriLankan Holidays, which has opened new avenues of overseas travel to Sri Lankans, while playing an important role in increasing traffic into Sri Lanka.

Other areas which contributed towards revenue, and from which much is expected in the future, include SriLankan Engineering which provides aircraft maintenance services for other airlines; and the International Aviation Academy and the SriLankan Technical Training School, which serve external students and personnel of other airlines with a range of aviation-related training programmes.

### **Simplifying the Business**

It is an accepted principle in the global aviation industry that the future lies in simplifying our business practices and procedures in order to achieve greater cost savings, and enhance customer convenience. With the increase in fuel costs, automation and fast travel initiatives will be key factors in enhancing the Airline's operations in every sphere.

The Company continued to invest judiciously in automation and modernisation of systems in all key areas – Operations, Finance, Communications, Inventory, Logistics, and Management Systems.

It will continue to do so in the future, while ensuring that investments are carried out prudently in keeping with the spirit of the Business Turnaround Plan.

### **Aircraft Fleet**

The Airline continues to operate 14 passenger aircraft. Of these, five are narrowbody Airbus A320 aircraft, while four are A330's and five are A340's, the latter two types being long-range widebodies.

As mentioned in the Business Turnaround Plan, a re-fleeting programme is being planned for the A320 fleet, as well as refurbishment of cabins on the A330 and A340 fleets. These programmes will upgrade our products to the latest global standards, in keeping with our tradition of excellence.

### **Looking Ahead to the Coming Year**

SriLankan Airlines now stands once again on its own feet, and faces the future with confidence, unbowed by the challenges ahead, with a full awareness of our responsibilities to the Nation.

### **Every Challenge is an Opportunity**

The key challenge in the year ahead will doubtless be, uncertainty of increasing fuel costs, especially since there is a significant time lag in passing on increased costs to the market. However, the measures that we have already set in place are expected to mitigate this factor to a great extent.



Another crucial issue remains the adverse travel advisories in key markets that directly lead to a drop in tourist traffic. As our Executive Director has elaborated, the National Carrier will staunchly support programmes to enhance the Country's image overseas which, coupled with the expected reduction of incidents in Sri Lanka, will bring about a change in fortunes from our key markets.

SriLankan will also continue to play a major supportive role in the Government's programmes aimed at modernisation of the Country's aviation infrastructure. This includes all services that the Airline provides at BIA.

Competition from other airlines is expected to be another significant challenge. The rapid growth of the Indian economy has brought with it a liberalisation of that country's aviation sector and an increase in the number of airlines, both foreign and domestic, and airline operations. However, SriLankan's competitive edge remains its positioning of Colombo as the Gateway to India for both passenger and cargo traffic from around the globe.

Employee turnover will remain an issue, with increased migration overseas due to the impact of national issues. In addition, the Company is witnessing a significant increase in our staff being headhunted by other airlines in the Middle East, India and Far East, as well as corporate players within the Country. The Company's Human Resources Development Team is addressing these issues through enhanced processes in recruitment, training, career development and retention.

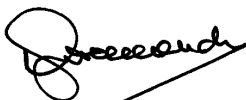
### **Conclusion**

As SriLankan Airlines begins a new chapter in the history of aviation in Sri Lanka, I wish to thank all those who supported the National Carrier during the year under review. They include His Excellency President Mahinda Rajapaksa, the Hon. Chamal Rajapaksa, MP, Minister of Ports & Aviation, the Hon. Sarath Gunarathna, MP, Deputy Minister of Aviation, and other Government officials.

My gratitude to the Chairman and Board of Directors for their guidance, and members of my Management Team for their support. I must make special mention of the support extended by the employee unions of the Airline.

Most of all, I wish to thank every member of the staff for their hard work and dedication, which I look forward to in the coming year.

Finally, my thanks to our loyal passengers, other customers and valued business partners, for their support.



**Manoj Gunawardena**  
*Chief Executive Officer*

17 June 2008



# Operational Information



**Operational Information**

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# Commercial Operations



"The Commercial Division is the main revenue generating arm of the Company, responsible for the marketing efforts of the Airline and the sale of passenger tickets."



## Every Challenge is an Opportunity

### A Management Discussion & Analysis

#### Commercial Division

The Commercial Division is the main revenue generating arm of the Company, responsible for the marketing efforts of the Airline and the sale of passenger tickets throughout the global network. It operates through offices in destination cities and other selected locations around the world, and also supervises the work of General Sales Agents (GSA) and Passenger Sales Agents (PSA) worldwide.

It is under the purview of the Head of Commercial, with Regional Managers to handle each geographic region, and Senior Managers / Managers for other related areas such as SriLankan Holidays, Commercial Planning, Commercial Projects, International Relations, Customer Affairs, Marketing Services, Pricing, Distribution Systems, and Revenue Optimisation.

The Commercial Division is also responsible for the activities of frontline offices located throughout Sri Lanka.

“During the year Coimbatore became SriLankan’s 11th destination in India”

#### Activities

- The Airline carried a total of 3,196,106 passengers during the year under review, which is a 0.65% increase over the 3,175,583 passengers of the previous year.
- Passenger Capacity increased by 1.81% due to the Airline's increased operations, totalling 12,599.58 million Available Seat Kilometres (ASK) as opposed to the previous 12,375.62 million ASK. Passenger Load Factor increased by 0.68 percentage points to average 77.73% during the year under review, up from 77.05%.
- In October 2007, Coimbatore became SriLankan's 11th destination in India.
- The following month, SriLankan became the first foreign carrier to achieve 100 flights per week to India, with the addition of an 11th flight to Trichy, as it continued to enhance the positioning of Colombo as the Gateway to India. This focused attention on Sri Lanka's National Carrier, with events in several cities that generated significant publicity for the Airline.
- Just prior to the end of the financial year, the Airline launched its new Frequent Flyer Programme “FlySmiLes”, to provide a tailor-made programme for SriLankan's customers.
- The Airline's exercise to implement E-Ticketing in all its overseas stations during the year under review proved 100% successful. This provides a greater degree of convenience to passengers and Airline staff, and has significantly reduced the cost of ticketing.
- In addition, all commercially important Global Distribution Systems (GDS) worldwide have also been E-ticket enabled.



- The Company's E-ticketing facilities for interline ticketing on other airlines has also been substantially completed, with over 50 major carriers now seamlessly enabled.
- Facilities on the Airline's Internet Booking Engine (IBE) were enhanced with the completion of Phase II of this programme during the year under review. The IBE now contains enhanced functionalities which are of greater convenience to customers. Further improvements are being targeted in the usage of the IBE in order to reduce the Airline's operating cost in sales and distribution.
- A project to modernise the PROS/PROMIS Revenue Optimisation and forecasting systems was completed, which significantly enhanced the Airline's revenue optimisation opportunities by recommending sales strategies for particular flights.
- Etihad chose SriLankan as its codeshare partner to Colombo, as it suspended its own operations, further strengthening SriLankan's reputation as a carrier of world class standards.

#### **The Year Ahead**

The Commercial Division will play a crucial role in turning the fortunes of the Company around. Details of this are to be found in the CEO's Review section in this Annual Report.

The Advertising Department and Promotions Department were moved under the purview of the Commercial Division following the restructuring of the Company, after the changeover in Management. This will result in closer support for the Company's sales and marketing efforts.

A new Pricing module will be implemented in the PROS/PROMIS Revenue Optimisation System, as well as a Revenue Integrity System, in order to enhance the optimisation of pricing.



# SriLankan Holidays





"SriLankan Holidays is the leisure arm of the Airline. It revolutionised Sri Lanka's outbound leisure travel market with its 'all inclusive' pricing strategy.."



## A Management Discussion & Analysis

### SriLankan Holidays

SriLankan Holidays is the leisure arm of the Airline. It revolutionised Sri Lanka's outbound leisure travel market with its 'all inclusive' pricing strategy, breaking tradition to give travellers the comfort of knowing that the price they see quoted is what they finally pay.

SriLankan Holidays is now a strongly established brand with a diverse product range, which has created demand among clients who ask travel agents to book them on SriLankan Holidays' packages. It is broadly differentiated into Outbound and Inbound segments and it operates through a global network of franchisees, hotels, tour operators, and other travel related partners in every major leisure destination of the Airline. It has also broken new ground in introducing very attractive packages for inbound tourism in partnership with local hotel and tour operators.

“Special packages were offered for Romantic Getaways and Pilgrim Tours for identified destinations. These included Vellankanni, Haj, Bodh Gaya, Thirupathy, and Putapathy.”

SriLankan Holidays has now set its Vision “To be the number one contributor in increasing leisure business on SriLankan Airlines and to position Sri Lanka as a top holiday destination.”

#### Activities

- During the year under review, SriLankan Holidays recorded a growth of 25% in outbound passengers, with a 100% increase in revenue from this segment. Inbound traffic recorded a 50% growth, with a similar increase in revenue.

- Total inbound and outbound passengers came up to 20,000 during the year under review, which was a significant achievement.
- Tactical offers were carried out to provide maximum returns for the Company during lean times, and on special occasions. These included the “5 for 4” offer, and the “100 Flights” offer, the latter to celebrate the Airline becoming the first foreign carrier with a hundred flights to India.
- Event related packages were offered, such as those for concerts by Police, Santana, and Aerosmith, shopping specials, and sporting events overseas.
- The popular “Mega 999” series was extended to cover all of the Airline's leisure destinations, including London, Paris, Frankfurt, Tokyo, and Dubai. A special “Stretch Your Holiday in Sri Lanka” for only INR 1 for an extra night was offered, to entice customers transiting to other destinations to spend time in Sri Lanka.



- SriLankan Holidays held its first annual conference of franchise operators and other partners. The first ever SriLankan Holidays holiday brochure was launched during this conference. The appointment of franchise operators in India was completed, with 11 on-line and 3 off-line operators. A franchisee was also appointed in the Maldives to exploit the untapped market of Maldivian visitors to Sri Lanka.
- Special packages were offered for Romantic Getaways and Pilgrim Tours for identified destinations. These included Vellankanni, Haj, Bodh Gaya, Thirupathy, and Putapathy. The Middle East market was offered several new packages such as "Island Breaks" and "Explore Sri Lanka".
- Several initiatives were carried out in partnership with Thailand Tourism, Malaysia Tourism, Maldives Tourism, and Singapore Tourism.
- SriLankan Holidays launched its own all-inclusive MICE packages in conjunction with the Sri Lanka Conventions Bureau, concentrating on corporates in the Indian market. This programme was launched to corporates in India with events in Bangalore, Hyderabad and other major cities.

### **The Year Ahead**

SriLankan Holidays will focus mainly on India and the Middle East as source markets in the year ahead.

Closer partnerships will be forged with Sri Lanka Tourism and trade partners, to maximise opportunities such as the Indian cricket tour to Sri Lanka.

The year ahead will see more event based packages for inbound tourism to coincide with sporting events and pageants in the country, in close support of the marketing efforts of the Airline and Sri Lanka Tourism.

More consumer promotions will be carried out with close user groups such as banks and credit card companies to inculcate the holiday-making habit among Sri Lankan consumers. A platinum range of holiday packages will be introduced, to take advantage of opportunities in the high end market.



# Corporate Communications



*“This Division functioned as Corporate Communications during the year under review, and was restructured as the Corporate Affairs Division at the year end.”*



## A Management Discussion & Analysis

### Corporate Communications

This Division functioned as Corporate Communications during the year under review, and was restructured as the Corporate Affairs Division following the change in the Company's organisational structure.

#### Activities

- One of the key focus areas was in promoting Sri Lanka as a tourist destination, and countering adverse publicity brought upon by the country's conflict. Visits to Sri Lanka were organised for more than 130 foreign media persons, with comprehensive tours to various areas of the country, in order to demonstrate firsthand the true situation prevailing in the country and obtain positive publicity in support of the Government.

The Airline's 'Home Away From Home' advertising campaign was honoured with the Pacific Asia Travel Association's (PATA) Gold Award for Best Airline Marketing Campaign during the year under review.

- Intensive campaigns were also carried out through media publicity to enhance the Company's brand image providing accurate information with regard to any situation or issue facing the Airline, and providing continuous access to the media. This included crisis communications during the emergencies at BIA in mid 2007, including the night- time closure of the airport.
- The Airline disseminated 100 media releases globally and locally - which is the highest number by far by any corporate entity in

the country. This programme was supported by media conferences for specific events. The Airline's close rapport with all major media institutions in Sri Lanka and overseas target markets led to an excellent level of publicity. This resulted in significant brand recall of the Airline's diverse range of activities.

- The Airline's 'Home Away From Home' advertising campaign was honoured with the Pacific Asia Travel Association's (PATA) Gold Award for Best Airline Marketing Campaign during the year under review.
- A USD 1 million campaign was carried out on an equal partnership basis with Sri Lanka Tourism, for destination marketing in the Middle East and India, which are now main tourism generating markets for the country.
- The 'Pride Takes Wing' advertising campaign was carried out to coincide with the change in the Airline's Management, to convey continuity of the Airline's excellent service philosophies.



Other significant advertising campaigns that were carried out include:

- B4UR27.COM campaign for young travellers
- 100 Flights Campaign to celebrate the Airline's achievement in India
- London Cab campaign held for 50 cab drivers to promote Sri Lanka by distributing brochures, with the five best performers winning free tickets to Sri Lanka
- The Airline maintained its presence at industry fairs in targeted markets such as UK, Germany, China, France, Malaysia, Singapore, Dubai, Kuwait, Japan, and Hong Kong. These served the dual purpose of promoting Sri Lanka as a destination, while at the same time strengthening the Airline's business in these markets. The National Carrier also assisted Sri Lanka Tourism and the country's tour operators and hoteliers, by providing discounted air travel and cargo carriage for participants in trade fairs.

### **The Year Ahead**

This will be a significant year for the newly formed Corporate Affairs Division. It is expected to provide leadership and strategic direction towards strengthening the Airline's reputation and relationships with key stakeholders, regulators and media, with a mandate to add value to the image and the brand.

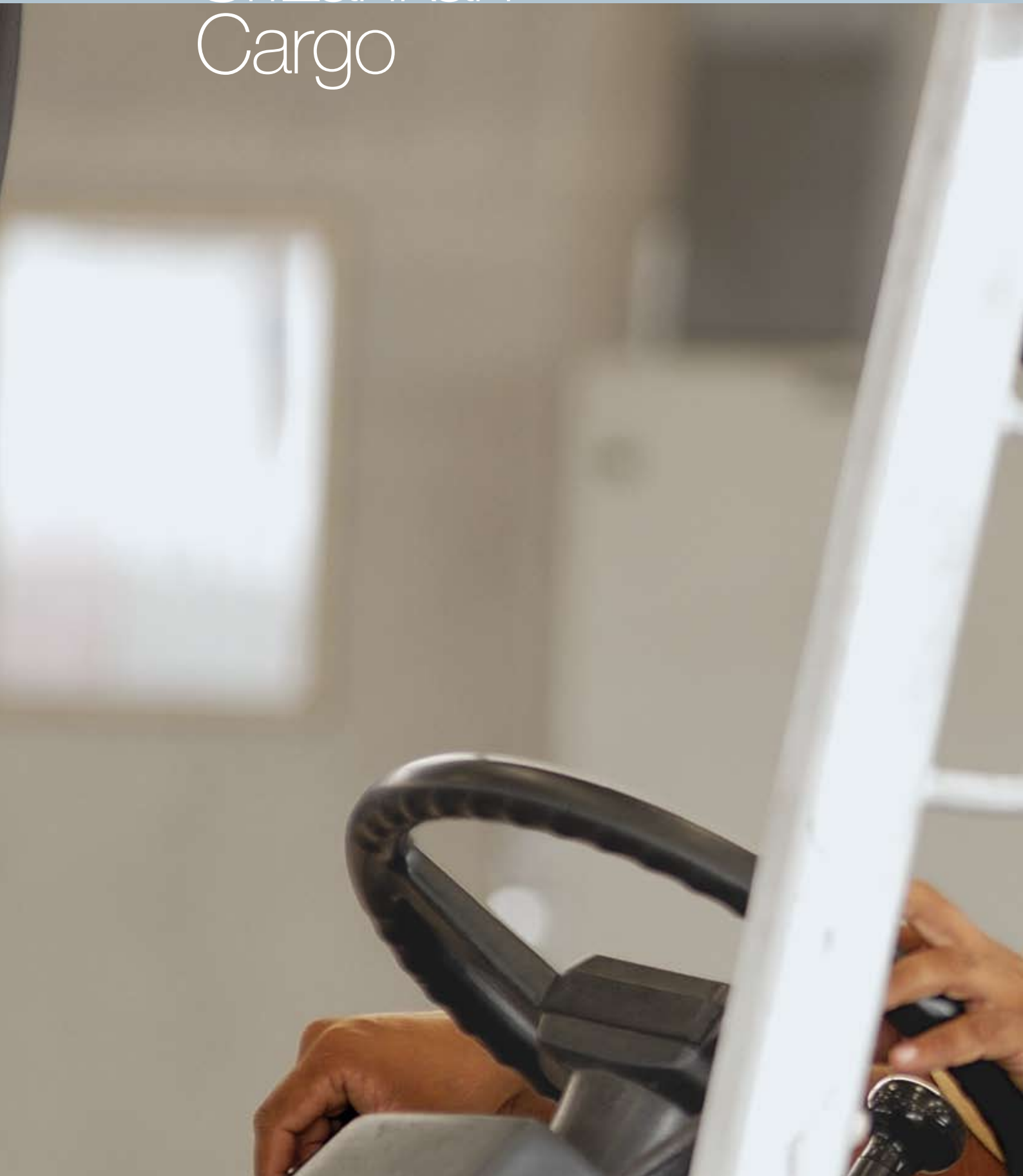
Its primary responsibility will be in implementing the Company's corporate affairs initiatives and reputational initiatives, and driving effective corporate communications strategies to support the Company's business aspirations in close support of the activities of the Commercial Division.

In addition, Corporate Affairs will build long-term rapport with all regulatory and Government authorities and support the Government's efforts to build up the country's image overseas. Legal Affairs, Public Relations and Media Relations Departments will function under the purview of Head of Corporate Affairs who in turn will closely support the activities of the Company's CEO.

A new Corporate Website is being developed to include a modern look and feel, as well as integrating all Commercial oriented areas such as SriLankan Holidays, E-Commerce, and Corporate Affairs.



# SriLankan Cargo





"The Division supervises the marketing activities of the Cargo Network Offices and Cargo Sales Agents around the globe."



## A Management Discussion & Analysis

### SriLankan Cargo

Operating under the distinct branding of “SriLankan Cargo”, the Company’s Cargo Division is responsible for the global marketing and operations of the Airline’s freight business, which is a key revenue generating area.

The Division supervises the marketing activities of the Cargo Network Offices and Cargo Sales Agents around the globe. This includes destinations on the Airline’s route network, and off-line offices that feed the network. It also operates the Cargo Centre at BIA which plays a key role in the positioning of Colombo as the Hub in the Ocean, and also serves the handling of freight of other airlines at BIA.

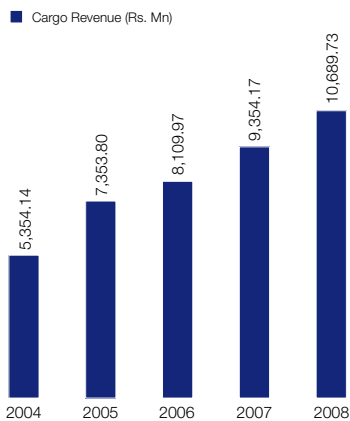
Once again, Cargo made a record contribution towards the Airline’s total revenue with a 14% freight contribution.

#### Activities

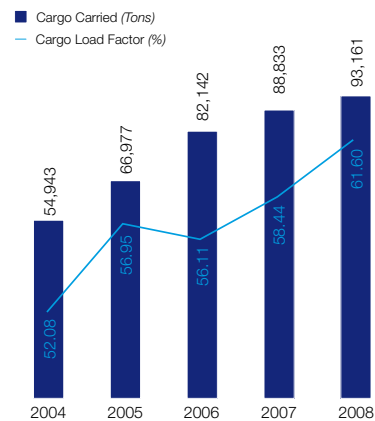
- Once again, Cargo made a record contribution towards the Airline’s total revenue with a 14% freight contribution. The Division’s revenue this year has increased by 14.28% to Rs. 10,689.73 million, while tonnage has risen by 4.87% to 93,161 tonnes, showing a marginal increase in the yield of 5.5%.

- While using the bellies of the wide body passenger aircraft for long haul destinations, SriLankan Cargo operates a dedicated regional freighter service with an Antonov AN12F aircraft on a wet lease agreement to supplement distribution from the hub.

#### Cargo Revenue



#### Cargo Carried





- The total volume handled at the Cargo Centre during the current financial year was 153,895 tonnes, which was a decrease of 6.63%. This was a direct result of Cathy Pacific and Etihad ceasing operations to Sri Lanka in 2007. Even though the total cargo volumes handled at BIA decreased, the total cargo uplifted by SriLankan Cargo increased by 4.87% during the current financial year. At present over 150,000 tonnes of cargo is moved annually through 'The Hub in the Ocean'.

#### **The Year Ahead**

SriLankan Cargo is looking forward to commencing operations in the new terminal at BIA that is expected to be acquired towards the latter part of 2008. This would provide the means to double the handling capacity to over 300,000 tonnes of cargo per annum.

An innovation for SriLankan Cargo in the coming financial year would be the launch of the Courier & Perishable Centres which would provide customers with a dedicated area within the terminal for handling courier and perishable shipments.

Negotiations are currently underway for SriLankan Cargo to acquire its own freighter aircraft to continue with the existing regional operations and to offer 'Charter Desk' services.

This overall enhanced business signifies growing customer confidence throughout the network for SriLankan Cargo.



# Service Delivery



*“The Service Delivery Division is responsible for maintaining and continuously enhancing the Airline’s global reputation for Caring, Warmth, and Friendly Service.”*



## A Management Discussion & Analysis

### Service Delivery

The Service Delivery Division is responsible for maintaining and continuously enhancing the Airline's global reputation for Caring, Warmth, and Friendly Service. This includes caring for passengers on the ground at BIA, at overseas stations, and in the air, providing support services at BIA for other airlines including servicing of aircraft, on-board duty free sales, and ensuring the safety and security of passengers, aircraft and the Company's premises.

It comprises of the Departments of Inflight Service, Inflight Service Support, Airport Service Delivery, Airport Service Support, and Security & Investigations, all of which report to the Head of Service Delivery.

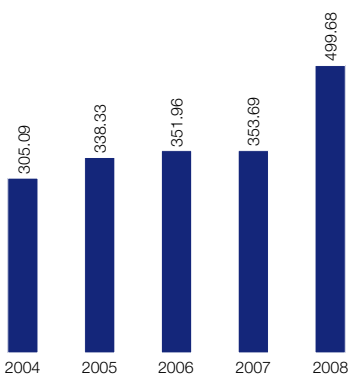
“The Duty Free Collection was rebranded as the “Serendib Collection” with the tag-line “A World of Gifts”, in order to increase its visibility.”

### Activities

- The high standards in training of cabin crew were continued, including training in foreign languages appropriate to the various sectors flown by the Airline.
- For the first time in many years, the number of cabin crew was brought up to full strength, which allows greater flexibility in rostering and will serve to further improve standards. However, turnover continues to be an issue due to other airlines actively recruiting SriLankan staff due to our excellent standards of service.

### Duty Free Revenue

■ Duty Free Revenue (Rs. M)



- A new record was set in on-board duty free sales at Rs. 499.68 million for the year under review, a significant increase from the previous year's Rs. 353.69 million. This was facilitated by a series of activities such as restructuring of the sales commission awarded to cabin staff, and increasing the selection of items carried on board followed by a re-evaluation of items carried on each sector.

- The Duty Free Collection was rebranded as the “Serendib Collection” with the tag-line “A World of Gifts”, in order to increase its visibility. The Internet Pre-Booking Service for Duty Free Sales was enhanced. Customers can now fax their orders for pre-bookings.



- The On-Board inflight entertainment guide was also improved and re-sized for greater passenger convenience. Several technical systems were commissioned to enhance passenger convenience. These included the On-Line Check-In system. This was launched in Colombo, and is being rolled out throughout the Airline's network. The Business Class Check-In Counter at BIA was revamped for greater customer convenience.
- The Airline also began self-handling of ground services in Chennai, Trichy and Coimbatore, greatly increasing customer service, and significantly reducing the cost of ground handling in these stations.
- The Airport Service College at BIA continued to provide youngsters with skills to enter the aviation industry, while at the same time building a pool of resources from which the Airline can recruit when vacancies arise in its airport operations. The success of this programme can be justified by the fact that more than 90 such participants have been recruited to the Airline, with a dozen more entering service with other international and local airlines. The Airport Service College was amalgamated with the International Aviation Academy for greater effectiveness.
- The Airline added two more beauty queens to its long list of winners of notable pageants, with a Flight Stewardess being crowned Miss Sri Lanka, and another being chosen as First Runner-Up.

### **The Year Ahead**

Service Delivery will continue to guard and enhance the Airline's reputation for providing the finest customer service, including its accolades for having some of the World's Best and Friendliest Cabin Staff. It will also closely support the ongoing development of BIA, to enhance its positioning as the finest airport in South Asia, and promote travel to Sri Lanka and also transit traffic through Colombo. It is also planning to launch a Mail Order web selling service, which will allow delivery by courier of items from the Serendib Treasures collection, although this will not be on a Duty Free basis.

A re-designed brochure will be launched to take into consideration the Airline's focus on "Green" issues, in line with the Company's new Environmental Policy.



# Engineering & Flight Operations





"The Company's Engineering Division and Flight Operations Division are responsible for the operational running and maintenance of SriLankan's fleet of aircraft."



## A Management Discussion & Analysis

### Engineering & Flight Operations

The Company's Engineering Division and Flight Operations Division are responsible for the operational running and maintenance of SriLankan's fleet of aircraft to the highest standards in safety and punctuality.

Operating under the brand name of SriLankan Engineering, it also provides aircraft maintenance services for other airlines at its main facilities at BIA.

#### Activities

- Airbus Industries presented SriLankan Airlines with its prestigious global award for Operational Excellence among all small airlines that operate the Airbus A340 aircraft. This is the second such prestigious award won by SriLankan from Airbus, one of the world's two largest manufacturers of commercial aircraft. Airbus in 2004 presented SriLankan with a similar Operational Excellence Award for another type of aircraft – the twin-engined A330.

“During the year under review, the European Aviation Safety Agency awarded the prestigious industry standard EASA 145

- During the year under review, the European Aviation Safety Agency awarded the prestigious industry standard EASA 145 to SriLankan Engineering, in recognition of its commitment to

the highest standards of professionalism in aircraft maintenance. This certification is expected to enhance the Airline's efforts to market its engineering capabilities to other airlines.

- SriLankan Airlines also became one of the few companies in Asia to receive the globally recognised EASA 147 certification from the European Aviation Safety Agency, to provide training in Aircraft Maintenance to foreign and local students.
- Several major aircraft maintenance programmes were also carried out for Emirates and the Pakistani airline AirBlue by SriLankan Engineering.
- SriLankan Technical Training continued to provide training for Aircraft Engineers of AirBlue, a tribute to its EASA 147 standard.
- SriLankan Engineering also carried out an important mandatory modification for engines on the CFM-56 engines of SriLankan's own fleet of A340's, achieving significant cost savings as opposed to the project being done externally.
- SriLankan was awarded the IATA Operational Safety Audit (IOSA) certification from the International Air Transport Association (IATA), the worldwide governing body of air travel.



- The “AuRA” Maintenance, Repair and Overhaul (MRO) and Inventory Control System was successfully implemented during the year under review, and is now in operation. It will be continuously improved over the next year for greater effectiveness.

### **The Year Ahead**

With the restructuring of the Company’s organisational structure immediately following the changeover in its Management, Engineering and Flight Operations began functioning as two distinct Divisions responsible for separate areas of operations.

The Head of Engineering is supported by Aircraft Engineering, Aircraft Maintenance, and Quality Assurance divisions, while the SriLankan Technical Training arm also falls under his purview.

SriLankan Engineering will focus on enhancing the operational reliability of the fleet during the coming year. It will also redouble its efforts to market its aircraft maintenance services to other airlines in Asia, the Middle East, and beyond.

The Head of Flight Operations has under his purview Flight Operations, Crew Scheduling, Flight & Ground Safety, Network Control and Flight Operations Quality Assurance.

Flight Operations will also play a crucial role in reducing the Airline’s fuel consumption, with a target of 3% set for the year ahead, which will eventually be increased to 5%. This is expected to provide considerable cost savings to the Airline, in line with the Business Turnaround Plan.

Both Engineering and Flight Operations will also continue to provide trained staff to the Aircraft Engineering and Pilot cadres through their respective training programmes for Aircraft Engineers, Technicians, and First Officers, and provide opportunities for young Sri Lankans to embark on lucrative careers in the aviation industry.



# Finance & IT



*“The Finance and IT Divisions play a key role in ensuring the rapid flow of data and information to the Board and Management...”*



## A Management Discussion & Analysis

### Finance & IT

The Finance and IT Divisions play a key role in ensuring the rapid flow of data and information to the Board and Management facilitating the day to day operation and decision making process of the Company.

#### Activities

- Finance and IT concentrated on improving the efficiency of its processes and systems during the year under review. The Airline upgraded its existing Oracle Financial System from Version 11.0.3 to the Latest Version Release 12. SriLankan is the first Company in the world to take such a quantum leap in technology. A key feature of the new version is that it is web-based, which allows easy access to authorised persons such as members of the Senior Management Team from anywhere in the world.

The Airline upgraded its existing Oracle Financial System from Version 11.0.3 to the Latest Version Release 12

- The Company revised its Procurement Procedure Manual during the year to ensure greater transparency and corporate governance in its dealings with service providers to obtain greater value for money.
- Much work was carried out in bringing the Company's VAT refunds up to date, in order to provide greater liquidity, with

co-operation from the Ministry of Finance and Planning, Treasury, and the Inland Revenue Department.

- The Insurance Department was successful in negotiating very favourable terms for Aviation Insurance, owing to SriLankan's excellent safety and financial records.
- The Airline's Hedging of aviation fuel purchases proved to be an advantage during the year under review, as we were able to cushion against part of the shock of oil price hikes. The Airline has hedged up to 67% of its purchases during the year under review. The main advantage of hedging is the stability of cash flow, and protection from sudden price increases. During the last three years, SriLankan has saved USD 34 million through hedging, which is a tremendous success rate. Of this, USD 10 million was in the year under review.

#### The Year Ahead

Following the changeover in the Company's Management, Finance & IT were separated into two divisions for greater efficiency and effectiveness. The Finance Division is headed by the Chief Financial Officer and the IT Division comes under the purview of the Head of IT.



Both the Finance and IT Divisions are expected to play key roles in the Company's Business Turnaround Plan, by improving efficiency of departments throughout the Company, and by providing state-of-the-art systems to enhance customer service.

The Chief Financial Officer has under his purview Treasury, Financial Services, Revenue Accounting, Financial Accounting, Management Accounting, Compliance & Controllership, Procurement & Printing and Properties-Facilities & Insurance Departments.

The Finance Division will continue to refine procurement and logistics procedures to re-align procurement capabilities with corporate business requirements. One key area of focus will be in building up a cost-conscious culture throughout the Airline.

The Head of IT has reporting to him the Manager IT Business Systems (Commercial & Cargo), Manager IT Business Systems (HR, Finance & Corporate), Manager Network Engineering & Development, and Manager IT Business Systems (Service Delivery & Technical), each of whom supervise operations in support of distinct geographical areas and disciplines in the Company.

IT will launch a fully fledged system for SriLankan Holidays, which will increase market penetration worldwide. It also plans to introduce Best Practices in IT Security, Internet Security and Network Security, in conformity with the CMMI international standard and ITIL standard, in order to safeguard its systems from external interference.

A new state-of-the-art E-Learning system is to be introduced for the International Aviation Academy, to enable remote learning for SriLankan staff and non-Company students, and reduce the costs of training. This will put training within the reach of everybody in a convenient and rapid manner. A new Crew Management System is also being evaluated, which would improve rostering programmes and provide a more efficient work-life balance.



# SriLankan Catering





“SriLankan Catering (Pvt) Limited, is the fully owned subsidiary of SriLankan Airlines, which handles the inflight catering requirements of the Airline.”



## A Management Discussion & Analysis

### **SriLankan Catering (Pvt) Limited**

SriLankan Catering (Pvt) Limited, is the fully owned subsidiary of SriLankan Airlines, which handles the inflight catering requirements of the Airline at BIA, and other airlines that operate through Colombo. It also operates restaurants in the BIA Terminal. It provides close support to the parent Company and makes a significant contribution to the Group's profits.

The Board of SriLankan Catering comprises four Directors, all of whom are appointed by SriLankan Airlines, and are members of the Board of the Airline. The Chairman of the Board of SriLankan Airlines is also the Chairman of SriLankan Catering. It functions under its own Chief Executive Officer, who is appointed by the Board of SriLankan Catering, and has its own Management Team.

The Company has a state-of-the-art flight kitchen located in Katunayake, which was commissioned in mid 2006 at an investment of USD 25 million.

*“SriLankan Catering will continue to leverage upon the facilities of its new flight kitchen, together with its Triple Certification and growing reputation for excellence.”*

#### **Activities**

- **Triple Certification**

SriLankan Catering became one of the few airlines in the world to obtain Triple Certification for food safety, adding the prestigious ISO22000:2005 and HACCP-Codex Alimentarius accreditations during the year under review, to its existing ISO9001:2000 standard.

These certifications recognise SriLankan Catering's products, systems and procedures as being of the highest global standards, and are expected to have a tremendous impact on the levels of confidence that customers have in the

Airline's catering arm. SriLankan Catering met full compliance at the professional audits that were performed by the certifying body – SGS of the United Kingdom - prior to the certifications. It will continuously undergo audits periodically in order to maintain these certifications.

- **More Accolades**

The subsidiary added several competitive accolades during the year under review to its already impressive global and local awards in recent times. These included two Silver Medals and a Bronze Medal at the Hong Kong International Culinary Classic, and 23 medals at the Culinary Art 2007 Exhibition in Colombo.

- **Year of Consolidation**

The year under review was one of consolidation at SriLankan Catering, being its first full year of operations in the new world-class flight kitchen. An average of more than 13,500 meals per day was produced during the year.



SriLankan Catering continued to contribute significantly to the Group with Revenue of Rs. 985.63 million. This is somewhat lower than the previous year's Rs. 1,002.16 million, again on account of reduced volume of sales to other airlines at BIA.

It is significant that these profits were achieved despite meeting the repayments for the new flight kitchen, together with the effect of depreciation and the prevailing high interest rates. The following table summarises the year to year percentage changes in the financial results and key performance indicators.

	2008	2007	Change
Net profit after tax (Rs M)	967	1,294	-25.27%
Operating profit before finance costs (Rs M)	1,258	1,151	9.30%
Return on Turnover (%)	29.39	43.99	-14.6 pts
Earnings per share (Rs)	967	1,294	-25.27%
Total Assets (Rs M)	9,975	9,771	2.09%
Total Liabilities (Rs M)	2,643	2,906	-9.05%
Shareholders' funds (Rs M)	7,332	6,865	6.80%
Return on Total Assets (%)	9.69	13.24	-3.55 pts
Return on Shareholders' funds (%)	13.19	18.85	-5.66 pts

- Collective Agreement Renewed**

The long-time collective agreement with the employees union was renewed during the year under review, strengthening the efforts of both parties to work towards the greater success of the subsidiary.

### The Year Ahead

SriLankan Catering will continue to leverage upon the facilities of its new flight kitchen, together with its triple certification and growing reputation for excellence. It will continue to closely support the objectives of the SriLankan Airlines Group as a corporate entity with diversified operations. It will also provide invaluable support towards development of the country's air transport industry, by contributing to the enhanced facilities and operations at BIA.



## Financial Review

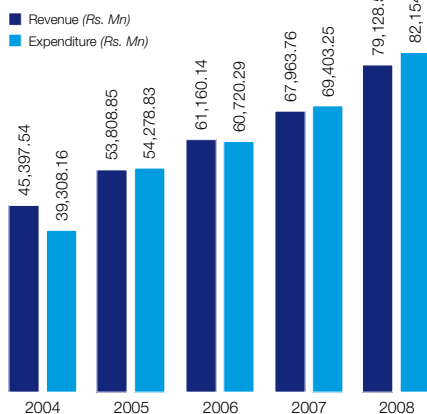
The adverse security situation in the country which saw a decline in tourist arrivals together with the continuous rise in fuel prices hampered the Group's financial performance during the year under review.

The SriLankan Group achieved a net profit after tax of Rs 4,899.66 million for the financial year ended 31 March 08 while the Company registered a net profit after tax of Rs 4,428.23 million for the financial year ended 31 March 08. The net gain on the sale and leaseback of three A340 aircraft amounting to Rs 5,487.94 million contributed towards this record net profit, which would otherwise have been an operating loss of Rs 1,059.71 million for the Company.

The following table depicts the year to year percentage changes in financial results and the key performance/profitability ratios of the Group and the Company for the financial years ended 2008 and 2007.

	2008	2007	Change
<b>Group</b>			
Net profit after tax (Rs. M.)	4,899.66	862.18	468.29%
Profit before tax (Rs. M.)	4,938.80	930.06	431.02%
Earnings per share (Rs.)	95.21	16.75	468.42%
Return on Turnover (%)	6.12	1.25	4.87pts
Return on Total Assets (%)	9.55	2.07	7.48pts
Return on Shareholders' fund (%)	21.49	4.82	16.67pts
<b>Company</b>			
Net profit after tax (Rs. M.)	4,428.23	568.04	679.56%
Profit before tax (Rs. M.)	4,454.76	571.89	678.95%
Return on Turnover (%)	5.60	0.84	4.76pts
Return on Total Assets (%)	9.24	1.50	7.74pts
Return on Shareholders' fund (%)	28.50	5.11	23.39pts

### Revenue & Expenditure



**Revenue**

Strong passenger and cargo demand were the highest contributors to the Group Revenue of Rs 80,031.47 million, which was 16.15% higher than the year before. Operating revenue of the Company also increased by 16.43% to Rs 79,128.56 million during the financial year.

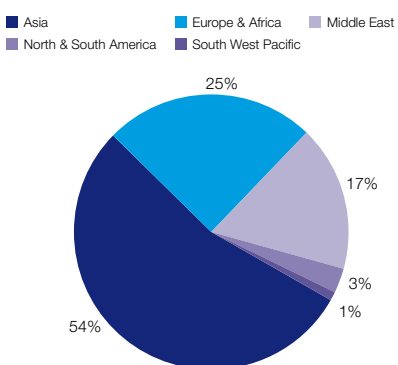
The increase in Company revenue was primarily driven by the growth in yields for passenger and cargo operations. In spite of the marginal increase in the number of passengers carried and the seat factor, passenger yields recorded an increase of 15.35% primarily as a result of higher fuel surcharges introduced to compensate the escalating fuel costs.

Cargo yields improved by 6.32% whilst cargo tonnage carried recorded an improvement of 4.87% in comparison with last year.

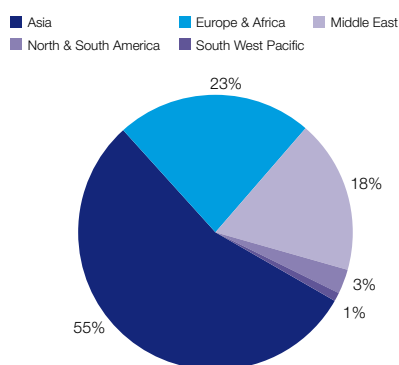
The highest revenue contribution in terms of geographical segments was Asia which accounted for nearly 54% of total group revenue and recorded a growth of 15.60% compared with 2007. This was mainly attributable to an increased focus on Asia, the highlight being the introduction of Coimbatore as the 11th destination to India and reaching one hundred flights to India during the year. Another emerging geographical market was seen in terms of Europe & Africa where the revenue contribution increased by 2 percentage points and also recorded a growth of 22.75% compared with previous year. SriLankan Holidays played an important role in promoting these destinations through the extensive promotional packages introduced during the year.

**Composition of Company Revenue by Area of Original Sale**

**2008**



**2007**



## Financial Review

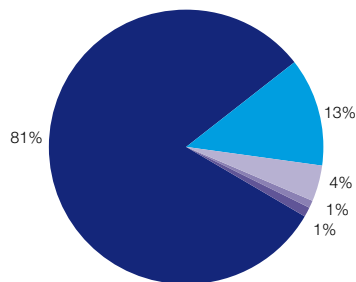
The following table depicts year on year percentage changes in Group & Company Revenues for the financial years ended 2008 and 2007.

	Group			Company		
	2008 Rs. M.	2007 Rs. M.	Change %	2008 Rs. M.	2007 Rs. M.	Change %
Passenger	64,427	54,683	17.82	64,427	54,683	17.82
Cargo	10,718	9,394	14.09	10,779	9,430	14.31
Air Terminal Services	3,400	3,471	(2.05)	3,422	3,497	(2.14)
Flight Catering	986	1,002	(1.60)	-	-	-
Duty Free	500	354	41.24	500	354	41.24
<b>Total Revenue</b>	<b>80,031</b>	<b>68,904</b>	<b>16.15</b>	<b>79,128</b>	<b>67,964</b>	<b>16.43</b>

### Composition of Group Revenue

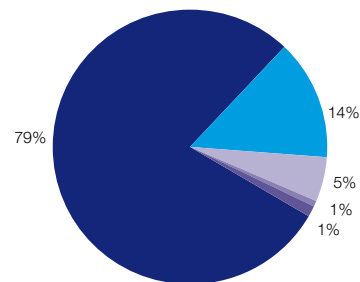
#### 2008

■ Passenger ■ Cargo ■ Air terminal services  
■ Flight catering ■ Duty-free



#### 2007

■ Passenger ■ Cargo ■ Air terminal services  
■ Flight catering ■ Duty-free



The increase in passenger revenue excluding excess baggage and non scheduled services of Rs. 9,946.04 million was as a result of:

	Rs M
• 2.70% increase in passenger traffic	
1.81% increase in seat capacity	974.73
0.68% points increase in passenger load factor	478.36
	<u>1,453.09</u>
• 15.35% increase in passenger yield	8,492.95
	<u><u>9,946.04</u></u>

The sensitivity of passenger revenue to a 1% point change in passenger load factor and a 1% change in passenger yield is as follows:

	Rs M
1% point change in passenger load factor, if yield and seat capacity remain constant	820.90
1% change in passenger yield, if passenger traffic remains constant	638.08

### Expenditure

The following table depicts year on year percentage changes in Operating Expenditure of the Group and Company for the years ended 31 March 2008 and 2007.

	Group			Company		
	2008 Rs. M.	2007 Rs. M.	Change %	2008 Rs. M.	2007 Rs. M.	Change %
Staff	9,168	9,699	5.47	9,105	9,370	2.83
Fuel	30,196	23,658	(27.64)	30,196	23,658	(27.64)
Aircraft Maintenance	7,022	5,693	(23.34)	7,022	5,693	(23.34)
Route	12,902	12,515	(3.09)	15,289	14,078	(8.60)
Aircraft Lease & Depreciation	11,113	9,474	(17.30)	11,113	9,474	(17.30)
Other expenses	11,393	8,138	(16.29)	8,029	7,130	(12.61)
<b>Total Operating Expenditure</b>	<b>81,794</b>	<b>69,192</b>	<b>(18.19)</b>	<b>80,754</b>	<b>69,403</b>	<b>(16.36)</b>

Group expenditure saw an increase of 18.19% to reach Rs 81,794 million, while Company expenditure increased by 16.36% to Rs 80,754 million. These increases were primarily due to the increase in fuel prices and aircraft maintenance costs.

On a more positive note, staff costs of the Group reduced by 5.47% as a result of the conservative recruitment policy adapted by the Group during the year. The number of employees in service as at 31 March 2008 was 5,685 (31 March 2007 – 5,839).

Expenditure on fuel excluding the oil cost was Rs 6,539 million higher than last year as a result of:

	Rs M
1.75% increase in volume uplifted	413
19.73% increase in weighted average fuel price	4,989
5.12% weakening of LKR against the USD	1,232
	<u>6,635</u>
Recoveries from fuel burn guarantee	(96)
	<u>6,539</u>



## Financial Review

The increase in Aircraft Lease & Depreciation expenditure by 17.30% is mainly attributable to the lease charges of the three A340 aircrafts which were sold and leased back and the emergency lease of five engines.

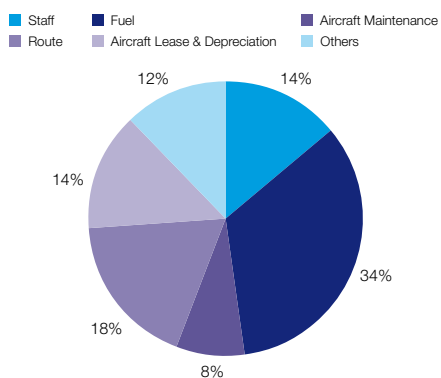
The 23.34% increase in Aircraft Maintenance costs is primarily due to the increase in engine overhaul amortization costs by Rs 805 million on account of the lease termination of A340 & A320 aircraft and the write-off of irrecoverable maintenance reserve payments amounting to Rs 703 million for two 340 aircraft on account of expiration of the leases in October 2008.

Route costs comprise of flight operations cost, ground handling, inflight meals and entertainment costs, landing and parking and overflying charges. The increase of 3.09% was mainly attributable to the increase in overall frequencies by 4.12%.

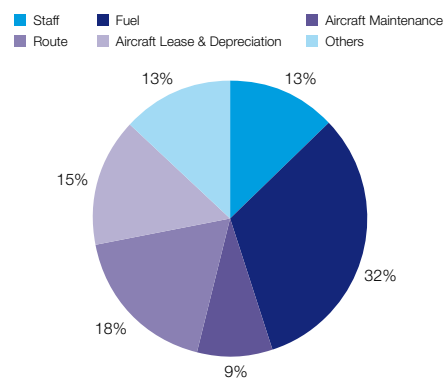
Other expenses which comprise mainly of marketing, advertising and administration costs have increased by 12.61%. This increase stems mainly from the Company's marketing costs which have increased due to the increase in overriding commission paid on passenger revenue and special incentives paid to agents on account of higher revenue. The increase in connecting point services provided to transit passengers has also contributed towards the overall increase in marketing costs.

### Composition of Group Expenditure

#### 2008



#### 2007



### Fuel Productivity and Sensitivity Analysis

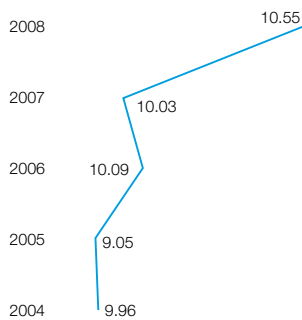
Fuel productivity as measured by the revenue tonne-km per American gallon (RTK/AG) increased by 5.27% over the previous year to 10.55 RTK/AG.

The impact of the fuel price is such that a change in price of one US cent per AG affects the Company's annual fuel cost by approximately Rs 129.15 million, if the USD exchange rate movements and changes in fuel consumption remain constant.

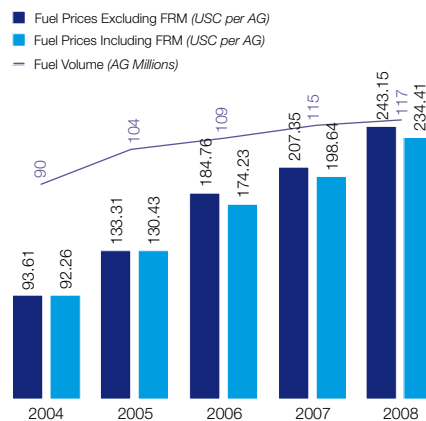


Similarly a change in fuel productivity of 1% would impact the Company's annual fuel costs by approximately Rs 298.72 million, if the changes in the fuel price and USD exchange rate movements remain constant.

### Fuel Productivity of Passenger Fleet (RTK/AG)



### Fuel Price & Consumption

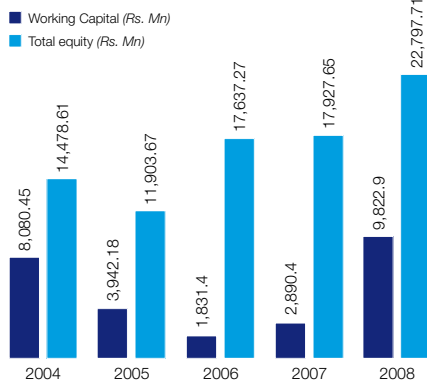


### Financial Position

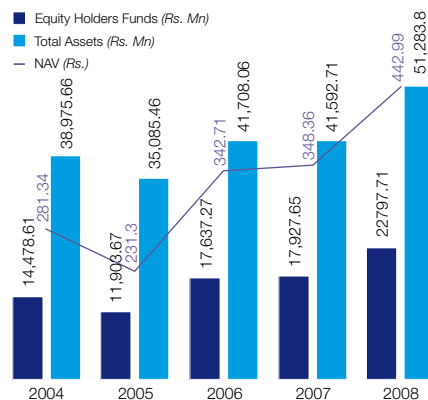
The Group's total assets stood at Rs 51,283.80 million as at 31 March 2008, up by 23.3% from a year ago. Similarly the shareholders' funds have improved by 27.38% solely due to the profit from the sale and leaseback of three A340 aircrafts which in turn resulted in the net asset value per share increasing to Rs 442.99, an increase of 27.16% from that of last year.

The Group's working capital increased to Rs 9,822.90 million from Rs 2,860.79 in the previous year. This increase was as a result of the investment held in fixed deposits as at the year end amounting to Rs 6,856.41.

### Working Capital & Net Worth - Group



### Group Equity Holders' Funds, Total Assets and Net Asset Value per Share (NAV)



## Financial Review

### Operational Performance

Capacity production increased marginally by 2.66% to reach 1,741.10 million available tonne kilometers, mainly due to an increase in overall frequencies by 4.12%, in comparison with the previous financial year. Increase in frequencies stemmed mainly from the following:

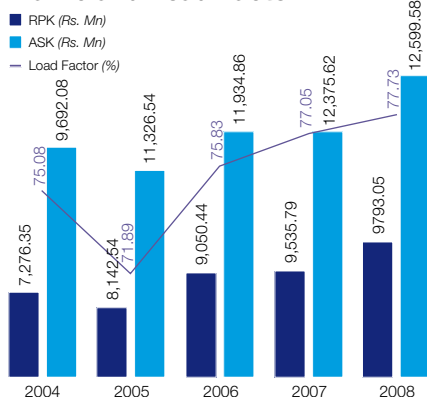
- Introduction of new passenger services to Coimbatore
- Rescheduling circle flights as direct flights to Kuala Lumpur, Bangkok and Singapore
- Increased capacity to Trichy and Bahrain

In terms of traffic, passenger carriage did not see a significant improvement in the year under review. Total number of passengers carried was 3.20 million as against the 3.18 million last year. On the other hand cargo carriage continued to show a steady growth with a 4.87% increase to reach 93,161 tonnes (2006/7: 88,833.00 tonnes).

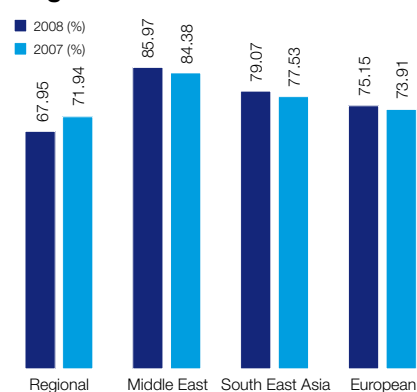
Overall load factor increased by 2.94 percentage points to reach 70.8%. This increase stemmed mainly from the increase in the cargo load factor which was 3.16 percentage points higher than last year's 58.44%. Conversely, passenger load factor increased only by 0.68 percentage points to 77.73% as against 77.05% last year.

Overall yield improved by 9.51% to Rs. 61.01 per tonne kilometer (2006/7: Rs. 55.71) mainly due to fare increases which were a resultant of higher fuel surcharges. A higher increase was seen in the unit cost which increased by 15.33% to Rs. 46.48 per capacity tonne kilometer (2006/7: Rs 40.30) mainly due to the escalating fuel prices during the year. This increase in unit cost resulted in the breakeven load factor rising from 72.34% to 76.18%.

### Available Seat Capacity, Passenger Traffic and Load Factor



### Passenger Load Factor By Route Region



A review of the Company's operating performance by route / region is as follows:

	Passenger Nos.			RPK's		
	2008 000's	2007 000's	Change %	2008 Rs. M.	2007 Rs. M.	Change %
Regional	1,316	1,320	(0.30)	1,124	1,084	3.69
Middle East	732	723	1.24	2,650	2,545	4.13
South East Asian	692	690	0.29	2,217	2,208	0.41
European	456	443	2.93	3,802	3,699	2.78
System-wide	3,196	3,176	0.63	9,793	9,536	2.70



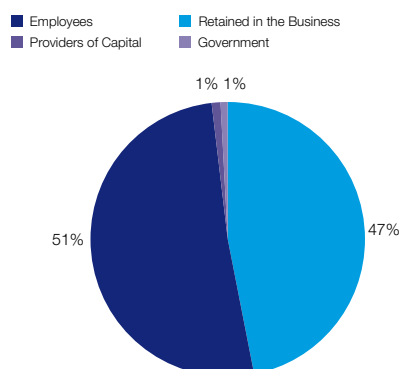
## Statement of Value Added

Value added	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
Total revenue	80,031.47	68,903.70	79,128.56	67,963.76
Less:Purchase of goods and services	53,777.18	53,423.33	54,329.53	53,614.21
Value added	26,254.29	15,480.37	24,799.03	14,349.55
Less: Deficit on sale of fixed assets	(5,633.88)	(14.43)	(5,633.88)	(3.43)
Investment income	503.25	318.36	501.60	315.72
Non operating revenue	112.89	16.57	112.89	16.57
<b>Total value added</b>	<b>21,236.55</b>	<b>15,800.87</b>	<b>19,779.64</b>	<b>14,678.41</b>
<b>Distribution of value added :</b>				
To employees -				
as remuneration	10,906.58	9,699.27	10,505.99	9,370.49
To Government -				
as corporation and other taxes	39.14	67.88	26.53	3.85
as franchise fees to Airport & Aviation	142.16	150.11	103.78	111.83
To suppliers of capital -				
as interest	206.55	219.38	41.96	111.55
<b>Retained for re-investment and future growth</b>				
Depreciation	5,042.46	4,802.05	4,673.15	4,512.65
Retained profits	4,899.66	862.18	4,428.23	568.04
<b>Total value added</b>	<b>21,236.55</b>	<b>15,800.87</b>	<b>19,779.64</b>	<b>14,678.41</b>

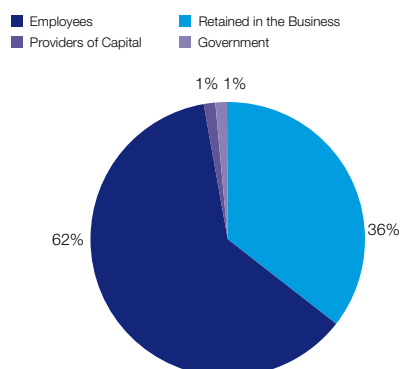
Value added is a measure of wealth created. This statement shows the value added and its distribution by way of payments to employees, government and to providers of capital. It also indicates the proportion retained for re-investment and future growth.

### Group Distribution of Value Added

2008



2007



## Risk Management

Risk Management is a structured approach to managing uncertainty, through a sequence of human activities including: risk assessment, development of strategies to manage it, and mitigation of risk using managerial resources.

The numerous measures that have been adopted to manage risks at SriLankan Airlines are disclosed below.

### **Operational Risk**

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events.

The implications are loss of revenue, disruptions to smooth functioning of operations, human errors, hindrance to expansion, damages to reputation, high cost of legal and penalty charges and the deterioration of the working environment.

The strategies adopted by SriLankan Airlines to mitigate risks arising due to operational risks are given in detail in the following paragraphs.

### **System Risk**

Information Technology (IT) systems are the back-bone of the operations of modern day businesses and the airline industry is no exception, especially due to the significance of e-Business within the industry. With e-ticketing becoming the only means of issuing tickets for air travel from May 2008 onwards, managing the risks associated with IT becomes even more significant. The recognition of IT risks with business impacts and the retention of IT human resources with business knowledge also play an important role in Information System risk management.

An external IT audit firm carried out a risk assessment on the security of selected IT application systems and identified critical areas in IT infrastructure during the year. The process involved review of internal physical security, internal policies, data centre procedures, e-Commerce applications with related data bases, the e-mail system and threats from external sources. Recommendations have been evaluated in association with the Internal Audit Department for implementation.

The IT Disaster Recovery Plan for internally hosted critical systems is to be initiated during next financial year. Review of IS security aspects covering business application process controls, network security and core operating systems architecture audit too are planned.

To address operational and business risks associated with the aging IT Infrastructure/Systems a policy on IT Asset Retirement will be established.

The Internal Audit Department also adopts various measures to ensure the adequacy and effectiveness of systems of internal controls prevailing in the Company. The Internal Audit plan, which is pre-approved by the Board of Directors covers both operational and non-operational areas of the airline. Audits are conducted as per the plan on a regular basis, and observations and recommendations for improvements are reported to the Board and the Senior Management Team, to take corrective action.



## Risk Management

### Human Risk

Retention of key staff has become a major concern due to migration overseas and local mobility.

Some of the risks associated with high staff turnover are loss of knowledge and experience, reduction in productivity and quality of output, and increase in human error.

Contingency plans are developed and updated regularly to ensure that key positions are always manned in order to maintain operations without any disruption.

The Company has also invested heavily on training and development programmes to provide continuous development, upgrade the knowledge base and sustain the motivational level of its employees.

### Safety Risk

All possible measures have been taken to ensure the safety of our customers as well as our employees.

The European Aviation Safety Agency (EASA), in recognition of our commitment to the highest standards of professionalism in aircraft maintenance, has awarded the prestigious industry standard EASA 145 to SriLankan Engineering.

SriLankan also won an award from Airbus Industrie, for operational excellence among small airlines that operate Airbus A-340 aircraft. This is the second such award won by SriLankan from Airbus Industrie. In 2004, Airbus Industrie presented the airline with the global Operational Excellence Award for Airbus-A330.

SriLankan Airlines was added to the Registry of the IATA Operational Safety Audit (IOSA) following a series of stringent audits by an IATA accredited audit organisation. IOSA is a key element in IATA's drive to provide benchmarking of safety and quality standards and procedures among airlines globally.

A comprehensive Emergency Response Plan is in place and all aspects relating to aircraft related emergency situations are covered with resources drawn from all relevant departments and is headed by members of the Senior Management Team. These plans are being constantly tested and updated with a view to responding to any aircraft related emergency situation that may arise in Sri Lanka or abroad.

### Country Risk

The prevailing security situation in the country and the resulting adverse publicity continues to have a negative impact on inbound traffic to Sri Lanka. In order to mitigate this risk, the Company has adopted a strategy of focussing on its network strength to promote Colombo as a gateway to India and the Maldives.

**Market Risk**

The Company continues to follow a product differentiation strategy to mitigate market risk.

A performance measurement system that monitors the profitability and the long term sustainability of the route network is in place that enables the Management to re-allocate aircraft resources in response to changes in the competitive environment.

**Compliance Risk**

International air transportation is subject to various rules and regulations governing safety, competition, consumer protection and environmental aspects. The Management closely monitors all new developments in the regulatory environment and appropriate action is initiated in a timely manner to ensure compliance. Risks associated with non-compliance of statutory returns are closely monitored through the "Compliance Dashboard", a tracking mechanism.

**Cost Overrun Risk**

Managing the risk of cost overrun is detrimental to the long-term sustainability of the Company. To reduce the downward pressure on the yields due to rise in costs of goods and services procured, cost containment has become an important function of the Company.

Monitoring mechanisms are in place to provide 'early warning signs' whereby actual performances on a functional level as well as on a cost-centre level are reviewed against budgets on a regular basis.

To manage procurement risk the Company has laid down specific guidelines to be followed by the procurement staff in order to gain efficiencies in procuring goods and services, and to ensure transparency and fairness in dealing with vendors,

All Contracts with vendors are subjected to prior review by the Legal, Finance and Insurance Divisions to minimise associated risks.

**Financial Risk**

A Company faces a multitude of risks which could affect its financial position. The operating environment of an airline often intensifies these risks, most of which are not exclusively within the control of the Company. These risks may cause actual performance to differ significantly from historical or projected future performance levels.

The Company adopts a holistic approach to financial risk management in order to quantify and mitigate these risks. Foreign exchange rates, interest rates and commodity prices (jet fuel) are the main measurable financial risks for the Company. The Company attempts to quantify the net exposure to each one of these risk factors and measure the overall integrated market risk.

The Company has accordingly developed a specific risk management approach in order to reduce overall risk on its financial position, taking into consideration economic and accounting aspects.



## Risk Management



### Fuel Price Risk

Exposure to increasing and highly volatile jet fuel prices has been identified as the key risk factor currently faced by the airline. The Company continued with its strategy of hedging a portion of its jet fuel requirements with a view to mitigating this risk.

The Company also launched an aggressive programme to implement the recommendations arising from a Fuel Efficiency Gap Analysis carried out with the assistance of the International Air Transport Association (IATA). This is expected to result in a significant reduction in jet fuel consumption in the coming months.

### Exchange Rate Risk

The Company is exposed to exchange rate fluctuation risk due to the mismatch and timing differences in revenue generating currency and the payment currency. This risk is mitigated by identifying the time frames of receivables and payments and matching them to the maximum possible extent creating a natural hedge. The net exposure of major currencies, after matching are closely monitored and appropriate measures are taken to minimize the risk. The measures adopted range from entering into forward exchange rate contracts to currency hedging transactions.

### Interest Rate Risk

Interest rate risk arises due to loans/aircraft leases and deposits being subject to interest rate fluctuations. This risk is closely monitored and appropriate measures are taken especially at the time of negotiating facilities depending on the total exposure and the duration of the facility.



## Corporate Governance

Corporate governance is the set of processes, policies and laws affecting the way a company is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the organisation is governed. The principal stakeholders are the shareholders, management and the board of directors. Other stakeholders include employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large.

The Code of Best Practice on Corporate Governance, issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) sets out the best practices that should be adopted to ensure good governance between an organisation and its stakeholders.

As a responsible and reputed Airline in the region, SriLankan Airlines has always believed in adopting good Corporate Governance practices and principles for accountability and transparency in all its activities.

The extent of compliance by the Company as at 31st March 2008 with the said principles and best practices are disclosed in the table below.

CORPORATE GOVERNANCE PRINCIPLE	LEVEL OF COMPLIANCE
<b>Board of Directors</b>	
Composition	The Board comprises members with diverse experience and extensive knowledge, within and outside the Airline Industry. The present Board of Directors consists of members representing the Government of Sri Lanka and the Investor respectively which include the Chairman, Managing Director and five other Directors. (Mr. Tim Clark ceased to be the Managing Director from 31 March 2008 and Mr. A N Wickramasinghe was appointed as the Executive Director with effect from 8 April 2008.)



## Corporate Governance

CORPORATE GOVERNANCE PRINCIPLE	LEVEL OF COMPLIANCE																																																																													
<p><b>Board of Directors Contd.</b></p> <p>Board Meetings and Attendance</p>	<table border="1"> <thead> <tr> <th>Name of Director</th> <th>Designation</th> <th>Date of Appointment</th> <th>Date of Resignation</th> <th>Nature of Appointment</th> <th>No of Meetings held</th> <th>Attendance %</th> </tr> </thead> <tbody> <tr> <td>Dr. P.B. Jayasundera</td> <td>Chairman</td> <td>28/03/2008</td> <td></td> <td>GOSL nominee</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>A.N. Wickramasinghe</td> <td>Executive Director</td> <td>20/01/2006</td> <td></td> <td>-DO-</td> <td>04</td> <td>100%</td> </tr> <tr> <td>Lalith De Silva</td> <td>Director</td> <td>18/03/2008</td> <td></td> <td>-DO-</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>Sunil G. Wijesinha</td> <td>Director</td> <td>28/03/2008</td> <td></td> <td>-DO-</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>D.H.S. Jayawardena</td> <td>Former Chairman</td> <td>20/01/2006</td> <td>17/03/2008</td> <td>-DO-</td> <td>04</td> <td>100%</td> </tr> <tr> <td>Sarath Ukwatte</td> <td>Former Director</td> <td>21/06/2004</td> <td>17/03/2008</td> <td>-DO-</td> <td>04</td> <td>100%</td> </tr> <tr> <td>R.A. Chandiram</td> <td>Former Director</td> <td>13/05/2005</td> <td>17/03/2008</td> <td>-DO-</td> <td>04</td> <td>100%</td> </tr> <tr> <td>Tim Clark</td> <td>Former Managing Director</td> <td>31/03/1998</td> <td></td> <td>Investor Nominee</td> <td>04</td> <td>100%</td> </tr> <tr> <td>Gary Chapman</td> <td>Director</td> <td>31/03/1998</td> <td></td> <td>-DO-</td> <td>04</td> <td>100%</td> </tr> <tr> <td>Nigel Hopkins</td> <td>Director</td> <td>01/06/2005</td> <td></td> <td>-DO-</td> <td>04</td> <td>100%</td> </tr> </tbody> </table>	Name of Director	Designation	Date of Appointment	Date of Resignation	Nature of Appointment	No of Meetings held	Attendance %	Dr. P.B. Jayasundera	Chairman	28/03/2008		GOSL nominee	Nil	Nil	A.N. Wickramasinghe	Executive Director	20/01/2006		-DO-	04	100%	Lalith De Silva	Director	18/03/2008		-DO-	Nil	Nil	Sunil G. Wijesinha	Director	28/03/2008		-DO-	Nil	Nil	D.H.S. Jayawardena	Former Chairman	20/01/2006	17/03/2008	-DO-	04	100%	Sarath Ukwatte	Former Director	21/06/2004	17/03/2008	-DO-	04	100%	R.A. Chandiram	Former Director	13/05/2005	17/03/2008	-DO-	04	100%	Tim Clark	Former Managing Director	31/03/1998		Investor Nominee	04	100%	Gary Chapman	Director	31/03/1998		-DO-	04	100%	Nigel Hopkins	Director	01/06/2005		-DO-	04	100%
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Frequency of Meetings	The Board meets once every quarter. Additional meetings are convened when deemed necessary.																																																																													
Responsibilities of the Board	<p>The Board meetings are conducted based on a formal agenda, covering the main responsibilities of the Directors as follows :</p> <ul style="list-style-type: none"> <li>• Providing strategic direction and implementing and monitoring business strategies of the Company and its Subsidiary.</li> <li>• Reviewing and approving Annual Budgets, Financial Plans and monitoring performance, by reviewing Monthly Financial and Management Reports.</li> <li>• Adoption of Annual Consolidated Accounts of the Group and the Company.</li> <li>• Evaluating the external environment and assessment of business &amp; financial risks that could impact the performance of the Company and take action to mitigate such risks.</li> </ul>																																																																													

CORPORATE GOVERNANCE PRINCIPLE	LEVEL OF COMPLIANCE
<b>Board of Directors Contd.</b>	
Responsibilities of the Board Contd.	<ul style="list-style-type: none"> <li>● Reviewing and deciding on new business opportunities and investment proposals.</li> <li>● Ensuring compliance with all Laws &amp; Regulations relevant to the business.</li> </ul>
Chairman and CEO	<p>During the subsistence of the Shareholders' Agreement, the Chairman is nominated and appointed by the Government of Sri Lanka. The functions of the Chairman and CEO are clearly separated. The Chairman is a Non-Executive Director. The CEO is a representative of the Investor. The CEO is not a member of the Board and is responsible for day to day functions of the Company. This ensures balance of power and authority in strategic and operational decisions within the Company.</p>
Role of Chairman	<p>The Chairman is responsible for conducting the Board proceedings in a proper manner. He together with the Company Secretary sets the agenda for the Board meeting and ensures that the Board is in complete control of the Company's affairs.</p> <p>The Chairman conducts Board meetings in a manner which ensures that there is effective participation from all Directors, their individual contribution and concerns are objectively assessed.</p>
Obtaining independent professional advice	<p>The Board members are permitted to obtain independent professional advice whenever deemed necessary.</p>
Company Secretary	<p>The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed. All Directors have access to the Company Secretary. The Secretary minutes all Board decisions, liaise with the Directors on all matters relating to the Board and possess the required qualifications as set out in the Companies Act No 07 of 2007.</p>



## Corporate Governance

CORPORATE GOVERNANCE PRINCIPLE	LEVEL OF COMPLIANCE
<b>Board of Directors Contd.</b>	
Independent Judgement	The non-executive directors do not have any business interest that could materially interfere with the exercise of their independent judgement. Board members are required to disclose all transactions with the Company.
Dedication of adequate time and effort to matters of the Board and the Company	The Board members dedicate adequate time for the affairs of the Company by attending Board meetings and strategic review meetings.
Training for Directors	Adequate knowledge sharing opportunities are provided to the new and existing members of the Board on Company and industry related matters.
Financial Acumen	All Board members have the ability to make good judgement and take decisions in keeping with their wide experience and sound knowledge in finance related matters.
Board Balance	All the Directors except one director hold office in non-executive capacity and thereby are independent of management.
Supply of Information	The Directors have separate and independent access to the Company Secretary. The Directors are provided with Board papers well in advance before each meeting, to enable them to be properly informed of matters to be discussed and approved. The Directors also have separate and independent access to the Senior Management Team at all times.
Appointments to the Board	During the subsistence of the Shareholder Agreement the appointment of the new directors is decided by the Government and the Investor respectively. The professional qualification, business experience and personal qualities are also taken into consideration when appointing new directors.

CORPORATE GOVERNANCE PRINCIPLE	LEVEL OF COMPLIANCE
<b>Board of Directors Contd.</b>	
Disclosure of details of new Directors to Shareholders	The details of Directors are disclosed to the Shareholders at the time of their appointment and annually via the Annual Report.
Re-election of Directors at regular intervals	Re-election of Directors is in accordance with the Articles of Association. The provision of retirement by rotation does not apply to the Directors of the Company.
Directors' remuneration	All Directors, Executive and Non-Executive did not avail themselves of any remuneration for their services. However, all Directors and their families were entitled to travel on business class to any of the Company's destinations.
<b>Relations with Shareholders</b>	
Constructive use of Annual General Meetings (AGM)	<p>The Board of Directors of the Company encourages its shareholders to attend, actively participate and exercise their rights at the AGM. Resolutions brought before the shareholders at the AGM are voted on by the Shareholders.</p> <p>The AGM provides an opportunity for shareholders to seek and obtain clarifications and information on the performance of the Company and to informally meet the Directors after the AGM.</p>
Circulation of notice of the AGM	As required by the Companies Act No. 7 of 2007 and the Articles of Association of the Company, the Company Secretary circulates the notice of the AGM and related documents, to the shareholders 15 working days prior to the AGM.
Disclosure of major transactions	All material information relating to "major transactions" and commitments proposed to be entered by the Company are disclosed in the Financial Statements as Related Party Transactions of the Company in accordance with Sri Lanka Accounting Standards.



## Corporate Governance

CORPORATE GOVERNANCE PRINCIPLE	LEVEL OF COMPLIANCE
<b>Accountability and Audit</b>	
Financial Reporting	The Chief Financial Officer is responsible for all Financial Reporting of the Company, including monitoring all new financial accounting and reporting standards and assessing their impact on SriLankan Airlines. The Company is committed to adhering to Sri Lanka Accounting Standards in presenting the financial position of the Company and ensures adequate disclosures are made in the Annual Report giving a true and fair view of the Company's financial and operational performances. The Financial Statement of the Company and Group is audited by the external auditors who express an 'Independent Opinion' on the Financial Statements. The Company also obtains tax advisory and other consultancy services from independent external parties.
Statutory & Regulatory reporting	The Board of Directors confirms that the financial statements of the Company and its Subsidiary that are incorporated in this report have been prepared in a meaningful manner and in accordance with the Sri Lanka Accounting Standards and the Companies Act No.7 of 2007. The Company has duly complied with all the requirements of the regulatory authorities, both locally and overseas. The consolidated financial statements of the Group and the financial statements of the Company were audited by Ernst and Young and that of the Subsidiary by KPMG Ford Rhodes Thornton & Co., two leading firms of Chartered Accountants.
Directors' Report	The Report of the Directors is given on pages 118 to 121 of the Annual Report.
Statement of Directors' Responsibility for preparation of financial statements	The Statement of Directors' Responsibility for preparation of Financial Statements is given on page 122.
Inclusion of management report in the Annual Report	The Management Discussion & Analysis Report is given on pages 36 to 65 of the Annual Report

CORPORATE GOVERNANCE PRINCIPLE	LEVEL OF COMPLIANCE
<b>Accountability and Audit Contd.</b>	
Declaration by the Board that the business is a going concern	The going concern basis has been adopted in preparation of the Company's Financial Statements. The Directors confirm that they are satisfied that the Company has sufficient resources to continue its operations in the foreseeable future. This is confirmed in the Directors Report on pages 118 to 121.
<b>Internal Controls</b>	
Maintaining a sound system of Internal Controls	<p>The Board of Directors and Management are responsible for the maintenance of the Company's Systems of Internal Controls to safeguard shareholder investment and the assets of the Company.</p> <p>The Board ensures effectiveness of controls prevailing in the Company and provides reasonable assurance on safeguarding the assets against unauthorised use or disposal and maintenance of proper and reliable records of information. It includes all controls such as financial, operational, compliance and risk management.</p> <p>The Board and Management also take into account the significant social, environmental and ethical aspects that relate to Company's business and work practices. The Company's Risk Management Policy is covered under pages 75 to 78 and the Sustainability is addressed on pages 90 to 106.</p> <p>The Management has put in place an organisational structure with formally defined lines of reporting and appropriate limits of authority for different processes. There are also established procedures for planning an investment, and information and reporting systems to monitor the Company's businesses.</p>



## Corporate Governance

CORPORATE GOVERNANCE PRINCIPLE	LEVEL OF COMPLIANCE
<b>Internal Controls Contd.</b>	
Management Information Systems	A comprehensive Management Information System is in place providing financial and operational performance measurement indicators to the Management. Financial Review Reports are submitted monthly to the members of the Board and Senior Management Team, which includes detailed management accounts, performance of each route by fleet type and explanations for the variances with the budget, for decision making.
Periodic review and reporting to shareholders on the effectiveness of the Internal Control Systems	<p>The Company maintains an independent Internal Audit Department and during the subsistence of the Shareholder Agreement the Internal Auditor reports directly to the Chief Executive Officer.</p> <p>Adequacy &amp; effectiveness of business controls of the Company are reviewed on an on going basis both locally &amp; overseas. The Group Internal Auditor has access to Management and the necessary authority to seek information and explanation.</p> <p>The key findings of the Internal Audit Department are reported to the Board of Directors via the CEO. The shareholders have access to the Chairman anytime concerning Company matters.</p>
<b>Audit Committee and the Auditors</b>	
Availability of an Audit Committee	To ensure greater transparency and good governance an Audit Committee, comprising one executive director, one non-executive director, the Group Internal Auditor and one independent observer, was set up subsequent to the year under review. The audit committee has been given a specific Terms of Reference (TOR) and empowered by the Board to investigate any matters within the TOR.



CORPORATE GOVERNANCE PRINCIPLE	LEVEL OF COMPLIANCE
<b>Audit Committee and the Auditors Contd.</b>	
External Auditors	<p>The external auditors are primarily responsible for auditing the Financial Statements of the Company &amp; reporting there on. The remuneration of the external auditors is approved by the Board of Directors on the recommendation of Chief Financial Officer. External auditor's Management Letter, which identifies weaknesses in Controls and Management's response there to; is discussed by the Board Members with the auditors annually, on completion of the audit. The total remuneration paid to the external auditors amounted to Rs.4.8 million for audit, tax advisory and other services.</p>
<b>Areas of Relevance / Stakeholders</b>	
Senior Management Team	<p>The Senior Management Team comprises the Chief Executive Officer, Chief Financial Officer, Head of Information Technology, Head of Commercial, Head of Cargo, Head of Human Resources, Head of Service Delivery, Head of Corporate Affairs, Head of Engineering, Head of Flight Operations and Company Secretary, who acts as the Secretary.</p> <p>The Chief Executive Officer is responsible for the Company's overall performance; the Chiefs/Heads of Divisions are responsible for the operations of respective Divisions of the Company.</p> <p>The Senior Management Team has been set up to facilitate the two-tier governance structure. The Senior Management Team exercises its authority within the policy and ethical framework established by the Board and the business practices inherent to the Company, which demand the best practices in dealing with customers, employees, suppliers and the community at large. The Senior Management Team is headed by the Chief Executive Officer and meets bi-weekly to discuss the important operational/ day to day business issues of the Company as well as to execute directives /policies issued by the Board.</p>



## Corporate Governance

CORPORATE GOVERNANCE PRINCIPLE	LEVEL OF COMPLIANCE
<b>Areas of Relevance / Stakeholders Contd.</b>	
Compliance of Statutory Obligations	<p>The Company is committed to comply with the domestic and international rules and regulations governing the operations of the Business. This includes abiding by the rules and regulations established by The International Air Transportation Association (IATA), Civil Aviation Authority of Sri Lanka and various other agencies which have a bearing on the operations of the Airline.</p> <p>Further, various divisions of the Company have been working towards certifications in their respective fields - SriLankan Engineering on European Aviation Safety Agency (EASA) and Flight Operations on International Standards Organisation (ISO). In addition to this, to enhance the document flow and handling, "5S" procedures have been introduced in most of the departments within the Company.</p>
Relationship with Institutions and Regulatory Bodies	A meaningful relationship is maintained with Institutions, Board of Investment, Department of Inland Revenue, Ministry of Finance and Planning, Ministry of Ports and Aviation and Registrar of Companies.
Environment	The Company has taken every step necessary to have the minimum impact to the environment. Noise levels of the entire fleet continue to be well within the limits stipulated by the International Civil Aviation Organisation (ICAO) which also enables flying into airfields where noise limitations are in effect. Waste management measures are in place such as recycling of waste paper; maximum reuse of packing materials; use of tetra packs on flights instead of cans and plastic bottles. The Company also has a water treatment plant which is a model of safeguarding the environment, providing modern treatment methods to remove effluents from waste water before it is released.

CORPORATE GOVERNANCE PRINCIPLE	LEVEL OF COMPLIANCE
<b>Areas of Relevance / Stakeholders Contd.</b>	
Remuneration Policy	<p>The Group's remuneration policy is designed to attract, retain and motivate staff to optimise individual objectives and thereby improve the Group's overall performance. Remuneration rewards and promotions of staff based overseas are reviewed and approved by the Board on the recommendations of the Management.</p> <p>The remuneration reward and promotion scheme of the Company is structured on the annual performance appraisal linked to Key Result Areas (KRA) and Key Performance Indicators (KPI) which is monitored throughout the year. These KRA are formulated for each individual annually, based on the Company's set objectives for the year.</p>
Recruitment Policy	<p>With the objective of controlling recruitment costs staff requirements are forwarded through the Human Resources Division to the Senior Management Team (SMT) for evaluation. On the recommendations of the SMT, the requested position is filled by an internal promotion or an external appointment.</p>

## Sustainability Report

SriLankan Airlines is constantly aware of the important role it occupies in society as the National Carrier of Sri Lanka. Our aim is to play a leadership role in Corporate Social Responsibility (CSR) in the aviation industry in Asia.

As the country's national airline, SriLankan is constantly taking on activities with high visibility, and the Airline is ever-mindful of the need to be a positive role model for the corporate sector, community, and country at large.

Apart from being a reputed corporate player that is constantly in the public eye, SriLankan is also in a unique position to provide a leadership role to the public sector, as its majority ownership remains with the Government of Sri Lanka.

### **An Award-Winning CSR Programme**

SriLankan's commitment to protect the interests of all its stakeholders, and to assist in their individual success, has resulted in a comprehensive CSR programme that has won National level awards. These include:

- Gold Award at the Human Resource Management Awards 2007 "Super Ten" from the Association of HR Professionals
- Silver Award for Corporate Social Responsibility at the Community Leadership Awards 2006 from the Chartered Institute of Management Accountants (CIMA)
- Runner-Up at the National Human Resource Management Awards 2004 from the Association of HR Professionals
- Runner-Up at the National Human Resource Management Awards 2002 from the Association of HR Professionals

These accolades are in addition to the nearly one hundred other awards that the Airline has won since the dawn of the New Millennium, for service excellence in its core business areas of Passenger Service, Cargo, Catering, Airport Service, and Aircraft Engineering, as well as in related areas such as Inflight Entertainment, Advertising, Marketing, Frequent Flyer Programme and Airline Security, among others.

### **Structure of CSR Activities**

SriLankan Airlines has planned out and adopted a multi-faceted approach to CSR that encompasses, but is not limited to, the following areas:



Engineering staff with the prestigious EASA 147 certification

- Safety and quality
- Service to the community
- Career development and welfare of employees
- Protecting the environment
- Promoting and supporting the country
- Protecting the interests of customers
- Supporting the Government of Sri Lanka
- Promoting the business standards of suppliers and partners
- Fostering a vibrant civil society

#### **Internal and External Controls to Protect the Interests of All Stakeholders**

The Airline's partial privatisation has ensured that it effectively falls under the scrutiny of all private sector practices and procedures in every aspect of its business operations. This includes comprehensive internal and external audits carried out to national and international standards.

In addition, it continues to utilise a number of key state sector procedures and practices, including accountability to Government authorities such as:

- Minister of Ports & Aviation
- Director General of Civil Aviation
- Board of Directors, of whom a majority are appointed by His Excellency the President and the Minister of Ports & Aviation.

The Company's Board of Directors play a key role in this respect, with four Members being appointed by the Government of Sri Lanka, and three by Emirates Airline.

The presence of hundreds of employees who own shares in the Company, gifted to them by the Government during the restructuring of the Airline in 1998, provides yet another continuous internal control by individuals with wide knowledge of aviation related matters.

The Airline's core business operations are closely scrutinised at all times by the Civil Aviation Authority of Sri Lanka (CAA) which carries out regular audits and the Ministry of Civil Aviation.

In addition, there is regular scrutiny of individual aspects of the Airline's various diverse operations by related authorities and business partners. These include international authorities such as:





Orators club at a 'Motivation' workshop with students

- International Air Transport Association (IATA)
- International Civil Aviation Organisation (ICAO)
- International Standards Organisation (ISO)
- European Aviation Safety Agency (EASA)

More details on the Company's control systems and structures can be found in the Corporate Governance and Risk Management sections of this Annual Report.

#### **Audits by International Certification Bodies**

During the year under review, SriLankan Airlines and its subsidiary SriLankan Catering received several accreditations and certifications of the highest international standard. These include:

- SriLankan Airlines was awarded IATA Operational Safety Audit (IOSA) safety and quality certification from the International Air Transport Association
- SriLankan Engineering received EASA 145 certification from the European Aviation Safety Agency
- SriLankan Technical Training received EASA 147 certification from the European Aviation Safety Agency
- SriLankan Catering received HACCP-Codex Alimentarius accreditation
- SriLankan Catering was awarded ISO22000:2005 standard

In addition, the Airline already possesses the following accreditations:

- First airline in Asia to be awarded the coveted Imperial Mark
- The Flight Operations Department obtained ISO 9000:2001 certification
- SriLankan Catering already possesses the ISO9001:2000 certification
- SriLankan Cargo's Cargo Centre at BIA has received Merit Awards for its Taiki Akimoto 5S programme

The Airline's many diversified business operations are also constantly undergoing audits and inspections by institutional customers and business partners. For example, its Airport Service procedures and facilities are constantly monitored by representatives of customer airlines that it serves at Bandaranaike International Airport.

The National Carrier also undergoes periodic audits by expert groups in the international air transport industry such as Skytrax, which has presented SriLankan with numerous global awards.



Cabin staff providing lunch for all janitorial staff in appreciation of their services

## Internal Safeguards for Safety & Quality

### Policies & Practices

SriLankan Airlines has an enviable record in safety over its nearly three decades in existence, and its commitment to quality service has won accolades from many quarters including our customers around the globe. Recognising that safety is the supreme factor in the global civil aviation industry, the Company has a zero-tolerance on safety issues.

The Airline introduced a comprehensive Safety Policy during the previous financial year, which was further strengthened during the year under review. It is a measure of the success of this culture of safety that the number of safety-related incidents has continuously declined in recent years.

In order to maintain its high standards and successfully pass the stringent audits of such global authorities, SriLankan Airlines has a large number of specialised departments and committees to ensure that all Best Practices are in place. Regular audits identify areas for improvement, and action plans are drawn up for improvement.

These departments and sections include:

- Cabin Safety
- Emergency Response
- Ground Safety
- Quality Assurance (SriLankan Engineering)
- Customer Affairs
- Anti-Harassment Committee
- Quality Circles in each Division of the Company, consisting of employees of all grades

The above units are in addition to more regular structures such as:

- Human Resources Division
- Legal Affairs
- Security & Investigations
- Hygiene & Quality Assurance (SriLankan Catering)

### Emergency Response Plan

SriLankan Airlines has a comprehensive Emergency Response Plan (ERP) that is of international standard. The Company's Emergency Response section is constantly upgrading and improving the plan, training its various emergency teams, compiling manuals on practices to be followed during





SriLankan Airlines Pro Six Star World Qualifying Series in Maldives

different types of emergencies, and organising real-time exercises to test the Company's readiness. The ERP has been successfully executed on several occasions during emergencies at BIA, with comprehensive evaluations of each performance afterwards, lessons learned and improvements made.

During the year under review, the Emergency Response Plan was extended with a view to cover the Airline's global network of 41 destinations in 22 countries. Individual plans were also drawn up for each country, following discussions by SriLankan personnel with relevant emergency response authorities in each country to familiarise themselves with whatever plans each country has, and deciding on the role that SriLankan can play in an emergency. This differs from country to country. First to be covered was the entire Middle Eastern region followed by those in the Far East.

Another dimension that was added to the ERP was comprehensive Building Evacuation Plans that were drawn up and tested for all buildings occupied by SriLankan personnel, including those at BIA and Colombo. These focused both on assisting customers to leave the building, and the evacuation of employees.

### **Ramp Safety Campaign**

November once again saw the annual Air Side Safety Campaign being carried out to promote Best Practices and enhance safety awareness among those who work on the air side areas of BIA.

Popularly known as the Ramp Safety Campaign, it involved a month-long series of activities among the hundreds of staff primarily in the Airport Service Support Department. They included all drivers and operators of the wide range of vehicles and equipment that the Airline operates at BIA, where it is the sole ground handler.

Special training programmes were conducted by the Ground Safety section, which also has a comprehensive programme running throughout the year that covers staff of Cargo, Engineering, Flight Dispatch, Baggage Handling, Security, and many other departments related to the air side. Posters on safety were also displayed throughout the Airline's premises, and awards presented to drivers whose safety records during the year were exemplary.





SriLankan Airlines sponsored the 8th Colombo Marathon 2007 jointly with other suppliers

### Flight Data Monitoring System

The Company continued its Flight Data Monitoring Programme to track and enhance safety awareness among pilots. This system identifies potential weak areas for each individual pilot, especially during the key times of landing and takeoff, and provides recommendations for improvement.

### Security

SriLankan possesses award-winning standards in aviation security, with its own highly trained security personnel and state-of-the-art equipment and systems. These encompass its fleet of aircraft, operations at BIA, and installations in various parts of the country such as Katunayake, Colombo, Kandy and Galle.

The Airline has won several awards in this area, including the Merit Award as one of Three Best Aviation Security Organisations in the Asia Pacific Region at Asia Pacific Aviation Security Conference in 2000.

### Safety Programme for Catering Staff

A five-day Safety Awareness programme was carried out for more than 120 staff of SriLankan Catering at the new flight kitchen.

The programme focused on safety at the flight kitchen, based on IATA recommendations and guidelines on Airside Safety extended to general safety in work areas within the flight kitchen.

Every possible topic was covered in detail including promoting the Company's safety culture, management of airside safety, airside driving, effects of alcohol consumption, first aid, fire fighting, accident prevention strategies, the direct and indirect cost of accidents, importance of reporting, use of personal protective equipment and hazards on the airport apron.

The programme was followed by a safety audit two months later which evaluated the progress and made further recommendations on possible improvements to safety in the flight kitchen.

### Emergency Ditching Drills at Katunayake for Cabin Staff

During the year under review, the Civil Aviation Authority of Sri Lanka granted approval for the conducting of Emergency Ditching Drills at SriLankan's Water Rescue Training Unit in Katunayake.





Emergency Ditching Drills training for cabin staff

The Airline invested in the procurement of a special Training Raft, designed for the training of Airbus aircraft crew, which was set up permanently at the Airline's swimming pool. It is used for recurrent training of the Airline's more than 1,000 cabin staff and technical crew (pilots).

The ditching drills include all aspects such as putting on lifejackets, entering the water, rescuing drowning passengers, entering the life raft, methods of survival until rescue, and use of emergency equipment such as flares, heliographs (a stainless steel mirror used to flash the sun's rays at rescue aircraft) and emergency locator transmitters.

#### **Guardian Newsletter on Flight Safety**

The Company publishes a specialised newsletter on Flight Safety on a quarterly basis. This newsletter provides information on the latest trends in flight safety. It also disseminates information of recent accidents and incidents in the global aviation industry and the lessons to be learned from them. It is distributed among the Airline's technical crew (pilots and first officers), as well as key related personnel such as cabin staff.

#### **Employees**

A comprehensive review of the Company's HR practices can be found in the Human Resources section of this Annual Report.

#### **Environment**

##### **Policies & Practices**

SriLankan Airlines has a firm commitment to safeguarding the environment and has appointed special committees to oversee different areas of focus.

In this regard, the National Carrier shares the modernistic views of IATA, which is pressing firmly for reforms in airline operations around the world to reduce fuel consumption, engine noise and other pollutants.

The Airline works closely with environmental authorities such as the Central Environmental Authority, to ensure that its operations are well within stipulated guidelines. This was particularly evident in the operations of the Airline's domestic service, which has been temporarily suspended due to national security concerns, by which noise levels were tested and found to be well below requirements. The aircraft were also deliberately flown on flight paths which avoided areas earmarked for conservation such as National Parks.



Singer SriLankan Rugby Sevens

During the year under review, significant progress was made in the following areas:

- Noise reduction measures for aircraft engines
- Reducing fuel consumption of aircraft through continuous shortening of routes
- Enhancing efficiency of waste treatment plants
- Energy efficiency in buildings through capacitor banks

#### **Fuel Efficiency Gap Analysis**

During the year under review, SriLankan Airlines invited a team of fuel efficiency specialists from IATA to Sri Lanka, who conducted an in-depth study of the Airline's fuel usage and recommended detailed measures on how to reduce fuel burn.

Their report has now been adopted by the Senior Management Team and a special committee has been appointed to implement the proposals and enhance them wherever possible.

The study covered key operational areas across the Airline which included Flight Operations, Flight Dispatch and Aircraft Maintenance to name a few.

The Airline has reorganised the Flight Operations Performance section, in order to better quantify fuel savings and will continue to seek the professional assistance of IATA with regard to reducing fuel consumption.

A target of 3% has been set for reduction in fuel usage for the coming year, following which the maximum target of 5% recommended by IATA is to be achieved shortly afterwards.

#### **Restricting Noise Levels**

SriLankan Airlines continues to operate every aircraft in its fleet well within the levels stipulated by the International Civil Aviation Organisation (ICAO). Noise levels have become a key issue in the airline industry, as excessive noise tends to disturb both human habitats and fauna around the world.

SriLankan Engineering continues to closely monitor the noise levels of each of the Airline's aircraft engines. Stipulated periodic maintenance is carried out to the letter, to ensure both noise levels and maximum fuel efficiency.

In addition, the Airline observes laws and regulations of countries it flies to with regard to noise levels, including restrictions on operating hours to designated urban areas.





SriLankan Cargo supports a Buddhist Meditation Centre at Udupia

### **Waste Treatment & Recycling**

SriLankan Airlines maintains state of the art waste treatment plants at its main base in Katunayake, which ensures the safety of the environment, its own employees, and the community.

These include waste water treatment, and proper disposal of all types of polluting agents among materials used in conjunction with aircraft operations.

The Airline continuously encourages its staff to utilise waste materials in the area of innovations, and several employees have received recognition and rewards for using such materials to manufacture tools, vehicles and equipment that are now widely used in the Company.

### **Energy Efficiency**

The Company has focused on enhancing energy efficiency in all buildings used by the Company, as it has identified this area as being one in which it must continue to seek significant reductions, both due to the cost factor and due to environmental concern.

The Company's Properties & Facilities Department has appointed a special team to continuously monitor and enhance this area of operations, and has actually taken over several operations from external service providers in order to improve levels of energy efficiency. These include the use of capacitor banks for electricity and increasing the use of UPSs for the Company's numerous computer hardware systems.

The Company's Equipment & Transport Department is also in the forefront of fuel efficiency, with regard to the more than hundred vehicles that the Company runs. Repairs and maintenance are carried out in-house on a continuous basis.

In addition, the Company ensures that all of its transport service providers such as those which provide bus transport facilities for all staff on a daily basis, and individual transport for pilots and cabin staff, provide modern vehicles with high levels of fuel efficiency and low emissions.

### **Establishment of SriLankan Airlines Environmental Policy and Environment Team**

#### *Relationship Between the Aviation Industry and the Environment*

The International Air Transport Association (IATA) has made a detailed proposal to introduce more efficient environment control measures with proper implementing and monitoring, after extensive



Opening ceremony of the fourth Sri Lanka festival in Japan

discussions with the International Civil Aviation Organisation (ICAO) and Inter Governmental Panel on Climate Change (IGPCC). IATA's proposal has already achieved broad consensus among member airlines, aircraft manufacturers and policy making authorities.

SriLankan Airlines is currently participating in a survey on current environment management practices in airlines by ICAO's Committee on Aviation Environmental Protection (CAEP), which is developing Environmental Management Systems (EMS) for the aviation industry.

#### **SriLankan Airlines Environmental Policy**

SriLankan Airlines is formulating its own unique Environmental Policy which will govern all aspects of its global operations to ensure the adoption of Best Practices with regard to the environment and demonstrate its commitment towards current global concerns in this area.

#### **Suppliers & Partners**

SriLankan Airlines has earned the resounding appreciation of its huge network of suppliers and partners, which comprises hundreds of organisations in Sri Lanka and around the globe. The National Carrier has won the following international awards from its suppliers and partners:

- Foreign Carrier of the Year for South Asia at the Kuala Lumpur International Airport Awards for the second successive year in 2007
- Foreign Carrier of the Year for South Asia at the inaugural Kuala Lumpur International Airport Awards in 2006
- Airbus Industrie award for World's Best Operator (Small Fleet) of A340 Aircraft in 2006/07
- Changi Airline Award as one of top five airlines in Singapore in 2005
- Galileo Indian Express Award for Best Eastbound International Airline in India for 2004-05
- Airbus Industrie award for World's Best Operator (Small Fleet) of A330 Aircraft in 2002/03

#### **Policies & Practices**

SriLankan Airlines and its subsidiary SriLankan Catering encourage and support their suppliers to adopt Best Practices throughout their entire production processes – from supply chain to the end product.

The Company's one-vendor concept ensures a continuous stream of business to each supplier, contributing to their financial success, and builds strong relationships over the long-term.





SriLankan booth at the Beijing International Travel Exhibition (BITE) in China

At the same time, the Airline's commitment to the highest quality in products and services, coupled with its stringent tender procedures ensure that suppliers themselves must adopt operational and production processes of the highest standards. The Airline and its subsidiary have a programme of inspecting the facilities of suppliers in order to ensure conformity and to also provide assistance and advice where possible.

#### **Contributing to the Success of Local Suppliers**

The Airline has a policy of procuring products and services from local suppliers, subject to these being provided to the quality, quantity, competitive price and time of delivery required by the Company. This policy has ensured significant support for many of Sri Lanka's industries which include fish, fruits, vegetables, spices, meats, handicrafts and janitorial services to name a few.

#### **Vibrant Activities with Business Partners**

SriLankan Airlines provides the fullest support to a wide range of local and international business partners to further their ventures.

During the year under review, the Airline provided discounted air tickets and cargo carriage for hundreds of members of the staff of Sri Lanka's hospitality industries. These included support of such persons for numerous industry fairs in several continents, especially members of the Travel Agents Association of Sri Lanka (TAASL), Tourist Hotels Association of Sri Lanka (THASL), and Sri Lanka Association of Inbound Tour Operators (SLAITO).

The Airline also organises numerous events which serve to strengthen relationships among business partners. During the year under review, SriLankan took the lead in organising many events including the following:

- Cargo Cricket Tournament for all cargo airlines in Sri Lanka
- SriLankan Cargo Golf Tournament
- Dinner in Colombo for partners at BIA, including Sri Lanka Air Force, Department of Immigration & Emigration, Airport & Aviation Services (Sri Lanka) and the Customs Department

The Airline also has a programme to recognise and reward its best agents overseas and in Sri Lanka – General Sales Agents, Passenger Sales Agents, and Cargo Sales Agents. Award ceremonies were held in several regions for the best agents.



Winners of the 'Diriya Daruwo' workshop, the child empowerment project

## Customers

### Policies & Practices

The new Business Turnaround Plan of SriLankan Airlines now in effect, pays particular emphasis on enhancing the Company's levels of customer satisfaction.

This is in addition to SriLankan's enviable reputation throughout the global air transport industry of being an airline of choice among international travellers.

### Customer Affairs

The Airline maintains a close rapport with its customers on a long-term basis. Particular emphasis is placed on service recovery efforts in the case of customers whose levels of expectations have not been met during a flight.

It is a measure of the Airline's success in providing excellent service that it continues to receive more written compliments than complaints throughout the year. This is no small achievement when one considers that disappointed customers are far more likely to write in than delighted ones.

### Accolades

Perhaps the accolades that bear strongest witness to SriLankan Airlines' unwavering commitment to its stakeholders, are polls of customers and other travel related customers in far-flung regions of the world, who continue to affirm the Airline's excellence in products and services. These polls include:

- A survey of 10,000 readers of UK's Daily Telegraph placed SriLankan first runner-up among Asia's finest airlines – 2007
- Online poll by Reise & Preise magazine ranked SriLankan 5th globally - 2006
- Rated Best Airline into South Asia by readers of Travel Trade Gazette - 2004
- Readers of Reise & Preise (Travel & Price) magazine in Germany rated SriLankan 5th among global airlines
- Rated Best Airline into South Asia by readers of Travel Trade Gazette – 2002
- Rated Best Airline into South Asia in a poll of UK travel agents by Selling Long Haul Magazine – 2002
- Rated World's Best Airline in a poll of customers by the Scandinavian Leisure Group – 2001





Award ceremony of the SriLankan Golf Classic

### Enhanced Facilities for Passengers

During the year under review, the Airline continued to introduce enhanced facilities for the greater convenience of its customers. These included:

- On-Line Check-In facility which eliminates queues at Check-In counters
- New opportunities for Sri Lankans to travel overseas for leisure at value for money prices from SriLankan Holidays

Apart from passengers, the Airline also serves many institutional customers through its diverse operations in ground handling, catering, aircraft engineering, and air cargo. These customers include:

- Other airlines who use BIA
- Airport & Aviation Services (Sri Lanka) Ltd.
- Sri Lanka Air Force
- Department of Immigration & Emigration
- Customs Department
- Cargo customers and freight forwarders
- Sri Lanka Postal Service
- State and private sector exporters and importers of all types who use air cargo

### Closely Supporting the Government of Sri Lanka Policies & Practices

It is the policy of SriLankan Airlines to fully support the Government of Sri Lanka in all its efforts to develop the country. These include working in partnership with all Government Ministries, Departments, Authorities and Corporations whenever support is requested.

The National Carrier also provides logistical and other support services for national events and also participated in Government initiatives such as the "Deyata Kirula" exhibition during the year under review.

SriLankan Airlines facilitates the travel of officials of the Government for overseas activities. The National Carrier also provides incentives for government employees and their immediate families for overseas visits to promote leisure travel among the Sri Lankan public.





SriLankan honours top Travel and Cargo Agents in Pakistan

The Airline continues to support the Government's expansion of facilities at BIA, where SriLankan has invest in new vehicles, equipment and new counters, to enhance its own ground handling capabilities and level of customer convenience, in line with BIA's image as the finest airport in South Asia.

During the year under review, SriLankan Airlines played a key role in restoring normalcy following the terror attacks at the BIA. It is with great sense of relief that the Company notes that it was successful in minimising damage to the image of BIA as an international airport. The Company was also successful in significantly reducing the level of inconvenience faced by passengers in the immediate aftermath of the attacks and during the subsequent temporary night closure of BIA, when SriLankan as the ground handler actively assisted Airport & Aviation Services (Sri Lanka) Ltd. and the other airlines in their activities.

### **Supporting Our Country Policies & Practices**

SriLankan Airlines has taken on a renewed vigour in its wide range of activities to support Sri Lanka as a destination of choice among global travellers, with the change over of the management of the Airline.

It is the policy of SriLankan Airlines, as the National Carrier of Sri Lanka to take the lead in enhancing and uplifting the image of Sri Lanka in key target markets in Europe, the Middle East and Asia. Towards this end, the Airline works closely in partnership with other institutions that share this vision including the Sri Lanka Tourism Promotions Bureau, Ministry of Tourism, the country's tour operators and the hotel industry.

The Airline also supported the country's marketing efforts through participation at all major tourism industry fairs in key markets such as India, China, UK, France, Germany, Dubai and Kuwait.

### **Award Winning Campaigns to Enhance Sri Lanka's Image**

The success of SriLankan's efforts in this regard has received global recognition. During the year under review the airline won the following awards:

- Gold Award for Best Airline Marketing Campaign from Pacific Asia Travel Association for 'Home Away From Home' campaign
- SriLankan's global marketing campaign 'Born That Way' won First Runner-Up in Best Marketing Campaign at Official Aviation Guide Awards
- SriLankan won Silver Award at the Asia Travel & Tourism Creative Awards





21st Blood Donation Campaign with the National Blood Transfusion Service

- Most Dynamic Participant & Exhibitor Award at the South Asia Travel & Tourism Expo (SATTE), New Delhi

#### **Collaborative Campaigns in Partnership with Sri Lanka Tourism**

During the year under review the National Carrier carried out the following campaigns to promote Sri Lanka's image, together with Sri Lanka Tourism:

- Tactical offer "999 for 1" in India
- Tactical offer "Stretch Your Holiday" in India
- Tactical offer "Stopover in Sri Lanka" in the Middle East
- Corporate campaign promoting Sri Lanka on Al Jazeera TV
- Corporate campaign in China to promote Sri Lanka during the celebration of 50 years of diplomatic relations

The Airline invested a considerable sum of over Rs. 50 million (USD 475,500) on these campaigns which were matched by Sri Lanka Tourism.

#### **Promoting Sri Lanka as a Destination**

In addition, SriLankan Airlines was actively involved in the following overseas activities to encourage general tourism and niche market tourism to Sri Lanka:

- Joint MICE tourism promotion in Karachi with the Sri Lanka Conventions Bureau
- Joint promotion in Pakistan with Sri Lanka Association of Inbound Tour Operators
- Publicity for Sri Lanka through the Airline's network of PR agencies overseas
- Sponsoring foreign journalists' tours to Sri Lanka
- Intensive publicity positioning of Sri Lanka as the Gateway to India when SriLankan became the first foreign carrier to have 100 flights per week to India and also during the launch of services to Coimbatore
- Ambassadors Golf Tournament
- Sri Lanka Festival in Japan

The Airline was also involved in sponsoring international events in Sri Lanka during the year under review such as:

- Galle Literary Festival
- Elephant Polo in Galle



Christmas on Wings Service Project at Helpage Home in Ratmalana

- Dilmah Tea Sommelier
- Visit by Barmy Army during England cricket tour of Sri Lanka
- Organising of 4 Golf Tournaments
- Singer-Sri Lanka Rugby Sevens in Kandy
- LSR Colombo Marathon
- South Asia Inter Hash Run
- Sponsoring of 70 surfers to visit Sri Lanka, on the way to an event in the Maldives
- Handling of a Bohra Pilgrimage to Sri Lanka for the global gathering of the Bohra religion in Colombo

### **Building a Vibrant Culture in Sri Lankan Society**

#### **Policies & Practices**

It has long been the policy of SriLankan Airlines to extend its support to cultural activities throughout Sri Lanka. These range from Balloon Festivals to British Dinner Theatre, Oktoberfest, Miss Sri Lanka Pageant, Treasure Hunt in Negombo, Colombo Fashion Week, Satya Paul Fashion Show and the popular Sirasa Super Star.

The National Carrier is also closely supportive of major activities of all religions, and provides assistance on numerous occasions for air transport of cargo and religious items free of charge or at discounted rates and also provides similar assistance for the overseas travel of clergy.

### **SriLankan Cares**

#### **Supporting the Community**

SriLankan Cares is the charity arm of the National Carrier, and functions as an independent trust with the close support of the Airline. It is governed by a Board of Trustees who are appointed by the Airline and includes Mr. Nishanta Wickremasinghe, Executive Director of the Airline as its Chairman.

#### **Policies & Practices**

##### *Al Bahriya Maha Vidyalaya in Kalmunai*

SriLankan Cares continued to support Al Bahriya Maha Vidyalaya, the Tsunami devastated school in Kalmunai in the Batticaloa District that it provided a new lease of life to.

The school which serves 1,500 students, rose from the ruins through a Rs. 78 million project during the previous financial year, which was carried out by SriLankan Cares with assistance from its partners Lufthansa Technik, HelpAlliance and GTZ.





SriLankan Airlines sponsored the Balloon Festival organised by the Ceylon Airship and Balloon Club

During the year under review, the Airline provided several new IT facilities for the school, which are of immense assistance in opening new horizons to the students.

#### *Meepagama Jayanthi Maha Vidyalaya in Kalawana*

SriLankan Cares continued to support Meepagama Jayanthi Maha Vidyalaya by providing several new scholarships for students. This school, the first to be adopted by the National Carrier, has been a heartening success story. Overburdened by students from neighbouring schools that were devastated by floods, it was struggling to cope with more than 1,000 children when SriLankan began assisting it in 2002.

Such has been the success of SriLankan Cares' efforts in constructing new buildings, providing new facilities and uplifting the educational standards of the school that several of its students have since then qualified for admission to universities.

#### **Other Charitable Projects**

In addition to the major projects of SriLankan Cares, the Company and its staff are involved in a large number of activities in support of the community, on a national or local level. These include:

- Christmas on Wings Charity Project
- Service projects by cabin staff
- Annual Blood Donation Campaign
- Internship Programme for Undergraduates of the Universities of Colombo, Moratuwa, and Ruhuna
- Language & Personality Development Training for young women aspiring to be Cabin Staff
- Diriya Daruwo programme to empower rural youth
- Distribution of schoolbooks to thousands of children in the most needy schools on an annual basis
- Discounted or complimentary air tickets for selected persons travelling overseas for urgent medical assistance
- Discounted air tickets for university academics to travel overseas
- Discounted air tickets for sports persons to travel overseas
- Sponsorship of Sunera Foundation annual charity dinner
- Assisting the Buddhist Meditation Centre in Gampaha

## Human Resources

### Taking Care of the SriLankan Family

SriLankan Airlines won a Gold Award for excellence in HR practices at the Human Resource Management Awards 2007 “Super Ten”. The National Carrier has continuously taken top honours at the country's premier HR awards over the years.

Human Resources at SriLankan covers a phenomenal range of activities, some of which are listed below. The Airline actively focuses on continuously enhancing and enriching the lives of its staff in Sri Lanka and throughout the world, as well as their families.

An Open Door Policy is also firmly in place, which provides opportunities for any member of the staff to discuss matters of any nature with the HR Division, in addition to their own superiors, in order to seek assistance and solutions to issues.

#### **Achievers Awards**

The Achievers Awards recognise members of the staff for their special contributions over and above the call of duty. It was begun several years ago to encourage innovation and increase staff participation in the Airline's activities, in the face of ever-increasing competition in the industry.

Christie Fernando, Properties Manager (Projects & Planning) won the Gold Award for Achiever of the Year 2007, being selected from a number of other worthy candidates for his extraordinary handling of the reconstruction of Al Bahriya Maha Vidyalyaya.

Silver Awards were presented to K.A.D. Wijesiri, Senior Plant & Equipment Supervisor, and H.K.P.J. Gunasekera, Senior Ramp Serviceman. Wijesiri achieved considerable cost savings for the Company through in-house fabrication of testing equipment for fuel injectors in vehicles. Gunasekera was honoured for his talent and hard work in fabricating various items for Company activities purely through his own ideas and creations.

The Gold Award for Best Country went to Qatar, with Malaysia receiving the Silver and Maldives the Bronze. Stations were judged on overall performance which included passenger and cargo revenue, airport service, aircraft engineering activities, and financial performance.

M.R.R.S Mawella, Senior Security Assistant, received the Sportsperson of the Year Award for his performances in athletics and soccer.





A staff member receiving the 15 years service award at the Annual Long Service Award Ceremony

**Long Service Awards**

More than 400 long-serving members of the staff were feted by the Airline, at an impressive Long Service Awards Ceremony at the Airport Garden Hotel.

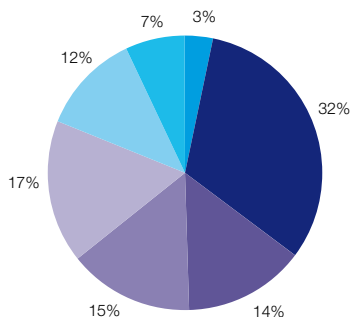
Those honoured ranged from cabin crew to pilots, aircraft engineers, airport service staff and finance staff. They included employees from 15 of the Airline’s global network of offices - Kuala Lumpur, Hong Kong, Bangkok, Madras, Paris, Muscat, Singapore, Riyadh, Karachi, Tokyo, Doha, Dubai, Trivandrum, Trichy, and Male.

The awards ceremony is held annually for those who complete 10, 15, 20, and 25 years service during that year. Others among SriLankan’s more than 5,000 staff who reached these milestones in earlier years, have already been felicitated.

More than 50% of the Company’s permanent cadre consists of staff having over 10 years experience. The following graph illustrates the service analysis of the Company’s permanent cadre as at 31 March 2008.

**Service Analysis of Permanent Staff**

■ < 1 Year    
 ■ 1 - 5 Years    
 ■ 5 - 10 Years    
 ■ 10 - 15 Years  
■ 15 - 20 Years    
 ■ 20 - 25 Years    
 ■ > 25 Years



**Prasansa Certificates for Excellence**

Prasansa is the Company’s programme to honour and recognise members of the staff who perform above and beyond the call of duty. Nominations are sent in on a continuous basis by line managers, and each recipient is presented with a certificate in the presence of colleagues, and his / her achievement publicised in the Company newsletter - Monara.



Winners of the SriLankan Scholarship Scheme



First copy of 'Milestones on Our Journey' presented to the clergy

### **“Milestones On Our Journey”**

The Management of SriLankan Airlines saluted the magnificent efforts of the Company's staff over the last decade, with the publication of the book “Milestones on our Journey” which details the loyalty and sheer hard work that has turned SriLankan into a truly world class airline.

The book was ceremonially launched in Colombo in the presence of leading members of the country's many religions, and the media.

### **Process Improvement**

During the year under review, the Human Resources Division focused on process improvements to increase efficiency and productivity of the staff. Where outsourcing was deemed favourable, contracts were awarded to external parties.

### **SriLankan Expands Scholarship Scheme for Our Children**

SriLankan Airlines has greatly expanded its efforts to assist the development of children of staff members, with the gifting of a large number of educational scholarships. During the year under review, the Airline significantly increased the number of scholarships awarded for children in the SriLankan Family, as part of its commitment to the welfare of its staff. Three scholarships were awarded to the finest performing children at the Year 5 Scholarship Examination, while another 27 children who passed the Year 5 exam were presented gift packs.

Another addition was the presenting of cash prizes and gift packs to 10 students who obtained eight As at the GCE Ordinary Level Examination.

### **People Leading Programme**

The highly successful People Leading Programme, the Company's structured leadership programme, is drawing to a conclusion. The programme has been expanded, with the latest group of participants including a number of Country Managers from the Commercial Division. A total of 105 Managers have participated in this programme to enhance their leadership skills.

The People Leading Programme is conducted by international management consultant Doug Adams.





SriLankan Colours Night for excellence in sports



SriLankan participates at the EDEX Educational Fair

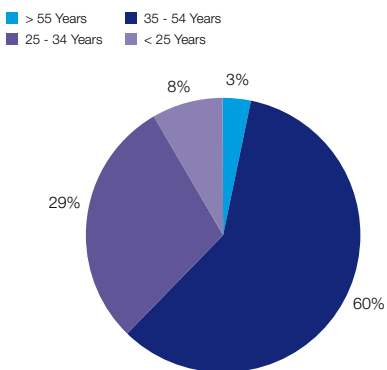
**Career Opportunities**

SriLankan Airlines encourages all of its staff to explore and enhance their own capabilities, in order to discover their special niches in life and build successful and rewarding careers in their chosen fields.

The Company provides plenty of opportunities for staff to transfer laterally from one department to another, in order to maximise their career opportunities. The Airline is replete with examples of Senior Managers who have started at the bottom, and climbed the ladder of success by serving in many departments.

We strongly believe in giving equal opportunity to all staff. Our staff strength continues to be a blend of young blood and a more mature workforce. More than 60% of our workforce is over 35 years of age bringing in a wealth of experience. The following graph depicts an age analysis of the Company's permanent staff as at 31 March 2008.

**Age Analysis of Permanent Staff**



**Sports**

SriLankan Airlines continued to impress at National and International events in many sports. The Airline encourages its 5,500-strong staff to participate in every conceivable sport. At present, more than 20 sports are actively promoted at the Airline, ranging from Archery to Volleyball. In addition, SriLankan Airlines sponsors and organises a large number of tournaments, notably at the Travel Trade level.





Health awareness programme conducted by Dr. W. S. Shantharaj for staff

The National Carrier dominated in many tournaments of many sports – including Netball, Badminton, Swimming, Beach Volleyball, Cricket, Soccer, Tennis, Athletics, Basketball, Chess, Rugby, Badminton, Elle, Table Tennis, and Karate.

The Company held a gala celebration at the Waters Edge in Colombo to honour its many sporting heroes.

### **Medical Facilities**

SriLankan Airlines provides extensive medical facilities for all its staff. This includes its Medical Centre in Katunayake, which provides round the clock assistance to staff for any type of ailment.

In addition, the Airline has an extensive external panel of medical experts, physicians, and specialists, who provide their services to any member of the staff and their families at discounted rates. Staff are provided vouchers which they hand over to these physicians, ensuring that they receive immediate treatment without the hassle of providing payment.

The Airline also arranged a number of specialised medical seminars during the year under review, where experts in different fields such as sports injuries and nutrition gave their views.

The Company also conducted special programmes such as Diabetes Clinics and Cancer Screening on a regular basis for staff, with the assistance of experts in these fields.

### **Complimentary Air Tickets**

SriLankan Airlines provides extensive air travel entitlements to every member of its staff and their immediate families on an annual basis. These entitlements were enhanced to enable staff and their families to better utilise this facility.

### **A Healthy Relationship with Employee Unions**

SriLankan Airlines continued to maintain strong relationships with its many employee unions - the Sri Lanka Nidahas Sevaka Sangamaya, the Airline Pilots Guild of Sri Lanka, the Flight Attendants Union, Association of Licensed Aircraft Engineers, the SriLankan Airlines Aircraft Technicians Association, the Manual & Mercantile Workers Union in Singapore, and the Foreign Airlines Employees Union Peninsular Malaysia.





Acheiver of the Year Gold Award presented to Christie Fernando



Prasansa Award presented to staff for outstanding work

It was pleasing to witness the employee unions playing an active role in participating in various activities, especially during the transition period of the management from January to April 2008.

### **SriLankan Policy Against Harassment Becomes a Best Practice**

SriLankan is honoured that the Ceylon Chamber of Commerce adopted the Airline's Policy Against Harassment as a model for the Sri Lankan Business Sector.

During the year under review, the Chamber's CSR Subcommittee 3 which deals with Women's Empowerment and was building awareness of sexual harassment in the workplace, wrote to SriLankan commending the Airline's policy for its "comprehensiveness and its ability to become a living document which covers areas that concern the Sri Lankan Business Industry".

SriLankan Airlines is the first organisation in the country to implement a comprehensive Policy Against Harassment. This guarantees a safe and comfortable work environment for every member of the staff. It is a comprehensive policy that covers all forms of harassment, ranging from physical, verbal, psychological or sexual acts or threats.

Complaints are inquired into within a stipulated time period, and punitive measures implemented against those found guilty. A variety of safeguards are also in place to prevent any retaliatory action against complainants. The independence of the procedure is guaranteed by the presence of a Ombudsmen who are two eminent persons from outside the organisation.

The Human Resources Division reinforced the Policy during the year under review by carrying out awareness programmes in Sinhala for members of the staff in operational areas.

### **New Whistle-Blowing Policy**

The Company is in the process of introducing a new Whistle-Blowing Policy, which is intended to significantly reduce practices that are unsafe, unsound and unprofitable by fully involving all members of the staff as watchdogs of the National Carrier.

SriLankan Airlines views whistle-blowers as Change Agents and whistle-blowing as an effort to create change that will benefit the organisation. The new Policy will institutionalise whistle-blowing, providing a working mechanism for members of the staff to report wrongdoings or suggest improvements in any area.



People Leading Programme conducted by Doug Adams for Managers



Chief Organiser of SLNSS giving a speech at the Pirith Ceremony

Importantly, the Policy will provide comprehensive protection to all whistle-blowers, to ensure that their suggestions are taken up in good faith, and they will not run any risk of retribution from any party.

### **The International Aviation Academy**

The International Aviation Academy (IAA) fulfils an important role by providing young men and women in Sri Lanka and throughout South Asia with the necessary skills to begin exciting and rewarding careers in the global air transport industry.

The IAA's objective is to cater to the manpower requirements of airlines, airports, travel agents, and other aviation industry organisations throughout Asia and beyond. It also aims to play a pivotal role in the development of tertiary professional education in Sri Lanka and the South Asian region.

The IAA has entered into strategic partnerships with a large number of selected global and local educational institutions, to further strengthen its curricula, and provide greater benefits to its students. These include the Asian Institute of Technology, International Air Transport Association (IATA), City & Guilds, Edexcel International, the Association of Certified Chartered Accountants (ACCA), Chartered Institute of Management Accountants of the United Kingdom (CIMA-UK), Synergy School of Marketing, and the Institute of Chartered Accountants (ICA).

The IAA offers external participants opportunities to train in several other airline-related disciplines such as Air Cargo, Cabin Staff, Airline Ticketing at three levels (Basic, Intermediate and Advanced), Aircraft Weights & Balance, the International Civil Aviation Organization's Flight Dispatchers' Course, and Dangerous Goods Regulations.

In addition, the IAA provides training for other companies by special arrangement, including a range of skills that are an essential part of modern corporate culture such as communications, customer service, grooming, etiquette, assertive skills, presentation skills, how to face an interview, time management, and emotional intelligence.

The IAA, which began operations during the formative years of the Airline, and was rebranded two years ago, also fulfils its traditional role of equipping new and existing members of the staff with relevant knowledge for the maintenance of the Airline's renowned high standards.





Sri Lanka's first female Captain

### **Amalgamation of Airport Service College**

During the year under review, the Airport Service College was brought under the purview of the IAA for greater effectiveness.

The Airport Service College was set up to provide training for youngsters in the numerous specialised tasks that are performed in modern airports. This opened the door for young men and women to begin careers with airlines and airports in Sri Lanka and overseas, and also created a pool of trained persons from which SriLankan Airlines recruits when vacancies occur in the National Carrier's operations at BIA.

Following the amalgamation, the IAA is continuing to carry out this invaluable programme for external participants.

### **SriLankan Technical Training**

SriLankan Technical Training is playing a growing role in the training of Aircraft Engineers throughout South Asia and beyond, with comprehensive programmes that are being utilised by participants from India, Pakistan, the Maldives, and the Middle East, as well as Sri Lanka itself.

SriLankan Technical Training is one of the few companies in Asia to hold the globally recognised EASA 147 certification from the European Aviation Safety Agency for training in Aircraft Maintenance. It continuously runs a two-year programme in aircraft engineering.

During the year under review, SriLankan Technical Training carried out several programmes for the Pakistani airline AirBlue, strengthening the relationship with Pakistan's fastest growing airline.

During the year under review, 35 persons successfully completed SriLankan's 2-year programme for Aircraft Technicians, including two Sri Lankan women students and seven foreign students.

SriLankan Technical Training also provides ongoing training for the Airline's existing Engineering staff, including upgrading of their skills and qualifications.



SriLankan was Runner-Up at Mercantile 'D' Division Basketball



SriLankan swimmers take inaugural President's Challenge Trophy

### **Pilot Training Programme**

Each year, the National Carrier opens its doors to young men and women who have the ambition to become airline pilots. Over the last six years, nearly 100 Cadet Pilots have been recruited and moulded into First Officers.

SriLankan's pilots have built a strong reputation for excellence over more than a quarter-century of flying, and are much sought after in the world of commercial aviation. The efficiency of its pilots contributed towards SriLankan receiving the award for World's Most Efficient Operator of Airbus A330's and A340's from Airbus Industrie.

During the year under review, SriLankan Airlines celebrated the appointment of the country's first female Captain, Anusha Siriratne. A product of the Airline's Cadet Pilot Programme eight years ago, Capt. Siriratne went on to become a First Officer in the A320, A330 and A340 fleets, before being promoted to Captain.

The Airline's Pilot Training Programme selects 14-18 applicants through a competitive process, and provides them with one month comprehensive training by the Flight Operations Department and SriLankan Technical Training, which includes classroom sessions, hands-on technical sessions at the Engineering Department and other departments, flying training, and simulator programmes that are conducted in Dubai or Singapore.

The Cadet Pilot Programme is also open to members of the staff of the Airline, and several have successfully completed the courses.



# Financial Information



## **Financial Information**

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## **Financial Calendar**

31 January 2008

Limited Review of the Financial Statements

31 March 2008

Financial Year End

17 June 2008

Adoption of Financial Reports by the Board

19 August 2008

30th Annual General Meeting



## Annual Report of the Board of Directors

The Board of Directors of SriLankan Airlines Limited, takes pleasure in presenting the Annual Report for the year ended 31 March 2008.

### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal business activity 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, sale of duty-free goods on-board, marketing inbound and outbound holiday packages, constitute other main activities of the Company. During the year the Company was compelled to cease the operation of Air Taxi services which operated within Sri Lanka due to the prevailing security situation in the country. Providing third party maintenance and conducting aviation related training programmes constitute ancillary activities of the Company.

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

The Group consists of the Company and its wholly owned Subsidiary SriLankan Catering (Pvt) Limited, whose principal activity is the provisioning of Inflight Catering Services to airlines operating through Bandaranaike International Airport, Katunayake, Sri Lanka.

A review of the Group's progress and performance during the year, with comments on the financial results and prospects, is contained in the Chief Executive Officer's Review.

### FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The complete Financial Statements duly signed by the Chief Financial Officer and the Directors and the Auditors Report thereon for the year ended 31 March 2008 are attached to this Report.

### ACCOUNTING POLICIES

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 128 to 133.

### GROUP TURNOVER

The turnover of the Group amounted to Rs. 80,031.47 million (2006/07: Rs.68,903.70 million). A detailed analysis of Group Turnover is given in Note 15 to the Financial Statements.

Transactions between the Company and its fully owned subsidiary, SriLankan Catering (Pvt) Limited is conducted at fair market prices.

### RESULTS

Group profit before taxation amounted to Rs. 4,938.80 million (2006/07: Rs.930.06 million). After deducting Rs. 39.14 million (2006/07: Rs.67.88 million) for taxation, Group profit for the year was Rs. 4,899.66 million (2006/07: Rs. 862.18 million ).

The consolidated income statement for the year is given on page 125.

### GROUP INVESTMENT

Group capital expenditure during the year on property, plant and equipment amounted to Rs. 11,081.51 million (2006/07: Rs. 3,124.52 million).

### PROPERTY, PLANT AND EQUIPMENT

The net book value of the Property, Plant and Equipment of the Group as at the Balance Sheet date amounted to Rs 14,283.18 million (2006/07: Rs.15,421.36 million). Details of Property, Plant and Equipment and their movements are given in Note 3 to the Financial Statements.

### STATED CAPITAL

The Authorised Capital and Par Value concept in relation to Share Capital was abolished by the Companies Act No 7 of 2007. The total amounts received by the Company in respect of the issue of shares are now referred to as Stated Capital. The Stated Capital of the Company, consisting of 51,463,463 Ordinary Shares, amounts to Rs 5,146.35 million (2006/07: Rs 5,146.35 million).

### RESERVES

Total Group Reserves as at 31 March 2008 amount to Rs. 17,651.36 million (2006/07: Rs.12,751.70 million). This consists of accumulated profits of Rs. 16,549.59 million (2006/07: Rs.11,649.93 million), Capital Reserves of Rs. 1,047.70 million (2006/07: Rs. 1,047.70 million), Revenue Reserves of Rs. 0.63 million (2006/07: Rs. 0.63 million), and General Reserves of Rs. 53.44 million (2006/07: Rs. 53.44 million). Movement in these Reserves is shown in the Statement of Changes in Equity in the Financial Statements.



**CORPORATE DONATIONS**

The Group has not made any cash donations during the year. No donations were made for political purposes.

**TAXATION**

The Company enjoys a tax holiday up to 31 March 2013 in terms of its agreement with the Board of Investment of Sri Lanka.

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

The Subsidiary is exempted from taxation with effect from 1 June 2006 for the Flight Kitchen and Public Restaurant, under the regulations of the Board of Investment of Sri Lanka.

**SHARE INFORMATION**

Share Ownership	No.of Shares	% of Holding
Government of Sri Lanka	26,275,436	51.05%
Emirates	22,451,516	43.63%
Employees	2,736,511	5.32%

**CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS**

Contingent Liabilities as at 31 March 2008 and Commitments made on Capital Expenditure as at that date are given in Note 21 to the Financial Statements.

**EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

No circumstances have arisen since the Balance Sheet date that would require adjustment or disclosure, other than those disclosed in Note 22 to the Financial Statements.

**EMPLOYMENT POLICIES**

Employment policies of the Group respect the individual and offer equal career opportunities regardless of sex, race or religion. Occupational health and safety standards receive substantial attention. The number of persons employed by the Company and its Subsidiary at the year-end was 5,685 (2006/07: 5,839).

**STATUTORY PAYMENTS**

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to employees and the Government of Sri Lanka have been made up to date.

**ENVIRONMENTAL PROTECTION**

The Group's business activities can have direct and indirect effects on the environment. It is the Group's policy to keep adverse effects on the environment to a minimum and to promote co-operation and compliance with the relevant authorities and regulations.

**CORPORATE GOVERNANCE/INTERNAL CONTROL**

Adoption of good governance practices has become an essential requirement in today's corporate world. The practices followed by the Group are explained in the Corporate Governance Statement.

The Directors acknowledge their responsibility for the Group's system of internal control. The system is designed to provide assurance, inter alia, on the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information generated. However, any system can ensure only reasonable and not absolute assurance that errors and irregularities are prevented or detected within a reasonable time.

The Board is satisfied with the effectiveness of the system of internal control for the period up to the date of signing of the Financial Statements.

**GOING CONCERN**

As noted in the Statement of Directors' Responsibilities, the Directors have adopted the going concern basis in preparing the Financial Statements.

**DIRECTORATE**

The current Directorate of the Company is set out below:

Dr. P. B. Jayasundera	-	Chairman
Mr. Nishanta Wickramasinghe	-	Executive Director
Mr. Lalith De Silva	-	Director
Mr. Sunil G Wijesinha	-	Director
Mr. Tim Clark	-	Director
Mr. Gary Chapman	-	Director
Mr. Nigel Hopkins	-	Director



## Annual Report of the Board of Directors

Mr. P M Hill	-	Alternate to T. C. Clark
Mr. M. Flanagan	-	Alternate to G. W. Chapman
Mr. Ghaith Al Ghaith	-	Alternate to N. J. Hopkins

The following GOSL Directors were in office during the period 01 April 2007 to 16 March 2008 until their resignation from the Board on 17 March 2008.

Mr. D. H. S. Jayawardena	-	Chairman
Mr. Sanath Ukwatte	-	Director
Mr. R. A. Chandiram	-	Director

The Government of Sri Lanka nominated and appointed Mr Lalith De Silva as Director on 18 March 2008 and Messrs P B Jayasundera and Sunil G Wijesinha on 28 March 2008 as Chairman and Director respectively to fill the vacancies created by the resignations of the above GOSL nominee Directors.

The following Directors continued in office during the period 01 April 2007 to 31 March 2008.

Mr. Nishanta Wickramasinghe	-	Director
Mr. Tim Clark	-	Managing Director
Mr. Gary Chapman	-	Director
Mr. Nigel Hopkins	-	Director

Mr Nishanta Wickremasinghe/Director was appointed as an Executive Director with effect from 8 April 2008.

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

Dr. P. B. Jayasundera	-	Chairman
Mr. G. W. Chapman	-	Director
Mr. Nishanta Wickramasinghe	-	Director
Mr. Sunil G. Wijesinha	-	Director

The following SriLankan Catering Directors were in office during the period 01 April 2007 to 16 March 2008 until their resignation from the Board of SriLankan Airlines with effect from 17 March 2008.

Mr. D. H. S. Jayawardena	-	Chairman
Mr. Sanath Ukwatte	-	Director
Mr. R. A. Chandiram	-	Director

SriLankan Airlines nominated and appointed the following as Chairman/Directors of SriLankan Catering (Pvt) Limited with effect from 08 April 2008 to fill the vacancies created by the resignation of the above named Chairman/Directors.

Dr. P. B. Jayasundera	-	Chairman
Mr. Nishanta Wickramasinghe	-	Director
Mr. Sunil G. Wijesinha	-	Director

Mr. Gary Chapman continues as a Director from 01 April 2007 to-date.

### DIRECTORS' REMUNERATION

The Directors were not in receipt of any emoluments and/or any other payment that constitutes a payment for participation/attendance at Board Meetings during the year ended 31 March 2008. The Directors, their spouses and dependent children were entitled to FOC Business Class travel on SriLankan Airlines online services during their term of office.

### DIRECTORS' SHAREHOLDINGS

By virtue of office three of the Government of Sri Lanka (GOSL) nominee Directors including the Chairman are holders of 01 Ordinary Share each in the Company.

### INTERESTS REGISTER

The Company maintains an Interests Register as contemplated by the Companies Act No 7 of 2007.

### Directors' interests in transactions

The Directors of the Group have made the general disclosures in line with Section 192 (2) of the Companies Act No 7 of 2007.

Emirates, which holds 43.63% of the Stated Capital of the Company as at balance sheet date, together with Management Control of the Company for a period of ten years from 31 March 1998 to 31 March 2008 and in accordance with Article 80 of the Articles of Association of the Company had nominated and appointed three Directors to the Board of the Company.

The nominee Directors holding office from 01 April 2007 to 31 March 2008 were:

Mr. T. C. Clark	-	Managing Director
Mr. G. W. Chapman	-	Director

Mr. N. J. Hopkins	-	Director
Mr. P. M. Hill	-	Alternate Director to Mr. T. C. Clark
Mr. M. Flanagan	-	Alternate Director to Mr. G. W. Chapman
Mr. Ghaith Al Ghaith	-	Alternate Director to Mr. N. J. Hopkins

However on conclusion of the Management Agreement on 31 March 2008 the Management control of the Company vested with the Government of Sri Lanka from 01 April 2008. Accordingly as a substantial shareholder of a 43.63% stake in the Company, Emirates will continue to be represented by the following Directors on the Board of the Company:

Mr. T. C. Clark	-	Director
Mr. G. W. Chapman	-	Director
Mr. N. J. Hopkins	-	Director
Mr. P. M. Hill	-	Alternate Director to Mr. T. C. Clark
Mr. M. Flanagan	-	Alternate Director to Mr. G. W. Chapman
Mr. Ghaith Al Ghaith	-	Alternate Director to Mr. N. J. Hopkins

During this period the Company nominated and appointed four Directors to the Board of SriLankan Catering (Pvt) Limited with whom the Company has a contract for catering, the value of which is disclosed in Note 23.3.1 to the Financial Statements. The current Directors of SriLankan Catering (Pvt) Limited are:

Dr. P. B. Jayasundera	-	Chairman
Mr. Gary Chapman	-	Director
Mr. Nishanta Wickramasinghe	-	Director
Mr. Sunil G Wijesinha	-	Director
Mr. D Nijhawan	-	Alternate Director to Mr. G. W. Chapman

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 19 August 2008.

## AUDITORS

In accordance with the Companies Act No. 07 of 2007, a resolution proposing the re-appointment of Messrs. Ernst & Young, Chartered Accountants, as Auditors of the Company will be submitted at the Annual General Meeting.

Details of audit fees and non audit fees are set out in Note 18 to the Financial Statements. The Auditors, do not have any relationship (other than of an Auditor) with the Company or its Subsidiary.

By Order of the Board



**Mildred Peries**  
Company Secretary

17 June 2008



**Dr. P. B. Jayasundera**  
Chairman

17 June 2008



**Nishanta Wickramasinghe**  
Director

17 June 2008



## Statement of Directors' Responsibilities

The responsibilities of the Directors in relation to the financial statements of the Company and the Group differ from the responsibilities of the Auditors which are set out in their report appearing on page 123.

The Companies Act No.7 of 2007 requires the Directors to prepare financial statements for each financial year giving a true and fair view of the state of affairs of the Company and the Group as at end of the financial year and of the Profit or Loss of the Company and the Group for the financial year. In preparing the financial statements, appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgements and estimates have been made, and applicable accounting standards have been followed.

The Directors are responsible for ensuring that the Company and its subsidiary keep sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and the Group for ensuring that the financial statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards and provide the information required by the Companies Act No.7 of 2007. They are also responsible for taking reasonable measures to safeguard the assets of the Group, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

The Directors continue to adopt the going concern basis in preparing the Financial Statements. The Directors, after making enquiries and following a review of the Group's Budget for the financial year ending 31 March 2009 including cash flows and borrowing facilities, consider that the Group has adequate resources to continue in operation.

The Directors have taken steps to ensure that the Auditors have been provided with every opportunity to undertake whatever inspections they considered appropriate to enable them to form their opinion on the financial statements.

The Directors confirm that to their best of knowledge, all taxes, levies and financial obligations of the Company and its subsidiary as at the Balance Sheet date have been paid or adequately provided for in the financial statements.

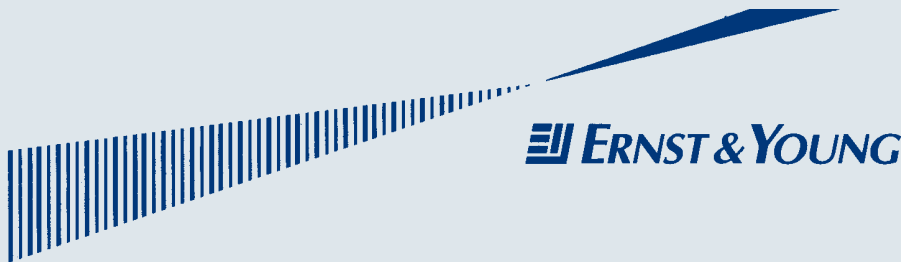
By Order of the Board



**Mildred Peries**  
*Company Secretary*

17 June 2008

# Report of the Auditors



## Chartered Accountants

201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

Tel : (0) 11 2463500  
Fax Gen : (0) 11 2697369  
Tax : (0) 11 5578180  
eysl@lk.ey.com

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SRILANKAN AIRLINES LIMITED

### Report on the Financial Statements

We have audited the accompanying financial statements of SriLankan Airlines Limited ("Company"), the consolidated financial statements of the Company and its subsidiary which comprise the balance sheets as at 31 March 2008, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2008 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2008 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31 March 2008 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiary dealt with thereby, so far as concerns the shareholders of the Company.

### Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of Sections 151(2) and 153(2) to 153(7) of the Companies Act No. 07 of 2007.

**Ernst & Young**  
Chartered Accountants

Colombo  
17 June 2008

**Partners:** A D B Talwatte FCA FCMA T K Bandaranayake FCA M P D Cooray FCA FCMA Ms. Y A De Silva ACA W R H Fernando FCA FCMA  
W K B S P Fernando FCA ACMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond)  
A S M Ismail FCA FCMA H M A Jayasinghe FCA FCMA Ms. G G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA B E Wijesuriya ACA ACMA



## Balance Sheet

As at 31 March	Note	Group		Company	
		2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, Plant and Equipment	3	14,283.18	15,421.36	11,931.02	12,761.39
Aircraft Maintenance Reserve	4	3,509.99	3,597.32	3,509.99	3,597.32
Intangible Asset	5	205.19	129.94	193.52	114.12
Investments	6	25.50	25.50	95.90	95.90
		<u>18,023.86</u>	<u>19,174.12</u>	<u>15,730.43</u>	<u>16,568.73</u>
<b>Current Assets</b>					
Inventories	7	3,989.67	3,581.29	3,804.13	3,465.56
Trade and Other Receivables	8	12,369.67	10,177.93	11,738.55	9,286.38
Aircraft Maintenance Reserve	4	2,768.51	2,106.50	2,768.51	2,106.50
Investments	6	6,856.41	-	6,856.41	-
Cash and Bank Balances	9	7,275.68	6,552.87	7,042.07	6,489.02
		<u>33,259.94</u>	<u>22,418.59</u>	<u>32,209.67</u>	<u>21,347.46</u>
<b>Total Assets</b>		<u>51,283.80</u>	<u>41,592.71</u>	<u>47,940.10</u>	<u>37,916.19</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and Reserves</b>					
Stated Capital / Share Capital	10	5,146.35	5,146.35	5,146.35	5,146.35
Reserves	11	1,101.77	1,101.77	1,101.77	1,101.77
Accumulated Profits		16,549.59	11,649.93	9,287.88	4,859.65
<b>Total Equity</b>		<u>22,797.71</u>	<u>17,898.05</u>	<u>15,536.00</u>	<u>11,107.77</u>
<b>Non-Current Liabilities</b>					
Interest Bearing Liabilities	12	1,653.18	2,249.85	20.14	35.51
Other Deferred Liabilities	13	3,395.87	1,887.01	3,249.07	1,766.26
		<u>5,049.05</u>	<u>4,136.86</u>	<u>3,269.21</u>	<u>1,801.77</u>
<b>Current Liabilities</b>					
Trade and Other Payables	14	21,840.24	18,671.70	28,026.01	24,369.93
Income Tax Payable		177.50	180.14	175.45	175.45
Interest Bearing Liabilities	12	1,419.30	705.96	933.43	461.27
		<u>23,437.04</u>	<u>19,557.80</u>	<u>29,134.89</u>	<u>25,006.65</u>
<b>Total Equity and Liabilities</b>		<u>51,283.80</u>	<u>41,592.71</u>	<u>47,940.10</u>	<u>37,916.19</u>

These financial statements are in compliance with the requirements of the Companies Act No. 7 of 2007.



Chief Financial Officer

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



Chairman



Director

The accounting policies and notes on pages 128 through 151 form an integral part of these financial statements.

## Income Statement

Year ended 31 March	Note	Group		Company	
		2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
Revenue	15	80,031.47	68,903.70	79,128.56	67,963.76
Cost of Sales		(70,551.34)	(59,021.64)	(72,119.34)	(60,311.79)
Gross Profit		9,480.13	9,882.06	7,009.22	7,651.97
Other Income and Gains	16	6,404.95	1,133.98	6,520.57	860.64
Sales and Marketing Cost		(7,849.88)	(6,799.00)	(7,811.50)	(6,760.72)
Administrative Expenses		(3,393.10)	(3,385.96)	(2,223.17)	(2,334.17)
Finance Cost	17.1	(206.55)	(219.38)	(41.96)	(111.55)
Finance Income	17.2	503.25	318.36	1,001.60	1,265.72
<b>Profit Before Tax</b>	18	4,938.80	930.06	4,454.76	571.89
Income Tax Expense	19	(39.14)	(67.88)	(26.53)	(3.85)
<b>Profit for the Year</b>		<u>4,899.66</u>	<u>862.18</u>	<u>4,428.23</u>	<u>568.04</u>
Basic Earnings Per Share (Rs.)	20	95.21	16.75		
Dividends Per Share (Rs.)		-	30.00		

The accounting policies and notes on pages 128 through 151 form an integral part of these financial statements.  
Colombo

17 June 2008



## Statement of Changes in Equity

GROUP	Note	Stated	Share	Capital	Revenue	General	Accumulated	Total
		Capital	Capital	Reserve	Reserve	Reserve	Profits	
		Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	
<b>Balance as at 31 March 2006</b>		-	5,146.35	105.20	0.63	53.44	12,331.65	17,637.27
Dividend		-	-	-	-	-	(1,543.90)	(1,543.90)
Surplus on Revaluation of Land and Buildings	11.1	-	-	972.10	-	-	-	972.10
Adjustment in Capital Reserve		-	-	(29.60)	-	-	-	(29.60)
Profit for the year		-	-	-	-	-	862.18	862.18
<b>Balance as at 31 March 2007</b>		-	5,146.35	1,047.70	0.63	53.44	11,649.93	17,898.05
Profit for the year		-	-	-	-	-	4,899.66	4,899.66
Transferred to Stated Capital	10	5,146.35	(5,146.35)	-	-	-	-	-
<b>Balance as at 31 March 2008</b>		<u>5,146.35</u>	<u>-</u>	<u>1,047.70</u>	<u>0.63</u>	<u>53.44</u>	<u>16,549.59</u>	<u>22,797.71</u>

COMPANY	Note	Stated	Share	Capital	Revenue	General	Accumulated	Total
		Capital	Capital	Reserve	Reserve	Reserve	Profits	
		Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	
<b>Balance as at 31 March 2006</b>		-	5,146.35	75.60	-	53.44	5,836.14	11,111.53
Dividend		-	-	-	-	-	(1,543.90)	(1,543.90)
Adjustment		-	-	-	0.63	-	(0.63)	-
Surplus on Revaluation of Land and Buildings	11.1	-	-	972.10	-	-	-	972.10
Profit for the year		-	-	-	-	-	568.04	568.04
<b>Balance as at 31 March 2007</b>		-	5,146.35	1,047.70	0.63	53.44	4,859.65	11,107.77
Profit for the year		-	-	-	-	-	4,428.23	4,428.23
Transferred to Stated Capital	10	5,146.35	(5,146.35)	-	-	-	-	-
<b>Balance as at 31 March 2008</b>		<u>5,146.35</u>	<u>-</u>	<u>1,047.70</u>	<u>0.63</u>	<u>53.44</u>	<u>9,287.88</u>	<u>15,536.00</u>

The accounting policies and notes on pages 128 through 151 form an integral part of these financial statements.

Colombo

17 June 2008



## Cash Flow Statement

Year ended 31 March	Note	Group		Company	
		2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
<b>Cash Flows From/(Used in) Operating Activities</b>					
		4,938.80	930.06	4,454.76	571.89
		Adjustments for			
		5,042.46	4,802.05	4,673.15	4,512.65
	17.1	206.55	219.38	41.96	111.55
		98.19	98.23	98.19	98.23
	16	(5,633.88)	(14.43)	(5,633.88)	(3.43)
	17.2	(503.25)	(318.36)	(1,001.60)	(1,265.72)
		4.93	89.03	-	-
		161.40	22.20	123.44	22.20
		25.21	114.13	25.21	114.13
		702.70	-	702.70	-
	13.1	403.10	505.42	364.40	483.36
	16	(565.41)	(1,013.68)	(681.24)	(751.83)
		4,880.80	5,434.03	3,167.09	3,893.03
		(433.59)	(454.69)	(363.78)	(409.77)
		(2,325.82)	(299.02)	(2,548.29)	(50.08)
		1,432.00	1,671.30	2,425.07	4,027.77
		3,553.39	6,351.62	2,680.09	7,460.95
		(167.58)	(219.38)	(2.99)	(111.55)
	13.1	(233.47)	(92.09)	(220.82)	(85.21)
		(14.70)	(75.93)	-	-
		3,137.64	5,964.22	2,456.28	7,264.19
<b>Cash Flows From/(Used in) Investing Activities</b>					
	6	(6,856.41)	-	(6,856.41)	-
		227.39	318.36	225.74	315.72
		(1,067.90)	(2,212.35)	(1,067.90)	(2,212.35)
		(8,030.09)	(3,369.48)	(7,973.57)	(3,170.29)
		(78.11)	(74.93)	(77.33)	(74.04)
		12,793.87	20.30	12,793.87	9.30
		(3,011.25)	(5,318.10)	(2,955.60)	(5,131.66)
<b>Cash Flows From/(Used in) Financing Activities</b>					
	12.2	(354.40)	(76.42)	(14.28)	(76.42)
		-	(2,984.44)	-	(2,984.44)
		-	969.15	-	-
		-	(1,540.10)	-	(1,540.10)
		(354.40)	(3,631.81)	(14.28)	(4,600.96)
		479.46	1,070.46	595.29	808.61
		251.45	(1,915.23)	81.69	(1,659.82)
	9	6,105.73	8,020.96	6,041.88	7,701.70
	9	6,357.18	6,105.73	6,123.57	6,041.88

The accounting policies and notes on pages 128 through 151 form an integral part of these financial statements.

Colombo  
17 June 2008



## Notes to the Financial Statements

### 1. CORPORATE INFORMATION

#### 1.1 General

SriLankan Airlines Limited (the "Company") 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 01, 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

##### *Company*

The principal activities of the Company consist of operating 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, sale of duty free goods on-board, marketing inbound and outbound holiday packages constitute other main activities. During the year the Company ceased the operation of Air Taxi services which operated within Sri Lanka. Providing third party maintenance and conducting aviation related training programs constitute ancillary activities of the Company.

##### *Subsidiary – SriLankan Catering (Pvt) Limited*

The principal activity of the Subsidiary is to provide in-flight catering services to Airlines operating through Bandaranaike International Airport, Katunayake, Sri Lanka.

#### 1.3 Date of Authorisation for Issue

The consolidated financial statements of SriLankan Airlines Limited for the year ended 31 March 2008 were authorised for issue in accordance with a resolution of the Board of Directors on 17 June 2008.

### 2. GENERAL ACCOUNTING POLICIES

#### 2.1 Basis of Preparation

The consolidated financial statements of the Company have been prepared under the historical cost convention except for certain land and buildings that have been stated at valuation as explained in Accounting Policy No. 2.4.8 (a) to these financial statements. The financial statements are presented in Sri Lanka Rupees Million (Rs. M) and all values are rounded to the nearest one hundred thousand Sri Lanka Rupees except when otherwise indicated. The preparation and presentation of these financial statements is in compliance with the Companies Act No. 7 of 2007.

##### *2.1.1 Statement of Compliance*

The consolidated financial statements of the Company and its subsidiary have been prepared in accordance with the Sri Lanka Accounting Standards (SLAS).

##### *2.1.2 Comparative Information*

The accounting policies have been consistently applied by the Company and its subsidiary. Certain prior year figures and phrases have been re-arranged wherever necessary to conform to the current year's presentation.

#### 2.2 Basis of Consolidation

The consolidated financial statements comprise of the financial statements of SriLankan Airlines Limited and its wholly owned subsidiary SriLankan Catering (Pvt) Limited as at 31 March each year. The financial statements of the subsidiary are prepared for the same reporting year as the parent Company, using consistent accounting policies.

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiary is fully consolidated from the date of incorporation, being the date on which control commences and continues to be consolidated until the date that control ceases.

#### 2.3 Significant Accounting Estimates and Assumptions

In the preparation of the consolidated financial statements, a number of estimates and associated assumptions have been made relating to the application of accounting policies and reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are assessed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following estimates and assumptions addresses amongst other significant accounting policies that require subjective and complex judgments, often as a result of the need to make estimates.

##### *(a) Estimates*

###### *(i) Depreciation of Property, Plant and Equipment*

Management assigns useful lives and residual values to property, plant and equipment based on the intended use of assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Management reviews annually the residual values and useful lives of major items of property, plant and equipment.

###### *(ii) Recognition of Unutilised Passenger Tickets*

Passenger sales are recognized as operating revenue when the transportation is provided. The value of unused tickets is included as sales in advance of carriage in the balance sheet and recognised in revenue at the end of three years. This is based on historical trends and experiences

of the Company whereby ticket upliftment occurs mainly within the first three years.

*(b) Assumption*

*Defined Benefit Plan*

The cost of the retirement benefit plan of local staff of the Company is determined using an actuarial valuation. The actuarial valuation is based on assumptions concerning the rate of interest, rate of salary increase, special premium, retirement age and going concern of the Company. Due to the long term nature of the plan, such estimates are subject to significant uncertainty.

## 2.4 Summary of Significant Accounting Policies

### 2.4.1 Foreign Currency Translation

The financial statements are presented in Sri Lanka Rupees, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. The resultant foreign exchange gains and losses are recognised in the income statement. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

### 2.4.2 Taxation

*(i) Current Income Tax*

*Company*

*(a) Local Taxation*

The Company has signed an agreement under Section 17 of the Board of Investment Law No. 4 of 1978 which exempts it from the payment of income tax in respect of profit and income derived from the operation of the business of a commercial airline, providing international air transportation and all other ancillary and related services thereto, and on dividend and royalties for an initial period of seven years from 01 September 1979, subsequently extended for a period of three years from 01 August 1986, and thereafter a period of five years from 01 August 1989. In August 1994 the Board of Investment of Sri Lanka granted flagship status to the Company, extending the tax exemption period up to 31 March 1998. In March 1998, the Board of Investment of Sri Lanka granted a further extension of the tax exemption period up to 31 March 2013.

*(b) Overseas Taxation*

The Company is liable for 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.

*Subsidiary - SriLankan Catering (Pvt) Limited*

Income from the Flight Kitchen and the Transit Restaurant operated by the subsidiary was exempted from income tax for a period of 15 years, up to 19 August 1995 in terms of agreement No. 139 of 29 June 1983 supplemented by agreement No. 110 of 20 August 1995 entered into with the Board of Investment of Sri Lanka in terms of Section 17 of Board of Investment Law No. 4 of 1978. Subsequent to this period the Company is liable to pay income tax at 2% on Flight Kitchen and Transit Restaurant turnover for a period of 11 years with effect from 20 August 1995. The income derived from Public Restaurant is liable at the prevailing tax rate. With effect from 1 June 2006 the Flight Kitchen and Transit Restaurant sales are exempted from tax up to 30 May 2018 owing to the additional investment as per BOI regulations and agreement dated 14 November 2000.

*(ii) Deferred Income Tax*

Deferred Income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

*Company*

No deferred taxation has been provided for in these financial statements, since the Company is in its tax holiday period.

*Subsidiary - SriLankan Catering (Pvt) Limited*

A Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefits will be realised.

*(iii) Sales Tax*

Revenues, expenses and assets are recognised net of the amount of sales tax except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authorities in which case the sales tax is recognised as part of the asset or part of the expense items as applicable and the receivable and payable is stated with the amount of sales tax included. The amount of sales tax recoverable and payable in respect of taxation authorities is included as part of trade and other receivables and trade and other payables in the Balance Sheet.

*(iv) Economic Service Charge (ESC)*

As per the provisions of the Economic Service Charge Act No. 13 of 2006, ESC is payable on the liable turnover at specified rates by the Company and its subsidiary. The rate of ESC relating to the revenue referred in the BOI agreement



## Notes to the Financial Statements

where the corresponding profit is exempt from income tax is at 0.25% and the rate relating to other income is at 1%. The Company is liable to ESC on the revenue relating to the activities within Sri Lanka.

### 2.4.3 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent where borrowing costs that are directly attributable to the acquisition, construction, or production of an asset that takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of that asset.

### 2.4.4 Intangible Assets

Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the assets will flow to the entity and the cost of the assets can be measured reliably. Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortisation and any accumulated impairment losses.

The costs of acquisition or development of computer software that is separable from an item of related hardware is capitalised separately and amortised over a period not exceeding 5 years on a straight line basis.

The carrying value of this asset is reviewed periodically for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

### 2.4.5 Inventories

Inventories are valued at the lower of cost and net realisable value after making due allowances for obsolete and slow moving items. All inventories are valued on the basis of Weighted Average Cost (WAC) method.

### 2.4.6 Trade and Other Receivables

Trade Receivables are stated at the amounts that they are estimated to realise net of provision for bad and doubtful receivables.

Other receivables and dues from related parties are recognised at cost less provision for bad and doubtful receivables.

### 2.4.7 Cash and Cash Equivalents

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

For the purpose of cash flow statement, cash and cash equivalents consist of cash at bank, cash in hand and call deposits in banks net of outstanding bank overdrafts. Investments with short

maturities (i.e. three months or less from date of acquisition) are also treated as cash equivalents. Bank overdrafts are disclosed under Interest Bearing Liabilities in the balance sheet.

### 2.4.8 Property, Plant and Equipment

#### (a) Cost and Valuation

All items of property, plant and equipment are initially recorded at cost. Cost includes expenditure that is directly attributable to the acquisition of the items. Where items of property, plant and equipment are subsequently revalued such revalued property, plant and equipment are carried at revalued amounts less any subsequent depreciation thereon. All other property, plant and equipment are stated at historical cost less depreciation.

When an asset is revalued, any increase in the carrying amount is credited directly to a revaluation surplus unless it reverses a previous revaluation decrease relating to the same asset, which was previously recognized as an expense. In such instance the increase is recognized as income, to the extent of the previous write down. Any balance remaining in the revaluation surplus in respect of an asset is transferred directly to the accumulated profits on retirement or disposal of the asset.

Subsequent cost are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be reliably measured.

Cost on repair and maintenance are charged to the income statement during the period in which they are incurred.

Property, plant and equipment includes amongst others the following:

#### (i) Fleet

Fleet is 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.

#### (ii) Aircraft Rotable Spares

Aircraft rotatable spares, which are treated as tangible fixed assets, are initially recorded at cost and depreciated over the estimated useful life. This item is grouped under "Aircraft Related Equipment".

#### (iii) 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 over the estimated useful life.

*(iv) Major engine overhaul expenditure*

Cost of major engine overhauls that provides future economic benefits for more than one period are capitalized and depreciated over the shorter of average expected life between major overhauls or lease period. This item is grouped under "Aircraft Related Equipment" and "Improvements to Aircraft / Engines on Operating Leases".

*(b) Depreciation*

Provision for depreciation is calculated by using a straight line method on cost or valuation of all property, plant and equipment, other than freehold land, in order to write off such amounts over the following estimated useful lives by equal installments.

Aircraft	-	over 16 years after making a 10 percent allowance for residual value
Aircraft rotatable spares	-	over 8 years
Engine Overhaul	-	3 - 4 Years
Plant & Equipment	-	over periods ranging from 1 to 10 years according to the type of equipment
Buildings	-	over the expected useful life subject to a maximum of 20 years

The assets useful lives, residual values and method of depreciation are reviewed and adjusted for if appropriate at each financial year end.

*(c) Derecognition*

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

**2.4.9 Aircraft Maintenance Reserve**

Aircraft maintenance reserve consists of payments made to lessors on a monthly basis for the future overhaul of engines, airframes and aircraft components in terms of operating lease

agreements. Such payments are recorded as receivables net of provision for doubtful receivables in the balance sheet. Company recovers the cost incurred on overhauls of engines, airframes and aircraft components from lessors against such receivables on completion of the maintenance event.

**2.4.10 Leases**

*(a) Operating Leases*

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term are treated as operating leases. Payments made under the operating leases are recognised in the income statement when it falls due.

Cost of re-configuration are capitalised and amortised over the shorter of the useful lives or the lease period.

*(b) Sale and Leaseback*

Profits arising on sale and leaseback transactions which result in operating leases are recognized in the income statement immediately to the extent that the sales proceeds do not exceed the fair value of the assets concerned.

*(c) Deferred Engine Upgrade Cost*

The present value of deferred engine upgrade cost to be made after 12 months from the Balance Sheet date in line with the return conditions of the related operating lease agreements is included as part of property, plant and equipment and depreciated over the useful life of the asset concerned with the corresponding liability measured in accordance with SLAS 36 and grouped under other deferred liabilities in the Balance Sheet.

**2.4.11 Investments**

*Long-term investments*

Long-term investments are stated at cost. The cost of investments is the cost of acquisition. Carrying amounts are reduced to recognise a decline other than temporary, determined for each investment individually.

In the Company's financial statements, investment in subsidiary company has been accounted for at cost, net of any provision for other than temporary diminution in value.

**2.4.12 Impairment of Non Financial Assets**

The Company assesses at each reporting date whether there is an indication that an asset maybe impaired. If any such indication exists, or when annual impairment testing is required for an asset, the Company makes an assessment of the assets recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.



## Notes to the Financial Statements

### 2.4.13 Provisions

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 obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of the provision to be re-imbursed, the re-imburement is recognised as a separate asset but only when the re-imburement is virtually certain. The expense relating to any provision is presented in the income statement net of any re-imburement. 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 risk specific to the liability. Where discounting is used the increase in the provision resulting from the unwinding effect is recognised as a finance cost.

### 2.4.14 Retirement Benefit Obligation

#### (a) Defined Benefit Plan-Gratuity Company

The Company measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan with the advice of an actuary every 2 years using 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	- LKR	10%
		- USD	5%
	Special Premium	- LKR	10%
iii)	Retirement Age - Male	60 years	
	- Female	60 years	
iv)	The Company will continue as a going concern		

Based on these assumptions, the present value of the accrued benefits as at 31 March 2008 is Rs. 1,780.44 million. The amount recognised as an expense for the current year is Rs. 339.89 million. The gratuity liability is not externally funded. This item is grouped under "Other Deferred Liabilities" in the Balance Sheet.

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

#### Subsidiary - SriLankan Catering (Pvt) Limited

Provision for gratuity has been made in accordance with the payment of Gratuity Act No. 12 of 1983 and has been made for employees who have completed more than one year of service with the Company, in accordance with Sri Lanka Accounting Standard No. 16 - Retirement Benefit

Costs. This fund is not externally funded and nor actuarially valued. The basis for provision 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 and 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.

### 2.4.15 Frequent Flyer Programme

Emirates and the Company operated a frequent-flyer programme "Skywards". Pooled cost and revenue relating to the programme were shared amongst Emirates and the Company, in proportion to the Skywards frequent flyer miles issued to members on the flights operated by Emirates and the Company.

The Company ceased to be a partner of "Skywards" with effect from 1 April 2008. Alternatively the Company inducted its own frequent flyer programme "FlySmiLes" with effect from 1 April 2008.

### 2.4.16 Revenue Recognition

#### (a) Airline Revenue Recognition

Revenue is generated principally from the carriage of passengers, cargo and mail, rendering of airport terminal services, engineering services, air charters and related activities. Revenue for the Group excludes dividend from subsidiary and inter-company transactions.

(i) Passenger and cargo sales are recognised as operating revenue when the transportation is provided. The value of unused tickets and airway bills is included in current liabilities as sales in advance of carriage. The value of unused tickets and airway bills are recognized as revenue if unused after three years.

(ii) Revenue from the provision of airport terminal services is recognised upon rendering of services.

(iii) Revenue from provision of third party maintenance services is recognised upon completion of such event.

**(b) Dividend income**

Dividend income is accounted for when the shareholders right to receive the payment is established.

**(c) Rental Income**

Rental income is recognised on an accrual basis.

**(d) Interest income**

Interest income is recognised on an accrual basis.

**(e) Other income**

Other income is recognised on a cash basis.

**2.4.17 Fuel Risk Management**

The Company's fuel risk management strategy aims to provide the Airline with protection against sudden and significant escalation of oil prices thereby ensuring that the Company is not competitively disadvantaged in an adverse manner in the event of a substantial increase in the price of fuel. The strategy has enabled to mitigate the impact of the increases in the price of jet fuel. The net gain on the fuel risk management program was USD 10.21 million (Rs 1,129.61 million) for the financial year ended 31 March 2008. As at the balance sheet date the Company has liquidated all such programs.

**2.4.18 Segment Reporting**

A segment is a distinguishable component of the Group that is engaged in providing services within a particular economic environment which is subject to risks and rewards that are different from those of other segments.

Primary segments are determined based on the geographical spread of operations as the Company's risks and rate of return are predominantly affected by the fact that it operates in different countries. The analysis of turnover by origin of sale is derived by allocating revenue to the area in which the sale was made. Expenses that cannot be directly identifiable to a particular segment are not segregated and disclosed.

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.

The secondary reporting by business segment is based on the nature of services provided by the Group. The Group is engaged in two main business segments - Air transportation and inflight catering services through its subsidiary.

**2.5 Future Changes in Accounting Policies****2.5.1 Standard issued but not yet effective****Sri Lanka Accounting Standard No. 16 (Revised 2006) Employee Benefits**

A revised SLAS 16 was issued in 2007, and becomes effective for financial years beginning on or after 1 July 2007. Accordingly, the financial statements for the year ending 31 March 2009 will adopt revised SLAS 16.

As a result of the revision, all short term employee benefits of the Company will require to be recognised when an employee has rendered service in exchange for these benefits. For post employment benefits the Company will be required to involve a qualified actuary in their measurement. Pending a detailed review of this revised standard the financial impact on the Group cannot be assessed with reasonable certainty.



## Notes to the Financial Statements

**3 PROPERTY, PLANT AND EQUIPMENT****3.1 Group**

	Land and Buildings	Plant & Equipment	Improvements to Aircraft / Engines on Operating Leases	Aircraft Related Equipment	Aircrafts & Related Equipment	Capital Work-in- Progress	Total
	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M
<b>Cost/Revaluation</b>							
Balance as at 01 April 2007	3,094.84	4,957.52	6,455.86	4,969.69	19,592.68	154.20	39,224.79
Acquisitions/Modifications/Revaluations	48.33	259.12	7,048.82	1,501.69	1,062.34	3,808.02	13,728.32
Transfers/Adjustments	-	(10.60)	(34.62)	(26.82)	-	(2,646.81)	(2,718.85)
Disposals	-	(72.17)	(1,462.24)	(376.46)	(20,655.02)	(67.71)	(22,633.60)
<b>Balance as at 31 March 2008</b>	<u>3,143.17</u>	<u>5,133.87</u>	<u>12,007.82</u>	<u>6,068.10</u>	<u>-</u>	<u>1,247.70</u>	<u>27,600.66</u>
<b>Accumulated Depreciation</b>							
Balance as at 01 April 2007	393.17	3,167.53	3,990.23	3,634.07	12,618.43	-	23,803.43
Charge for the Year	173.11	621.87	2,570.49	370.32	1,262.23	-	4,998.02
Transfers/Adjustments	-	(0.36)	(8.42)	(1.58)	-	-	(10.36)
Disposals	-	(69.15)	(1,462.24)	(61.56)	(13,880.66)	-	(15,473.61)
<b>Balance as at 31 March 2008</b>	<u>566.28</u>	<u>3,719.89</u>	<u>5,090.06</u>	<u>3,941.25</u>	<u>-</u>	<u>-</u>	<u>13,317.48</u>
<b>Net Book Value as at 31 March 2008</b>	<u>2,576.89</u>	<u>1,413.98</u>	<u>6,917.76</u>	<u>2,126.85</u>	<u>-</u>	<u>1,247.70</u>	<u>14,283.18</u>
Net Book Value as at 31 March 2007	2,701.67	1,789.99	2,465.63	1,335.62	6,974.25	154.20	15,421.36

- 3.2** (a) The land and buildings at valuation of the Company are disclosed under Note 3.4 (a).
- (b) During the year, the Group acquired property, plant and equipment to the aggregate value of Rs. 11,081.51 million (2006/07 - Rs. 4,096.62 million). Cash payments amounting to Rs. 8,030.09 million (2006/07 - Rs. 3,369.48 million) were made during the year to acquire property, plant and equipment.
- (c) Group property, plant and equipment includes fully depreciated assets having a gross carrying amount of Rs. 8,119.25 million (2006/07 - Rs. 5,988.77 million).



### 3.3 Company

	Land and Buildings	Plant & Equipment	Improvements to Aircraft / Engines on Operating Leases	Aircraft Related Equipment	Aircrafts & Related Equipment	Capital Work-in- Progress	Total
	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M
<b>Cost/Revaluation</b>							
Balance as at 01 April 2007	1,567.28	3,374.71	6,455.86	4,969.69	19,592.68	154.21	36,114.43
Acquisitions/Modifications/Revaluations	20.39	230.53	7,048.82	1,501.69	1,062.34	3,808.02	13,671.79
Transfers/Adjustments	-	(10.64)	(34.62)	(26.82)	-	(2,646.81)	(2,718.89)
Disposals	-	(42.98)	(1,462.24)	(376.46)	(20,655.02)	(67.71)	(22,604.41)
<b>Balance as at 31 March 2008</b>	<u>1,587.67</u>	<u>3,551.62</u>	<u>12,007.82</u>	<u>6,068.10</u>	<u>-</u>	<u>1,247.71</u>	<u>24,462.92</u>
<b>Accumulated Depreciation</b>							
Balance as at 01 April 2007	335.88	2,774.43	3,990.23	3,634.07	12,618.43	-	23,353.04
Charge for the Year	96.37	334.23	2,570.49	370.32	1,262.23	-	4,633.64
Transfers/Adjustments	-	(0.36)	(8.42)	(1.58)	-	-	(10.36)
Disposals	-	(39.96)	(1,462.24)	(61.56)	(13,880.66)	-	(15,444.42)
<b>Balance as at 31 March 2008</b>	<u>432.25</u>	<u>3,068.34</u>	<u>5,090.06</u>	<u>3,941.25</u>	<u>-</u>	<u>-</u>	<u>12,531.90</u>
<b>Net Book Value as at 31 March 2008</b>	<u>1,155.42</u>	<u>483.28</u>	<u>6,917.76</u>	<u>2,126.85</u>	<u>-</u>	<u>1,247.71</u>	<u>11,931.02</u>
Net Book Value as at 31 March 2007	<u>1,231.40</u>	<u>600.28</u>	<u>2,465.63</u>	<u>1,335.62</u>	<u>6,974.25</u>	<u>154.21</u>	<u>12,761.39</u>

3.4 (a) The following Land and Buildings were revalued during the financial year 2006/07.

Valuer and the Date of Valuation	Location
Mr. Ranjan J Samarakone - Corporate Valuer on 31 January 2007.	SriLankan Administration & Training Building at Katunayaka Human Resources Development Centre Building at Katunayaka Flight Operations Building at Katunayaka Engineering Hanger at Katunayaka Property situated at No 14, Sir Baron Jayathilaka Mawatha, Colombo 1
	} excluding land

The results of such revaluations have been incorporated in these financial statements from its effective date which is 31 January 2007. The surplus arising from the revaluation has been transferred to a revaluation reserve.

- (b) During the year, the Company acquired property, plant and equipment to the aggregate value of Rs. 11,024.98 million (2006/07 - Rs. 2,902.08 million). Cash payments amounting to Rs. 7,973.57 million (2006/07 - Rs. 3,170.29 million) were made during the year to acquire property, plant and equipment.
- (c) Property, plant and equipment of the Company includes fully depreciated assets having a gross carrying amount of Rs. 7,696.85 million (2006/07 - Rs. 5,964.95 million).



## Notes to the Financial Statements

**4 AIRCRAFT MAINTENANCE RESERVE**

	<b>2008</b>			<b>2007</b>		
	Amount Recoverable Within 1 Year Rs. M	Amount Recoverable After 1 Year Rs. M	Total Rs. M	Amount Recoverable Within 1 Year Rs. M	Amount Recoverable After 1 Year Rs. M	Total Rs. M
Aircraft Maintenance Reserve	<u>2,768.51</u>	<u>3,509.99</u>	<u>6,278.50</u>	<u>2,106.50</u>	<u>3,597.32</u>	<u>5,703.82</u>

	Balance as at 01 April 2007 Rs. M	Payments Accrued Rs. M	Interest Rs. M	Recoveries Rs. M	Balance as at 31 March 2008 Rs. M
Aircraft Maintenance Reserve	<u>5,703.82</u>	<u>1,984.24</u>	<u>123.82</u>	<u>(916.34)</u>	6,895.54
Less: Provision for Doubtful Recoveries					(702.70)
Exchange Gain					85.66
<b>Net Recoverable</b>					<u>6,278.50</u>

**5 INTANGIBLE ASSET****Computer Software**

	Group Rs. M	Company Rs. M
<b>Cost</b>		
Balance as at 01 April 2007	479.41	453.84
Acquisitions/Modifications	<u>119.69</u>	<u>118.91</u>
<b>Balance as at 31 March 2008</b>	<u>599.10</u>	<u>572.75</u>
<b>Accumulated Amortisation</b>		
Balance as at 01 April 2007	349.47	339.72
Charge for the Year	<u>44.44</u>	<u>39.51</u>
<b>Balance as at 31 March 2008</b>	<u>393.91</u>	<u>379.23</u>
<b>Net Book Value as at 31 March 2008</b>	<u>205.19</u>	<u>193.52</u>
Net Book Value as at 31 March 2007	<u>129.94</u>	<u>114.12</u>

**6 INVESTMENTS****6.1 Group**

As at 31 March	Country of Incorporation	Holding %	2008 Cost Rs. M	2007 Cost Rs. M
<b>Non-Current</b>				
Investments in Equity Securities				
- SITA INC Foundation (Directors Valuation Rs 25.5 M (2007: Rs 25.5 M))	Netherlands	0.8%	25.50	25.50
			<u>25.50</u>	<u>25.50</u>
<b>Current</b>				
Investment in Fixed Deposits				
			6,856.41	-
			<u>6,856.41</u>	<u>-</u>
			<u>6,881.91</u>	<u>25.50</u>

**6.2 Company**

As at 31 March	Country of Incorporation	Holding %	2008 Cost Rs. M	2007 Cost Rs. M
<b>Non-Current</b>				
Investments in Equity Securities				
- SriLankan Catering (Pvt) Limited (Directors Valuation Rs 70.4 M (2007: Rs 70.4 M))	Sri Lanka	100%	70.40	70.40
- SITA INC Foundation (Directors Valuation Rs 25.5 M (2007: Rs 25.5 M))	Netherlands	0.8%	25.50	25.50
			<u>95.90</u>	<u>95.90</u>
<b>Current</b>				
Investment in Fixed Deposits				
			6,856.41	-
			<u>6,856.41</u>	<u>-</u>
			<u>6,952.31</u>	<u>95.90</u>

The investment in SITA INC Foundation, represents unquoted depositary certificates without fixed maturity.

**7 INVENTORIES**

As at 31 March	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
Consumables and Spares	3,803.37	3,442.23	3,753.23	3,412.16
Raw Materials	135.40	85.66	-	-
Duty Free	50.90	53.40	50.90	53.40
	<u>3,989.67</u>	<u>3,581.29</u>	<u>3,804.13</u>	<u>3,465.56</u>



## Notes to the Financial Statements

**8 TRADE AND OTHER RECEIVABLES**

	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
As at 31 March				
<b>Trade Receivables</b>	6,794.16	5,780.73	6,594.80	5,569.34
Less: Provision for doubtful debts	(175.06)	(408.71)	(136.92)	(408.54)
	<u>6,619.10</u>	<u>5,372.02</u>	<u>6,457.88</u>	<u>5,160.80</u>
<b>Other Debtors</b>	2,668.82	2,386.90	2,281.15	1,745.77
Advances and Prepayments	3,048.82	2,382.80	2,971.48	2,346.38
	<u>12,336.74</u>	<u>10,141.72</u>	<u>11,710.51</u>	<u>9,252.95</u>
Loans and Advances to Company Officers (Note 8.1)	32.93	36.21	28.04	33.43
	<u>12,369.67</u>	<u>10,177.93</u>	<u>11,738.55</u>	<u>9,286.38</u>

**8.1 Loans to Company Officers:**

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

	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
Balance as at 01 April	4.60	3.36	2.67	0.66
Loans granted during the year	4.53	5.20	1.33	2.90
Repayments	(3.70)	(3.96)	(2.50)	(0.89)
Balance as at 31 March	<u>5.43</u>	<u>4.60</u>	<u>1.50</u>	<u>2.67</u>

**9 CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT**

	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
As at 31 March				
<b>Components of Cash and Cash Equivalents</b>				
<b>9.1 Favourable Cash and Cash Equivalents Balance</b>				
Cash and Bank Balances	2,010.55	924.20	1,776.94	860.35
Short Term Deposits	5,265.13	5,628.67	5,265.13	5,628.67
	<u>7,275.68</u>	<u>6,552.87</u>	<u>7,042.07</u>	<u>6,489.02</u>
<b>9.2 Unfavourable Cash and Cash Equivalents Balance</b>				
Bank Overdrafts	(918.50)	(447.14)	(918.50)	(447.14)
<b>Total Cash and Cash Equivalents for the purpose of Cash Flow Statement</b>	<u>6,357.18</u>	<u>6,105.73</u>	<u>6,123.57</u>	<u>6,041.88</u>

**10 STATED CAPITAL/SHARE CAPITAL**

	Stated Capital		Share Capital	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
<b>Issued and fully paid</b>				
Balance as at 01 April	-	-	5,146.35	5,146.35
Transferred to Stated Capital from Share Capital	5,146.35	-	(5,146.35)	-
Balance as at 31 March	<u>5,146.35</u>	<u>-</u>	<u>-</u>	<u>5,146.35</u>

The Authorised Capital and par value concept in relation to share capital was abolished by the Companies Act No. 7 of 2007. The total amount received by the Company in respect of the issue of 51,463,463 shares are referred to as "Stated Capital".

**11 RESERVES**

	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
As at 31 March				
Capital Reserves (Note 11.1)	1,047.70	1,047.70	1,047.70	1,047.70
Revenue Reserves	0.63	0.63	0.63	0.63
General Reserves (Note 11.2)	53.44	53.44	53.44	53.44
	<u>1,101.77</u>	<u>1,101.77</u>	<u>1,101.77</u>	<u>1,101.77</u>

**11.1 Capital Reserves***(a) Movement in Capital Reserve*

	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
As at 31 March				
Balance as at 01 April	1,047.70	75.60	1,047.70	75.60
Surplus on revaluation of land and buildings	-	972.10	-	972.10
Balance as at 31 March	<u>1,047.70</u>	<u>1,047.70</u>	<u>1,047.70</u>	<u>1,047.70</u>

*(b)* Capital Reserves of the Company/ Group comprise of surplus arising from the revaluation of property, plant and equipment which amounted to Rs. 1,047.70 million relating to previous years.

**11.2 General Reserve**

General reserve of Rs. 53.44 million represent transfers from Capital Reserves in prior years relating to exchange differences capitalised in 1987/88 and in 1988/89 in respect of property, plant and equipment which have been financed through foreign currency loans.



## Notes to the Financial Statements

**12 INTEREST BEARING LIABILITIES**

	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
As at 31 March				
<b>Current Liabilities</b>				
Long-term Loans (Note 12.2(b))	500.80	258.82	14.93	14.13
Bank Overdraft	918.50	447.14	918.50	447.14
	<u>1,419.30</u>	<u>705.96</u>	<u>933.43</u>	<u>461.27</u>
<b>Non-Current Liabilities</b>				
Long-term Loans (Note 12.2(b))	1,653.18	2,249.85	20.14	35.51
	<u>1,653.18</u>	<u>2,249.85</u>	<u>20.14</u>	<u>35.51</u>

**12.2 (a) Long-term Loans**

	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
Balance as at 01 April	2,508.67	1604.12	49.64	114.24
Additions during the year	-	969.15	-	-
Payments during the year	(354.40)	(76.42)	(14.28)	(76.42)
Restatements	(0.29)	11.82	(0.29)	11.82
Balance as at 31 March	<u>2,153.98</u>	<u>2,508.67</u>	<u>35.07</u>	<u>49.64</u>

**12.2 (b) Long-term Loans**

	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 USD M	2007 USD M
As at 31 March				
Payable within one year included under Current Liabilities	14.93	14.13	0.14	0.13
Between :				
- one and two years	15.98	15.12	0.15	0.14
- two and three years	4.16	16.18	0.04	0.15
- three and four years	-	4.21	-	0.04
- four and five years	-	-	-	-
Payable after one year included under Non - Current Liabilities	20.14	35.51	0.19	0.33
	<u>35.07</u>	<u>49.64</u>	<u>0.33</u>	<u>0.46</u>

**12.2 (b) Long-term Loans Contd.****Group**

As at 31 March	2008 Rs. M	2007 Rs. M	2008 USD M	2007 USD M
Payable within one year included under Current Liabilities	500.80	258.82	4.64	2.37
Between :				
- one and two years	501.87	561.87	4.65	5.14
- two and three years	490.05	562.93	4.54	5.15
- three and four years	485.89	550.96	4.50	5.04
- four and five years	175.37	574.09	1.62	5.25
- after five years	-	-	-	-
Payable after one year included under Non - Current Liabilities	1,653.18	2,249.85	15.31	20.58
	<u>2,153.98</u>	<u>2,508.67</u>	<u>19.95</u>	<u>22.95</u>

The interest rate applicable to the loan of the subsidiary is at LIBOR + 2.35%.

**13 OTHER DEFERRED LIABILITIES**

As at 31 March	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
Retirement Benefit Obligation (Note 13.1)	2,056.64	1,887.01	1,909.84	1,766.26
Deferred Engine Upgrade Cost (Note 13.2)	1,339.23	-	1,339.23	-
	<u>3,395.87</u>	<u>1,887.01</u>	<u>3,249.07</u>	<u>1,766.26</u>

**13.1 Retirement Benefit Obligation**

	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
Balance as at 01 April	1,887.01	1,473.68	1,766.26	1,368.11
Charge for the year	403.10	505.42	364.40	483.36
Payments during the year	(233.47)	(92.09)	(220.82)	(85.21)
Balance as at 31 March	<u>2,056.64</u>	<u>1,887.01</u>	<u>1,909.84</u>	<u>1,766.26</u>

**13.2** Deferred engine upgrade cost is recognised in line with Accounting Policy No. 2.4.10 (c). The unwinding effect of the discount is recognised in the Income Statement as a finance cost as it occurs with the corresponding increase in the carrying amount of the deferred engine upgrade cost.



## Notes to the Financial Statements

**14 TRADE AND OTHER PAYABLES**

	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
As at 31 March				
Trade Payables	9,635.36	7,436.92	16,054.41	13,316.13
Dividend Payable	-	6.10	-	6.10
Sales in Advance of Carriage	11,287.59	10,805.97	11,287.59	10,805.97
Provisions, Accrued Expenses and Other Payables	917.29	422.71	684.01	241.73
	<u>21,840.24</u>	<u>18,671.70</u>	<u>28,026.01</u>	<u>24,369.93</u>

**15 REVENUE AND SEGMENT INFORMATION****15.1 Revenue**

	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
Year ended 31 March				
Scheduled services - Passenger	63,808.34	53,862.32	63,808.34	53,862.32
- Cargo	10,629.34	9,317.78	10,689.73	9,354.17
- Excess Baggage	619.34	690.73	619.34	690.73
- Mail	89.29	76.36	89.29	76.36
	75,146.31	63,947.19	75,206.70	63,983.58
Air Terminal and Other Services	3,385.66	3,389.37	3,407.99	3,415.20
Duty Free	499.68	353.69	499.68	353.69
Non-Scheduled Services	-	130.19	-	130.19
Air Taxi Services	14.19	81.10	14.19	81.10
Flight Catering	985.63	1,002.16	-	-
<b>Total</b>	<u>80,031.47</u>	<u>68,903.70</u>	<u>79,128.56</u>	<u>67,963.76</u>

**15.2 Segment Information**

(a) Primary Reporting by Geographical Segment - Turnover by Origin of Sale

	Asia	Europe & Africa	Middle East	North & South America	South West Pacific	Total 2008
	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M
Year ended 31 March						
Scheduled services - Passenger	29,528.54	18,746.56	12,964.25	2,007.69	561.30	63,808.34
- Cargo	8,993.03	967.50	518.92	116.05	33.84	10,629.34
- Excess Baggage	360.88	19.52	223.83	14.68	0.43	619.34
- Mail	79.94	0.98	0.36	1.89	6.12	89.29
	<u>38,962.39</u>	<u>19,734.56</u>	<u>13,707.36</u>	<u>2,140.31</u>	<u>601.69</u>	<u>75,146.31</u>
Air Terminal and Other Services	3,385.66	-	-	-	-	3,385.66
Duty Free	127.87	167.64	135.41	-	68.76	499.68
Air Taxi Services	14.19	-	-	-	-	14.19
Flight Catering	985.63	-	-	-	-	985.63
Segment Revenue	<u>43,475.74</u>	<u>19,902.20</u>	<u>13,842.77</u>	<u>2,140.31</u>	<u>670.45</u>	<u>80,031.47</u>



**15.2 Segment Information Contd.**(a) *Primary Reporting by Geographical Segment - Turnover by Origin of Sale Contd.*

Year ended 31 March	Asia Rs. M	Europe & Africa Rs. M	Middle East Rs. M	North & South America Rs. M	South West Pacific Rs. M	Total 2007 Rs. M
Scheduled services - Passenger	24,483.39	15,328.30	11,689.26	1,680.18	681.19	53,862.32
- Cargo	7,970.96	747.42	515.40	57.97	26.03	9,317.78
- Excess Baggage	388.40	15.10	270.91	15.49	0.83	690.73
- Mail	72.25	3.53	0.18	0.39	0.01	76.36
	<u>32,915.00</u>	<u>16,094.35</u>	<u>12,475.75</u>	<u>1,754.03</u>	<u>708.06</u>	<u>63,947.19</u>
Air Terminal and Other Services	3,389.37	-	-	-	-	3,389.37
Duty Free	90.51	118.66	95.85	-	48.67	353.69
Non-Scheduled Services	130.19	-	-	-	-	130.19
Air Taxi Services	81.10	-	-	-	-	81.10
Flight Catering	1,002.16	-	-	-	-	1,002.16
Segment Revenue	<u>37,608.33</u>	<u>16,213.01</u>	<u>12,571.60</u>	<u>1,754.03</u>	<u>756.73</u>	<u>68,903.70</u>

(b) *Secondary Reporting by Business Segment*

Year ended 31 March	Business Segment			Business Segment		
	Airline 2008 Rs. M	Flight Catering 2008 Rs. M	Group 2008 Rs. M	Airline 2007 Rs. M	Flight Catering 2007 Rs. M	Group 2007 Rs. M
<b>Revenue</b>						
Sales to external customers	79,045.84	985.63		67,901.54	1,002.16	
Inter-segment Sales	82.72	2,303.99		62.22	1,939.42	
Total Revenue	<u>79,128.56</u>	<u>3,289.62</u>	<u>80,031.47</u>	<u>67,963.76</u>	<u>2,941.58</u>	<u>68,903.70</u>
<b>Results</b>						
Net Profit After Tax	4,428.23	966.78	4,899.66	568.04	1,294.13	862.18
<b>Other Segment Information</b>						
Assets	47,940.10	9,975.34	51,283.80	37,916.19	9,771.21	41,592.71
Liabilities	32,404.10	2,643.26	28,486.09	26,808.42	2,905.91	23,694.66
Acquisition of Property, Plant and Equipment	11,024.98	56.53	11,081.51	2,902.08	222.44	3,124.52
Depreciation and Amortisation	4,771.34	369.31	5,140.65	4,610.88	289.40	4,900.28
Operating Expenses	77,382.67	1,608.69	76,599.99	64,792.37	1,381.99	64,161.70

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



## Notes to the Financial Statements

**16 OTHER INCOME AND GAINS**

Year ended 31 March	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
Profit on Disposal of Property, Plant and Equipment (Note 16.1)	5,633.88	14.43	5,633.88	3.43
Gain on Exchange	565.41	1,013.68	681.24	751.83
Miscellaneous Income	92.53	89.06	92.32	88.57
Net Income on Third Party Maintenance	112.89	16.57	112.89	16.57
Rental Income	0.24	0.24	0.24	0.24
	<u>6,404.95</u>	<u>1,133.98</u>	<u>6,520.57</u>	<u>860.64</u>

**16.1** Profit on disposal of Property, Plant and Equipment includes the gain on sale and leaseback of three A340 aircraft amounting to Rs. 5,487.94 million.

**17. FINANCE INCOME AND COST****17.1 Finance Cost**

Year ended 31 March	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
Interest Cost on Borrowings and Bank Overdrafts	167.58	123.40	2.99	15.57
Finance Charges on Lease Liability	38.97	95.98	38.97	95.98
	<u>206.55</u>	<u>219.38</u>	<u>41.96</u>	<u>111.55</u>

**17.2 Finance Income**

Year ended 31 March	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
Interest Income	503.25	318.36	501.60	315.72
Dividend	-	-	500.00	950.00
	<u>503.25</u>	<u>318.36</u>	<u>1,001.60</u>	<u>1,265.72</u>

**18 PROFIT FROM OPERATING ACTIVITIES**

Stated after charging/(crediting):

Year ended 31 March	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
<b>Included in Cost of Sales:</b>				
Staff Costs	7,984.90	6,748.10	7,984.90	6,748.10
Operating Lease Rentals	9,197.27	7,297.17	9,197.27	7,297.17
Depreciation / Amortisation	4,529.44	4,297.09	4,529.43	4,297.08
Amortisation of A330 Pre-delivery Payments	98.19	98.23	98.19	98.23
Provision for Slow Moving Inventory	25.21	114.13	25.21	114.13
Net Gain on Fuel Risk Management Program	(1,129.61)	(1,051.07)	(1,129.61)	(1,051.07)
Franchise Fees	220.01	214.18	103.78	111.83
<b>Included in Administrative Expenses:</b>				
Staff Costs	1,705.16	1,711.78	1,366.81	1,424.45
Defined Benefit Plan Costs - Gratuity	403.10	505.41	364.40	483.36
Defined Contribution Plan Costs - EPF & ETF	779.53	702.10	755.98	682.71
Provision for Doubtful Debts	161.40	22.20	123.44	22.20
Depreciation / Amortisation	511.51	503.67	142.20	214.28
Auditors' Remuneration				
- Audit	5.52	4.08	4.22	3.50
- Non Audit	0.60	1.35	0.60	1.35
Provision for Prolongation Claim	4.93	89.07	-	-
Provision for Maintenance Reserve	702.70	-	702.70	-
<b>Included in Sales and Marketing Costs:</b>				
Advertising Costs	1,067.77	973.18	1,067.77	973.18
Staff Costs	33.89	31.88	33.89	31.88
Depreciation / Amortisation	1.52	1.29	1.52	1.29

**19 TAXATION**

Year ended 31 March	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
<b>Tax Expense</b>				
The major components of income tax expense are as follows:				
<b>Current income tax</b>				
Current Tax Expense on Ordinary Activities for the Year (Note 19.1)	26.53	25.77	26.53	11.74
Economic Service Charge	12.61	-	-	-
10% WHT on Dividend	-	50.00	-	-
Under/(Over) Provision of current taxes in respect of prior years	-	(7.89)	-	(7.89)
	<u>39.14</u>	<u>67.88</u>	<u>26.53</u>	<u>3.85</u>



## Notes to the Financial Statements

**19.1** Reconciliation between Current Tax Expense/ (Income) and the product of Accounting Profit

Year ended 31 March	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
Accounting Profit (before Tax)	4,938.80	930.06	4,454.76	571.89
Aggregate Disallowed Items	39.24	-	29.34	-
Aggregate Allowable Expenses	(4.31)	-	-	-
Income not subject to Tax	(4,858.27)	(895.99)	(4,368.64)	(537.82)
Assessable Income under Normal Rate of Tax	115.46	34.07	115.46	34.07
Turnover at Specified Rate of Tax (2%)	-	701.56	-	-
Total Assesable Income	115.46	735.63	115.46	34.07
Set-Off of Current Year loss	(40.41)	(11.92)	(40.41)	(11.92)
Taxable Profit	75.05	723.71	75.05	22.15
Specified Tax Rate 2%	-	14.03	-	-
Statutory Tax Charge at Normal Rate of Tax	26.27	11.62	26.27	11.62
Social Responsibility Levy @ 1%	0.26	0.12	0.26	0.12
Current Income Tax Expense	26.53	25.77	26.53	11.74

**19.2 Deferred Taxation (Subsidiary)**

Deferred tax asset for the Public Restaurant amounting to Rs. 34.72 million (2006/07: Rs. 30.72 million) has not been recognised in view of carried forward tax losses.

**20 EARNINGS PER SHARE**

**20.1** Basic Earnings Per Share is calculated by dividing the Profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

**20.2** The following reflects the income and share data used in the Basic Earnings Per Share computation.

	Group	
	2008	2007
Profit attributable to Ordinary Shareholders for Basic Earnings Per Share (Rs. Million)	4,899.66	862.18
Weighted average number of Ordinary Shares in issue	51,463,463	51,463,463
Basic Earnings Per Share Rs.	95.21	16.75

**21 COMMITMENTS AND CONTINGENCIES****21.1 Capital Expenditure Commitments**

The Group and Company's commitment for acquisition of property, plant and equipment incidental to the ordinary course of business as at 31 March, is as follows:

	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
Contracted but not provided for	471.94	1,317.13	471.94	1,317.13
Authorised by the Board, but not contracted for	23.11	60.95	23.11	60.95
	495.05	1,378.08	495.05	1,378.08

## 21.2 Financial Commitments

- (a) The Company's annual commitment for minimum lease payments under non-cancellable operating leases as at 31 March were as follows:

	Company	
	2008 Rs. M	2007 Rs. M
Within one year	8,231.52	7,313.78
After one year but not more than five years	25,814.83	22,371.12
Later than five years	4,129.72	-
	<u>38,176.07</u>	<u>29,684.90</u>

- (b) During the financial year 2008/09 the lease of five aircraft and one spare engine is due to expire. Negotiations are currently being carried out for the extension of the lease of two aircraft and the spare engine.
- (c) The remaining lease rental commitment for the land in Katunayake, leased by the Company and Subsidiary for a period of 30 years from 1 April 1998 and 20 April 2004 respectively is as follows:

	Group		Company	
	2008 Rs. M	2007 Rs. M	2008 Rs. M	2007 Rs. M
<b>Installment payable:</b>				
Within one year	157.12	157.12	147.62	147.62
After one year but not more than five years	672.78	658.02	634.78	620.02
Later than five years	3,844.04	4,014.34	3,271.54	3,433.93

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

## 21.3 Commitment on Guarantee of Loan

The Company has guaranteed the loan of USD 19.625 million obtained by its' Subsidiary SriLankan Catering (Pvt) Limited for the construction of the new flight kitchen.

## 21.4 Contingencies

### Company

- (a) No provision has been made in these financial statements as the Directors do not anticipate any significant liability in respect of any contingent liabilities arising in the ordinary course of business of the Company in respect of legal actions, other claims and potential claims being made against the Company. The management estimates contingent liabilities at Rs. 8,979.34 million as at 31 March 2008.
- (b) All employees based in Sri Lanka with 5 or more years of service with the Company are entitled for gratuity, under the Payment of Gratuity Act. No. 12 of 1983. The gratuity liability of the Company as at 31 March 2008 is based on a salary escalation rate of 10% and 5% per annum in respect of salaries denoted in Sri Lanka Rupees and in US Dollars respectively, and a discount rate of 10% per annum. Based on these assumptions the present value of accrued benefits, as at 31 March 2008 is Rs. 1,780.44 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 March 2008 would be Rs. 2,164.66 million. Hence there is a contingent liability of Rs. 384.22 million which would crystallise if the Company ceases to be a going concern.



## Notes to the Financial Statements

### *Subsidiary*

A case in relation to a prolongation claim of USD 850,862.12 along with interest cost upto 31 December 2006 of USD 93,897.89 has been instituted by M/S Bovis Land Lease. Pending the outcome of this case a provision for the claim and interest of USD 944,760.01 has been made in the financial statements, however no provision has been made for the interest upto the period until the determination of the case, due to its uncertainty.

In addition to the above, 29 cases are pending against the Company as at 31 March 2008 and Directors do not anticipate any significant liability arising due to these cases.

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

Management control of the Company held by Emirates for a period of ten years up to 31 March 2008 has not been extended with the expiry of the management agreement as of 31 March 2008. Consequentially, commencing from 1 April 2008 management of the Company has been vested in the Government of Sri Lanka.

Following the above, several initiatives/changes including the following were made:

- Changes in the Senior Management Team
- Termination of all code share agreements and ceasing to be a partner of the frequent flyer programme "Skywards" with Emirates. All other agreements entered into with Emirates in the ordinary course of business will continue on commercial terms.
- Induction of "FlySmiLes" a frequent flyer programme operated by the Company

### **23 RELATED PARTY DISCLOSURES**

#### **23.1 Group**

##### *23.1.1 Transactions with Key Management Personnel*

SriLankan Airlines Group considers its Board of Directors as the Key Management Personnel of the Company and its' Subsidiary. Except the entitlement of FOC tickets there were no other transactions with the Key Management Personnel and their close family members during the year, which require disclosure as per Sri Lanka Accounting Standard 30 - Related Party Disclosures.

#### **23.2 Company**

**23.2.1** SriLankan Catering (Pvt) Limited provides flight catering services to the Company, and the Company provides passenger and freight services to the Subsidiary in the ordinary course of business. Refer Note 23.3.1 for details of transactions carried out with the Subsidiary.

**23.2.2** Emirates holds 43.63% of the Stated Capital of the Company. The Company has entered into a number of specific related party agreements in the ordinary course of business to obtain goods and services from Emirates Group 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 Company and the Emirates Group are summarised as follows:

**23 RELATED PARTY DISCLOSURES CONTD.****23.2 Company Contd.**

	2008 Receipts/ (Payments) USD	2008 Receipts/ (Payments) Rs.	2007 Receipts/ (Payments) USD	2007 Receipts/ (Payments) Rs.
(a) Purchase of computer systems and services	(9,600,736)	(1,058,260,024)	(11,219,955)	(1,191,623,241)
(b) Purchase of other goods and services	(1,699,403)	(187,040,612)	(1,065,453)	(112,392,547)
(c) Net receipt on transactions relating to international air transport, settled through IATA Clearing House	1,696,579	184,620,257	2,865,316	301,410,899
(d) Galileo segment commission	2,573,271	289,970,833	1,548,529	162,894,301
(e) Frequent flyer programme (net)	35,975	4,796,400	888,816	92,926,688
(f) Net Sales	3,046,488	336,583,565	3,048,992	320,732,363
(g) Net Payment on Ground Handling Services	(3,567,511)	(393,401,696)	(2,400,962)	(253,828,349)
(h) Revenue on C-Check carried out on EK aircraft	1,898,135	208,305,013	1,061,540	111,666,514
<b>Total</b>	<b>(5,617,202)</b>	<b>(614,426,264)</b>	<b>(5,273,177)</b>	<b>(568,213,372)</b>

Year ended 31 March	2008 Receivable/ (Payable) Rs.	2007 Receivable/ (Payable) Rs.
Emirates Group	(51,770,383)	19,012,458

For purposes of disclosing related party transactions Emirates Group comprises of the following entities:

Emirates

Dnata

Mercator

Changi International Airport Services Pte Limited

23.2.3 Transactions including the following have been carried out with the entities controlled by the Government of Sri Lanka in the ordinary course of business.

Year ended 31 March	2008 Receipts/ (Payments) Rs.	2007 Receipts/ (Payments) Rs.
Sales	227,277,650	94,575,820
Others	185,000,000	667,291,032
Purchase of Goods and Services	(19,107,600,293)	(16,284,725,663)
	<b>(18,695,322,643)</b>	<b>(15,522,858,811)</b>



## Notes to the Financial Statements

	2008 Receivable/ (Payable) Rs.	2007 Receivable/ (Payable) Rs.
Net Balance Outstanding as at 31 March	988,579,638	363,387,749

Government controlled entities comprise of the following entities:

Airport and Aviation Services of Sri Lanka Ltd	Board of Investment of Sri Lanka
Ceylon Electricity Board	Ceylon Tourist Board
Ceylon Petroleum Corporation	Sri Lanka Police
Department of Inland Revenue	Mihin Lanka Ltd
Sri Lanka Customs	Ministry of Higher Education
State Pharmaceutical Corporation	Ministry of Finance and Planning
Ministry of Foreign Affairs	Sri Lanka Postal Authority
Inspector General of Police	Sri Lanka Tourism Promotion Bureau
Sri Lanka Airforce	

23.2.4 Transactions including the following have been carried out with other related entities in the ordinary course of business.

Name	Organisation	Position	Nature of transaction	2008 Rs.	2007 Rs.
Mr D H S Jayawardena	Sri Lanka Insurance Corporation Limited	Chairman	Insurance premiums paid	548,773,616	671,080,847
	Pericely (Private) Ltd	Chairman	Inflight purchases	1,229,913	-
	Distilleries Company of Sri Lanka Ltd	Managing Director	Inflight purchases	1,145,293	-
Mr S Ukwatte	Mount Lavinia Hotel Limited	Director	Hotel charges for conferences	302,705	5,822,149

Mr. D H S Jayawardena (Chairman) and Mr.S Ukwatte (Director) of the Company and it's Subsidiary resigned from the Boards with effect from 17 March 2008.

23.2.5 Balances from / to related parties are included under Trade Recievables / Trade Payables in the Balance Sheet.

### 23.3 Subsidiary - SriLankan Catering (Pvt) Limited

#### 23.3.1 Transactions with Related Parties

(i) The Company in the ordinary course of business has made the following Sales:

Year ended 31 March	2008 Rs.	2007 Rs.
SriLankan Airlines Limited	2,303,993,783	1,939,424,663
Emirates	568,923,625	456,740,083
Mihin Lanka Ltd	89,497,697	-
	<u>2,962,415,105</u>	<u>2,396,164,747</u>



Year ended 31 March	2008 Receivable/ (Payable) Rs.	2007 Receivable/ (Payable) Rs.
SriLankan Airlines Limited	6,561,281,834	6,024,278,533
Emirates	106,465,514	130,607,001
Mihin Lanka Ltd	37,959,802	-
	<u>6,705,707,150</u>	<u>6,154,885,534</u>

(ii) Transactions (excluding sales) including the following have been carried out with other related entities in the ordinary course of business.

Organisation	Relationship	Nature of transaction	2008 Payments Rs.	2007 Payments Rs.
SriLankan Airlines Limited	Parent Company	Freight Services	60,411,796	36,388,772
		Other Services	22,333,553	25,828,623
Lanka Milk Foods (Pvt) Limited	Mr D H S Jayawardena, Chairman of the Company is also a Director of these Companies.	Purchase of Raw Materials	5,318,568	3,578,815
Sri Lanka Insurance Corporation Limited		Insurance Services	18,123,021	14,476,162
Stassens Exports (Pvt) Limited		Purchase of Raw Materials	16,923,425	7,414,925
Browns Beach Hotels Limited		Laundry Services	3,289,603	2,954,324
Lanka Dairies (Pvt) Ltd.		Purchase of Raw Materials	2,626,189	2,727,117

## 24 COMPARATIVE INFORMATION

Other Income and Gains and Finance Income has been restated during the period as follows, to conform with the current period presentation.

Group	Other Income and Gains Rs. M	Finance Income Rs. M
Prior period presentation	1,437.91	-
Current period presentation	1,119.55	318.36

Company	Other Income and Gains Rs. M	Finance Income Rs. M
Prior period presentation	2,122.93	-
Current period presentation	857.21	1,265.72



## Financial Statements In USD

## Balance Sheet

	Group		Company	
	2008 USD M	2007 USD M	2008 USD M	2007 USD M
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Property, Plant and Equipment	132.28	141.03	110.50	116.70
Aircraft Maintenance Reserve	32.51	32.90	32.51	32.90
Intangible Asset	1.90	1.19	1.79	1.04
Investments	0.24	0.23	0.89	0.88
	<u>166.93</u>	<u>175.35</u>	<u>145.69</u>	<u>151.52</u>
<b>Current Assets</b>				
Inventories	36.95	32.75	35.23	31.69
Trade and Other Receivables	114.56	93.08	108.72	84.92
Aircraft Maintenance Reserve	25.64	19.26	25.64	19.26
Investments	63.50	-	63.50	-
Cash and Bank Balances	67.38	59.93	65.22	59.34
	<u>308.03</u>	<u>205.02</u>	<u>298.31</u>	<u>195.22</u>
<b>Total Assets</b>	<u>474.96</u>	<u>380.36</u>	<u>443.99</u>	<u>346.74</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and Reserves</b>				
Stated Capital / Share Capital	47.66	47.06	47.66	47.06
Reserves	10.20	10.08	10.20	10.08
Accumulated Profits	153.27	106.54	86.02	44.44
<b>Total Equity</b>	<u>211.14</u>	<u>163.68</u>	<u>143.89</u>	<u>101.58</u>
<b>Non-Current Liabilities</b>				
Interest Bearing Liabilities	15.31	20.57	0.19	0.32
Other Deferred Liabilities	31.45	17.26	30.09	16.15
	<u>46.76</u>	<u>37.83</u>	<u>30.28</u>	<u>16.48</u>
<b>Current Liabilities</b>				
Trade and Other Payables	202.27	170.75	259.56	222.86
Income Tax Payable	1.64	1.65	1.62	1.60
Interest Bearing Liabilities	13.14	6.46	8.64	4.22
	<u>217.06</u>	<u>178.86</u>	<u>269.83</u>	<u>228.68</u>
<b>Total Equity and Liabilities</b>	<u>474.96</u>	<u>380.36</u>	<u>443.99</u>	<u>346.74</u>
<i>Exchange rate</i>	<i>107.98</i>	<i>109.35</i>	<i>107.98</i>	<i>109.35</i>

## Income Statement

	Group		Company	
	2008 USD M	2007 USD M	2008 USD M	2007 USD M
<b>Revenue</b>	741.20	630.12	732.84	621.53
Cost of Sales	(653.40)	(539.75)	(667.93)	(551.55)
Gross Profit	87.80	90.37	64.92	69.98
Other Income and Gains	59.32	10.37	60.39	7.87
Sales and Marketing Cost	(72.70)	(62.18)	(72.35)	(61.83)
Administrative Expenses	(31.42)	(30.96)	(20.59)	(21.35)
Finance Cost	(1.91)	(2.01)	(0.39)	(1.02)
Finance Income	4.66	2.91	9.28	11.57
<b>Profit Before Tax</b>	45.74	8.51	41.26	5.23
Income Tax Expense	(0.36)	(0.62)	(0.25)	(0.04)
Profit for the Year	<u>45.38</u>	<u>7.88</u>	<u>41.01</u>	<u>5.19</u>
<i>Exchange rate</i>	<i>107.98</i>	<i>109.35</i>	<i>107.98</i>	<i>109.35</i>

This information does not constitute a full set of financial statements in compliance with SLAS. The Financial Statements should be read together with the Auditors opinion and the Financial Statements from pages 123 to 151.

Exchange rates prevailing at each year end have been used to convert the Income Statement and Balance Sheet.



## Decade at a Glance - Company

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>INCOME STATEMENT</b>											
Revenue	Rs. Million	19,171.43	24,354.32	30,437.09	29,352.91	36,235.04	45,397.54	53,808.85	61,160.14	67,963.76	79,128.56
Operating expenditure	Rs. Million	16,139.49	23,423.18	31,817.28	31,307.87	33,440.83	39,441.82	54,145.20	60,720.29	69,406.68	82,154.01
Net profit/(loss)	Rs. Million	1,272.93	3,661.34	(4,734.89)	(2,048.95)	3,347.23	7,424.48	479.87	476.53	568.04	4,428.23
<b>BALANCE SHEET</b>											
Share capital / Stated 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
Non current assets	Rs. Million	16,359.69	17,525.99	14,952.28	12,826.78	12,229.44	13,072.68	10,908.79	13,410.55	12,761.39	11,931.02
Current assets	Rs. Million	16,090.86	14,930.23	14,247.30	12,061.52	18,713.33	24,954.44	22,303.26	21,866.73	21,347.46	32,209.67
Total assets	Rs. Million	32,520.95	32,526.62	29,269.98	24,958.70	31,038.66	38,123.01	33,307.94	38,003.50	37,916.19	47,940.10
Current liabilities	Rs. Million	11,477.25	13,528.69	16,886.18	11,578.40	16,641.12	20,612.84	22,381.67	25,485.05	25,006.65	29,134.89
<b>YIELD/UNIT COST</b>											
Overall yield	Rs. tkm	31.3	31.8	30.2	38.6	43.0	47.3	48.1	52.2	55.71	61.01
Unit cost	Rs. tkm	20.4	22.9	24.5	27.5	31.5	34.8	36.2	37.62	40.30	46.48
Breakeven load factor	%	65.3	72.0	81.1	71.3	73.3	68.7	74.9	72.0	72.34	76.18
Revenue per RPK	Rs./RPK	3.3	3.4	3.1	3.8	4.3	4.9	5.1	5.3	5.6	6.5
<b>PRODUCTION</b>											
Passenger capacity	ASK Millions	6,209.80	8,038.31	10,891.61	8,556.92	8,422.77	9,692.08	11,326.54	11,934.86	12,375.62	12,599.58
Overall capacity	ATK Millions	832.69	1,088.38	1,454.78	1,148.73	1,121.89	1,289.94	1,484.02	1,590.55	1,695.91	1,741.10
<b>TRAFFIC</b>											
Passengers carried	Nos. Thousands	1,260	1,475	1,891	1,615	1,806	2,065	2,423	3,005	3,176	3,196
Passengers carried	RPK Millions	4,417.55	5,459.65	7,447.87	5,862.09	6,408.38	7,276.35	8,142.54	9,050.44	9,535.79	9,793.05
Passenger load factor	%	71.14	67.92	68.38	68.51	76.08	75.08	71.89	75.83	77.05	77.73
Cargo carried	Tonnes	35,566	41,670	58,618	46,067	47,650	54,943	66,977	82,142	88,833	93,161
Cargo load carried	RTK Millions	156.61	195.67	266.75	186.47	200.45	240.90	296.68	300.73	325.97	350.35
Overall load carried	RTK Millions	554.90	703.28	932.72	711.72	785.11	896.59	1,039.34	1,102.77	1,150.84	1,232.62
Cargo load factor	%	57.50	57.53	54.77	44.19	46.22	52.08	56.95	56.11	58.44	61.60
Overall load factor	%	66.64	64.62	64.11	61.96	69.98	69.51	70.04	69.33	67.86	70.80
<b>STAFF</b>											
Average strength	Nos.	4,832	5,070	5,196	4,049	4,182	4,714	5,163	5,395	5,272	5,113
Revenue per employee	Rs.	3,967,597	4,803,614	5,857,792	7,249,422	8,664,524	9,630,365	10,422,012	11,336,449	12,891,457	15,475,955
Capacity per employee	Tonne-km	172,329	214,670	279,981	283,706	268,266	273,640	287,433	294,820	321,683	340,523
Load carried per employee	Tonne-km	114,838	138,713	179,507	175,777	187,735	190,197	201,305	204,406	218,293	241,077
<b>FLEET</b>											
L1011-500	Nos.	2	-	-	-	-	-	-	-	-	-
L1011-100	Nos.	1	-	-	-	-	-	-	-	-	-
L1011-50	Nos.	1	-	-	-	-	-	-	-	-	-
A320-200	Nos.	2	2	2	1	2	3	5	5	5	5
A330-200	Nos.	-	4	6	4	4	4	4	4	4	4
A340-300	Nos.	3	4	4	3	3	5	5	5	5	5
Turbo Otter	Nos.	-	-	-	-	-	-	2	2	2	2
Aircraft in service at year end	Nos.	9	10	12	8	9	12	16	16	16	14

## Glossary

**Available Seat Kilometres (ASK)**

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

**Available Tonne Kilometres (ATK)**

This is the measure of transport production.

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

**Revenue Passenger Kilometres (RPK)**

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

**Revenue Tonne Kilometres (RTK)**

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

**Load Factor**

The percentage relationship of revenue load to capacity provided.

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

**Revenue per RPK**

The revenue per RPK relates the passenger revenue to RPK.

**Unit Cost**

The unit cost relates the total operating cost to ATK.

**Overall Yield**

Overall Yield relates the net traffic revenue to RTK.

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

**Break-even Load Factor**

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



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**Stockholm**  
SriLankan Airlines,  
c/o Kales Airlines Services, Room D111, Kungsgaten  
48, SE - 111 35 Stockholm  
Tel: 0(8) 44 22 44 2, Fax: 0(8) 22 55 88  
Email: info@srilankan.se

**Switzerland (code +41)**

**Zürich**  
Kales Airline Services BV, Bernina City, Trakt B,  
Berninastrasse 43, 8057 Zürich  
Tel: 44 315 5848, Fax: 44 315 5838  
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www.srilankan.ch

**Taiwan (code 886)**

**Taipei**  
Ms Overseas Travel Services,  
2/F, No 129 Chang-Chun Rd, Taipei  
Tel: (2) 2511 6188  
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**Thailand (code +66)**

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Res, 02 236 8450  
Fax: Sales & Res, 02 236 8456  
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**United Arab Emirates (code +971)**

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

**Ajman**

Ajman National Travel Agency,  
PO Box 641, Ajman  
Tel: (06) 742 2300, Fax: (06) 742 7537  
Email: anta@emirates.net.ae

**Al Ain**

Atlas Travels, Al Ain St,  
Al Dhaheri Bldg, PO Box 17670, Al Ain  
Tel: (0) 3764 3344, Fax (0) 3764 3362

**Dubai**

SriLankan Airlines,  
Emirates Group Headquarters Building,  
Entrance C, 3rd Floor, P.O.Box 12889, Dubai  
Tel: Res: (0) 4294 0094, ext 1  
Tktg: (0) 4294 0094, ext 2  
Sales: (0) 4295 2855 Fax: (0) 42955245  
Email: slankadb@emirates.net.ae

**DNATA Emirates Group Headquarters Building**

Entrance C, 3rd Floor PO Box 1515 Dubai  
Tel: Res: (0) 4294 0094, ext 1  
Tktg: (0) 4294 0094, ext 2 Fax (0) 42949170

**DNATA - Airline Centre,**

Sheikh Zayed Road, P.O.Box 1515, Dubai  
Tel: Res: (0) 43166792, Fax (0) 43211064

**Fujairah**

Fujairah National Air Travel Agency,  
PO Box 96, Fujairah  
Tel: (0) 9222 2316  
Fax: (0) 9222 2555  
Email: fnatafjr@emirates.net.ae

**Ra's al-Khaimah**

Ras Al Khaimah National Travel Agency, PO Box 5214,  
Ras Al Khaimah  
Tel: (0) 7228 1536, Fax: (0) 7228 1255  
Email: rantarak@emirates.net.ae

**Sharjah**

Sharjah National Travel Agency, Sharjah Tower, PO  
Box 17, Sharjah  
Tel: (0) 6568 4411  
Fax: (0) 6568 3535  
Email: snnta@emirates.net.ae

**Umm al-Qaiwain**

Umm al-Qaiwain National Travel Agency,  
PO Box 601,  
King Faizal St, Umm Al Quwain  
Tel: (0) 6765 6615 (5 lines)  
Fax: (0) 6765 5549  
Email: untaair@emirates.net.ae

**United Kingdom (code ++44)**

**London**  
SriLankan Airlines City Office  
Central House No 3 - Lampton Road  
Hounslow - Middlesex - TW3 1HY -  
Tel: (0)20 8538 2000  
Res: (0)20 8538 2001  
Sales: (0)20 8538 2023  
FlySmiles: (0)20 8538 2015  
Fax: (0)20 8572 0808  
Email: lon.res@srilankan.aero  
FlySmiles: imashad@srilankan.aero

**London Airport Office**

Room 2532,  
Terminal 4, London Heathrow Airport,  
Hounslow, Middlesex, TW6 3XY  
Tel: (0)20 8759 4048  
Fax: (0)20 8745 6649, SITA: LHRKDUL  
Email: airport\_lhr@srilankan.aero

**SriLankan Cargo**

Building 521B, Stanstead Road,  
London Heathrow Airport, Hounslow,  
Middlesex TW6 3LW  
Tel: (0)20 8897 7877  
Fax: (0)20 8897 7875, SITA: LHRFSUL  
Email: cargolhr@srilankan.aero

**United States of America (code +1+)**

**New Jersey**

Sri Lankan Travel Inc.,  
Metro Top Plaza,  
111 Wood Avenue South,  
Iselin, New Jersey, NJ 08830  
Tel: (732) 205 0017  
Gen: (877) 915 2652  
Fax: (732) 205 0299  
Email: sales@srlankanusa.com  
dillan@srlankanusa.com

**Los Angeles**

Sri Lankan Travel Inc.,  
1936, Wilshire Boulevard,  
Los Angeles, CA 90057  
Tel: (213) 483 8808, Gen: (877) 915 2652  
Fax: (213) 483 8600  
Email: sales@srlankanusa.com  
nalin@srlankanusa.com



## Notice of Meeting

Notice is hereby given that the Thirtieth 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 **19 August 2008 at 3.00 p.m** for the following purposes.

### **Agenda**

1. To receive, consider and adopt the Report of the Directors and the Financial Statements for the year ended 31st March 2008 with the Report of the Auditors thereon.
2. To re-appoint M/s Ernst & Young as Auditors and authorize the Directors to fix their remuneration.

By Order of the Board

### **Mildred Peries**

*Company Secretary*

17 June 2008  
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

## SRILANKAN AIRLINES LIMITED

I, .....of  
 .....being a  
 member/s of SriLankan Airlines Limited hereby appoint..... of  
 ..... or failing him/her

Dr P B Jayasundera	of Colombo or failing him
Mr Nishanta Wickramasinghe	of Colombo or failing him
Mr Lalith De Silva	of Colombo or failing him
Mr Sunil G Wijesinha	of Colombo or failing him
Mr T C Clark	of Dubai or failing him
Mr G Chapman	of Dubai or failing him
Mr N J Hopkins	of Dubai

as my/our proxy to represent me/us and on my/our behalf at the Thirtieth Annual General Meeting of the Shareholders of SriLankan Airlines Limited to be held on 19 August 2008 and at any adjournment thereof.

Signed this ..... day of..... Two Thousand and Eight.

.....  
*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.

## Proxy

**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. In the case of Resident/Non-Resident shareholders, the stamping will be attended to on return of the completed Form of Proxy to the Company.
3. 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



