



"Meeting challenges head on"



Corporate Information

Name of the Company

SriLankan Airlines Limited

Legal Forum

Public Limited Liability Company
Incorporated in Sri Lanka in 1979

Company Registration Number

PB 67

Directors

Mr. Nishantha Wickremasinghe - Chairman
Mr. Sunil G Wijesinha - Director
Mr. Nihal Jayamanne PC - Director
Mr. Sanath Ukwatte - Director
Mr. Kapila Chandrasena - Director

Company Secretary

Mildred Peries

Auditors

Ernst & Young
Chartered Accountants
P O Box 101
Colombo 10

Registered Office

SriLankan Airlines Limited
Airline Centre
Bandaranaike International Airport
Katunayake

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

SriLankan Airlines Limited
Airline Centre
Bandaranaike International Airport
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Sri Lanka

Telephone : +94 (0) 19733 5555

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Website : www.srilankan.aero

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 recognized and rewarded.

Cover Story

It was a challenging year for the global air transport industry. Airlines around the world have been buffeted by tough times, and many required financial assistance just to survive.

In the midst of these turbulent times, SriLankan Airlines flew a level course, firm in its conviction that the National Carrier would be a financially independent asset to the country, and not a burden, as Sri Lanka moved decisively towards the Dawn of Peace.

With the worst now behind us, we are focused on the future, flying steadily towards our long-term goals.

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The Airline has implemented a comprehensive range of initiatives which are aimed at bringing the Company back to profitability as soon as possible....



44 Destinations in 29 Countries
across the world....

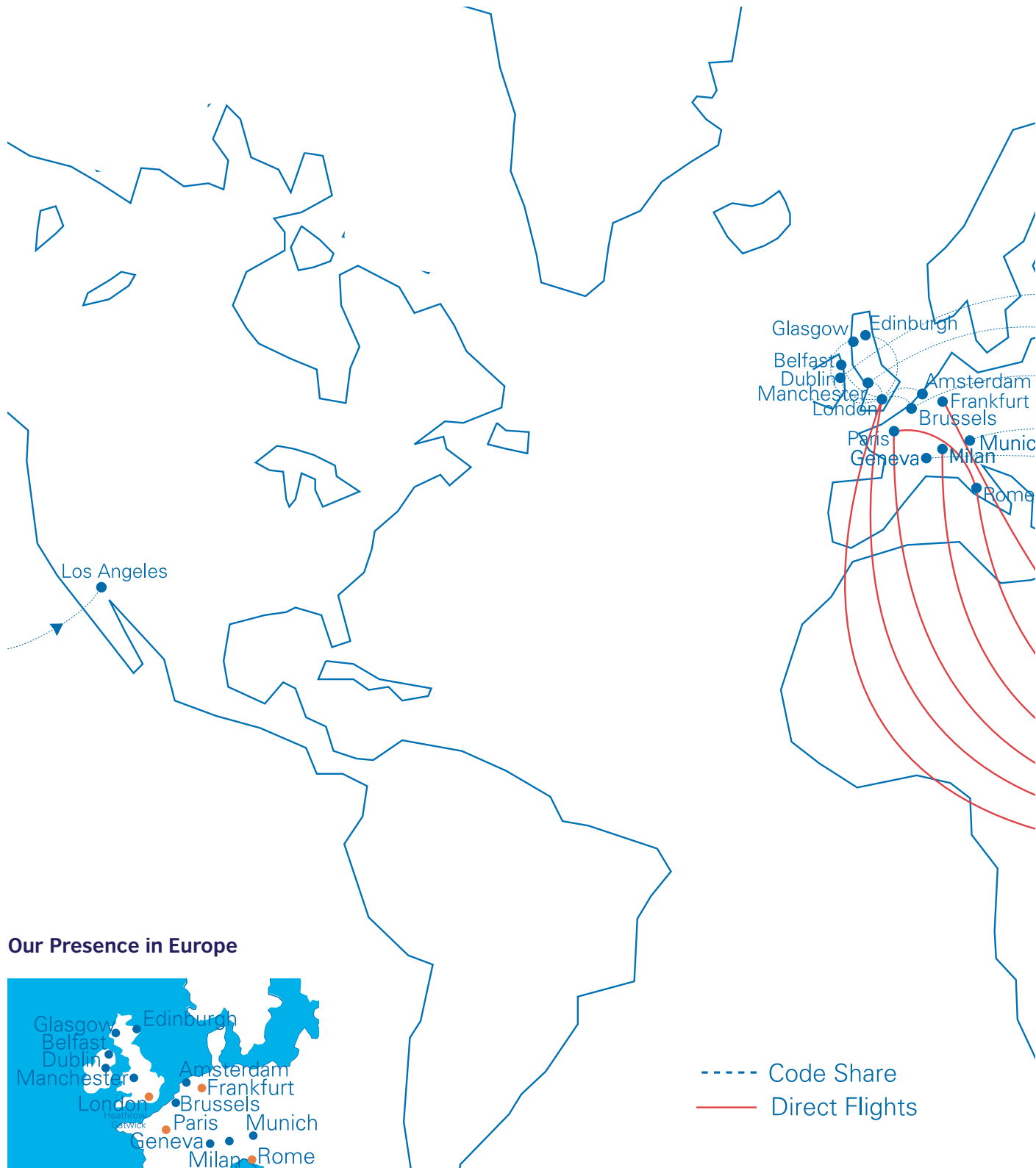
29 Countries

Australia	Maldives
Bahrain	Netherlands
Belgium	Oman
China	Pakistan
France	Qatar
Germany	Saudi Arabia
Hong Kong	Singapore
India	South Korea
Indonesia	Sri Lanka
Italy	Switzerland
Ireland	Thailand
Japan	United Arab Emirates
Jordan	United Kingdom
Kuwait	United States of America
Malaysia	

44 Destinations

Abu Dhabi	Jeddah
Amman	Karachi
Amsterdam	Kuala Lumpur
Bahrain	Kuwait
Bangalore	London
Bangkok	Los Angeles
Beijing	Male
Belfast	Manchester
Brussels	Melbourne
Chennai	Milan
Colombo	Munich
Dammam	Mumbai
Delhi	Muscat
Doha	Paris
Dubai	Riyadh
Dublin	Rome
Edinburgh	Seoul
Frankfurt	Singapore
Geneva	Sydney
Glasgow	Tiruchirapalli
Hong Kong	Tokyo
Jakarta	Thiruvananthapuram

Our Destinations



Our Presence in Europe





44 destinations 29 countries.

Milestones 2008 - 2009

April

- Dawn of new era at SriLankan as management control changes

May

- Manoj Gunawardena appointed CEO of SriLankan Airlines

June

- SriLankan Holidays launches Platinum Range

July

- New Senior Management Team appointed
- SriLankan wins KLIA Award for Best Airline South Asia for 3rd consecutive year.

August

- Nishantha Wickremasinghe appointed Acting Chairman
- New Cargo Sales office opens in Bambalapitiya

September

- Code share partnership with Etihad is expanded

October

- SriLankan Airlines Worldwide Conference is held in Colombo.

November

- Re-fleeting of A320 fleet begins with arrival of first aircraft in 4 years

- Launch of services to Rome

- SriLankan's Corporate offices move to Katunayake

- SriLankan wins Silver at Annual Report Awards in Services category

December

- SriLankan is re-certified for IATA Operational Safety Audit (IOSA)

- SriLankan Engineering carries out its first ever Planned Aircraft Dismantling

Year 2009

January

- FlySmiLes partner network is launched

- SriLankan Cares gifts new building to Debarawewa Primary Navodhaya Vidyalaya in Hambantota

- SriLankan's Corporate Environment Policy launched

- SriLankan wins Airline of the Year, Best Outbound Tour Operator, and Best Tourism Education & Training Effort awards

February

- SriLankan Engineering begins series of C-checks for Indian carrier IndiGo

March

- SriLankan operates pioneering First Green Flight in the region

- Second new A320 in re-fleeting programme arrives

- Sarath Fernando appointed CEO of SriLankan Catering

- SriLankan Engineering carries out first ever Combined Heavy Maintenance Check

Board of Directors and CEO

Mr. Nishantha Wickremasinghe	-	Chairman
Mr. Sunil G. Wijesinha	-	Director
Mr. Nihal Jayamanne P C	-	Director
Mr. Sanath Ukwatte	-	Director
Mr. Kapila Chandrasena	-	Director
Mr. Manoj Gunawardena	-	CEO
Mrs. Mildred Peries	-	Company Secretary

Chairman's Overview



Dramatic changes were rapidly implemented on the principles of “Earn More, Spend Less, Waste Not” that were detailed in the Company’s Business Turnaround Plan.

Introduction

I am pleased to present the Annual Report and Audited Accounts of SriLankan Airlines Limited and the SriLankan Airlines Group to our esteemed shareholders for the financial year 2008/09.

This has indeed been an extraordinary year, both for our Nation and for our National Carrier, and it is with complete confidence and a full measure of pride that we look upon the future as SriLankan Airlines completes thirty years of service to Sri Lanka, and to the millions of global travellers who enjoy its world class service.

Commitment to Country and Government

I am pleased to report that SriLankan Airlines did not ask for any financial assistance from the Government of Sri Lanka, or any other shareholder, during a year in which the management of the Airline successfully changed hands and the Group faced multiple global and national challenges.

In a year when dozens of major Airlines faced bankruptcy, the National Carrier served as a tower of strength to the nation during its time of greatest need, without becoming a burden on the country’s taxpayers. The Airline even carried out a major re-fleeting programme without seeking any financial assistance from the government.

Despite the enormous challenges faced, SriLankan continued to serve all major destinations in Europe, the Middle East, the Subcontinent, and the Far East. The National Carrier fulfilled its role and responsibility to the nation by continuing to support industries of all types, including Exports, Imports, Tourism, and Labour.

The Airline also continued to support the modernisation of Bandaranaike International Airport and its positioning as a hub of global travel between East and West and as a gateway to India.

Despite its own financial challenges, the Airline carried out a wide range of corporate social responsibility projects, among which was the construction of a large building for the Debarawewa Primary Navodaya Vidyalaya in the Southern Province at an investment of Rs. 12.4 million.

The Airline also reacted rapidly when it was called upon to perform extraordinary duties, such as the emergency evacuation of the National Cricket Team from Lahore.

The Year Under Review at SriLankan Airlines

The Airline commenced the year under review facing the multiple challenges of skyrocketing global fuel costs, a national tourism industry struggling to survive in a wartime scenario, high interest rates, and a major transition in its management. To compound matters, increased competition was experienced from subsidised Airlines which dropped prices to fight for market share. All this resulted in a loss for the first quarter of Rs. 5,800 million.

Following the appointment of the new CEO and senior management team, dramatic changes were rapidly implemented on the principles of “Earn More, Spend Less, Waste Not” that were detailed in the company’s new Business Turnaround Plan. The Company was also

restructured to make it more efficient and competitive. Through this process, the Airline was transformed into a dynamic, positive-thinking organisation that relishes challenges. This resulted in the loss for the second quarter being reduced significantly to Rs. 4,300 million.

The full impact of these progressive changes was witnessed in the third quarter, when the Airline achieved profits in the months of December and January, and the loss for the quarter was further reduced to just Rs. 1,100 million.

However, a fresh challenge arose in the last quarter in the form of the global economic crisis, which resulted in the loss rising slightly once again to Rs. 2,600 million. Fresh initiatives have now been implemented to take on these challenges.

The re-fleeting programme resulted in two new Airbus A320's being acquired during the year under review to replace ageing aircraft. This also served to upgrade the company's product. A third A320 was acquired in the first quarter of 2009/10.

The company focused on building up a strong tradition of customer friendliness through a series of initiatives in products and services which will re-position the Airline's image in the eyes of global travellers.

The Airline also moved forward significantly in its efforts at diversification, notably through changes at SriLankan Engineering. More details of all these measures are to be found in the CEO's Review.

During the year under review, SriLankan welcomed Mr. Manoj Gunawardena as CEO of SriLankan Airlines Ltd.

The Future of the Airline

Even as SriLankan achieves a turnaround, the international Airline industry faces the fresh challenge of the Global Economic Crisis.

However, the Airline has planned a full range of new measures which are now being implemented, to bring the company back to profitability as soon as possible.

The National Carrier has today been transformed from what it was a year ago. These measures include major re-engineering of all of the Airline's routes to focus on reduced costs and enhanced revenue. The Airline is also working towards establishing a successful model of

codeshares with selected Airlines of global repute, which will enhance and expand its route network.

Sri Lanka as a country marked a major turning point in its modern history, with the ending of the long civil war. The end of hostilities is expected to bring about a revival of the nation's economy, although it will be tempered by the negative aspects of the global economic meltdown.

The Dawn of Peace will certainly have a considerable positive impact on tourist arrivals, Sri Lankan expatriates visiting home, and transit traffic, which will once more position Colombo as a hub for international travel. All these factors are expected to have a positive impact on the company's bottom-line, especially with the start of the 2009/10 winter season.

The Global Economy in Recession

The global economy in 2008/09 was battered by its biggest crisis since World War II. A series of economic calamities precipitated this disaster – first skyrocketing oil prices, and then the subprime crisis in the U.S, which brought about the near-collapse of the banking industry and other major industries both in the U.S. and to a lesser extent in Europe. However, the active intervention of world leaders is heartening, although recovery is expected to take a considerable amount of time.

The global economy is projected to shrink by 1.3% in 2009 (Source: International Monetary Fund's World Economic Outlook). This may perhaps turn, around towards the end of the calendar year 2009, but growth is not expected to surpass 1.9% at best, which does not signify a speedy recovery.

Both the United States and Europe are expected to remain in recession for an even longer period, and global growth is expected to come, if at all, from the economies of Asia (in particular India and China), the Commonwealth of Independent States (CIS), the Middle East and Africa.

Trends and Challenges in the Global Airline Industry

The year under review proved to be one of the most challenging in the history of the global air transport industry, and this trend is likely to continue over the next year as well. Major adverse factors were the global economic crisis which continues at the present time, and the high price of fuel which drove fares to extreme levels, a situation that has since abated.

Chairman's Overview cont'd....

The International Air Transport Association (IATA) continuously downgraded its forecasts for the global air transport industry during the course of the last financial year. IATA's latest prediction is that the global Airline industry will lose USD 9 billion in 2009. Air transport in all regions of the world is expected to report losses in 2009.

IATA's Director General has described this as "the most difficult situation that the industry has faced".

Passenger demand is expected to contract by 8% to 2.06 billion travellers compared to 2.24 billion in 2008. Air cargo demand is expected to decline by 17%. The revenue impact of falling demand will be further exaggerated by expected large falls in yields - 11% for cargo and 7% for passenger.

The Asia-Pacific is expected to post the largest losses due to economic slowdown in Japan, China, and India. North America will continue to be troubled by the dismal state of the U.S. economy. Europe will be no better, with collapsing demand in all its segments - intra-Europe, North Atlantic and Europe to Asia. The Middle East too is expected to suffer tremendous losses, while losses in Latin America and Africa are forecast to be somewhat smaller.

Tourism into Sri Lanka

The year under review was not a happy one for Sri Lanka's tourism industry, which was buffeted by the challenges of adverse travel advisories in major markets on account of the heightened security situation in the country. This was compounded by the global economic crisis, and the fuel crisis of 2008.

Sri Lanka recorded a total of 409,661 tourist arrivals during the financial year 2008/09 (Source: Sri Lanka Tourism Development Authority Monthly Statistical Reports). This was a reduction of 17% from the 494,889 arrivals in the previous financial year.

In the calendar year 2008, foreign exchange earnings from Tourism dropped 12.8% over the previous calendar year from USD 384 million to USD 319 million (Source: Sri Lanka Tourism Development Authority Statistical Report 2008). The Tourism Industry dropped from fourth to sixth place in foreign exchange earnings among all of the country's industries, contributing just 2.6%. Average foreign exchange spending per tourist per day also dropped to USD 76.7 from USD 79.1. Asia continued to be the main tourism market among regions, with 39.5% of

total arrivals, followed closely by Europe at 38.1%. India was the largest single tourism generating country with 19.4% of arrivals, followed by UK at 18.5%, Germany with 7.2%, Maldives at 7.0%, and Australia at 4.5%.

The country's Room Capacity was almost unchanged at 14,793 rooms, from 14,604 in 2007. Overall occupancy was 43.9%, a decrease from the previous year's 46.2%.

SriLankan Airlines continued to be the cornerstone of transport into and out of the country for the nation's tourism industry in 2008, bringing in 220,191 foreign tourists (Source: Sri Lanka Tourism Development Authority Statistical Report 2008). Emirates Airline was a distant second at 58,284 followed by Qatar Airways with 45,366, and Singapore Airlines at 18,418.

Performance of Sri Lanka's Economy

Sri Lanka's economy performed remarkably well for a country that was at war, with the added negative effect of the global recession.

However, growth began to slow significantly during the latter part of the calendar year 2008, although it did record a final growth of 6.0% (Source: Central Bank of Sri Lanka, Annual Report 2008). This is the fourth successive year that growth has topped 6%.

The country's Agricultural sector, boosted by the cultivation of lands in the Eastern Province that had long lain fallow during wartime, demonstrated its strength by recording a growth of 7.5%. The Industrial sector followed closely with 5.9% growth; and the Services sector was not far behind at 5.6% expansion. However, both Industry and Services had reduced growth, as the global recession began to have an impact.

The government's strong focus on the development of infrastructure resulted in a considerable improvement in the nation's road network, port facilities, together with power generation, irrigation, and telecommunications.

The expected post-war economic boom is likely to considerably reduce levels of unemployment, and improve production in all areas of the economy, including agriculture, manufacturing, and services. However, the effects of the global economic downturn remain to be seen.

Group Performance

- The Group's Revenue for the year under review was Rs. 74,255 million, compared to the Rs. 80,031 million of the previous year.
- Operating Expenditure rose slightly to 84,402 million from Rs. 81,794 million due mainly to the increased price of fuel.
- This resulted in a Loss Before Tax of Rs. 9,957 million, as opposed to the Profit Before Tax of Rs. 4,939 million in the last year.
- The Net Loss After Tax was Rs. 9,997 million, compared to the Net Profit of Rs. 4,899 million in 2007/08.

Performance of Subsidiary

The Group's fully owned subsidiary, SriLankan Catering (Pvt) Ltd, continued to provide strong support for the Group during the year under review. However, the performance of the subsidiary too was affected by the macro situation that prevailed in the travel and tourism industry, both globally and with respect to Sri Lanka.

During the latter part of the year under review, the Board appointed Mr. Sarath Fernando as Chief Executive Officer of SriLankan Catering (Pvt) Ltd, and several other key changes were made to its senior management team. A series of new initiatives are to be carried out during the next financial year to strengthen and diversify the operations of the subsidiary, and to enable it to fully realise its vast potential.

Dividends

The Board is confident that it will in the near future be able to reward our shareholders for their long-time faith in the National Carrier. However, for the reasons highlighted above, the Board is unable to recommend a Dividend for the year under review.

Conclusion

On behalf of all stakeholders in the National Carrier, it is my honour to thank His Excellency President Mahinda Rajapaksa, for the supreme confidence that he displayed in the Airline, and also his high level of interest throughout a year when there were many pressing matters of national and international importance.

My thanks also to the Hon. Chamal Rajapaksa, MP, Minister of Ports & Aviation, and the Hon. Sarath

Gunarathna, MP, Deputy Minister of Aviation, for their time and efforts on behalf of the Airline.

I take this opportunity to express my deep gratitude to the Members of the Board for their invaluable guidance and support - Mr. Sunil G. Wijesinha, who continue from the previous year, and Mr. Sanath Ukwatte, Mr. Nihal Jayamanne, PC, and Mr. Kapila Chandrasena, all of whom I have the pleasure of welcoming to the Board.

I would be remiss if I did not express my heartfelt thanks for the yeoman service rendered by Dr. P.B. Jayasundara, my predecessor as Chairman, and that of Mr. Lalith de Silva, the late Dr. U.N.B. Obeysekara, Mr. Tim Clark, Mr. Gary Chapman, and Mr. Nigel Hopkins, each of whom served as a Member of the Board and is no longer with us.

To our passengers, other customers, business partners, suppliers and financiers, I express my gratitude for their patronage and support.

To the Management and Staff of the SriLankan Airlines Group I say "Well Done!" You have held this company steady through a year when it was buffeted by tempests and storms of all types, and ensured its survival and future success. The country expects great things of you in the future, and I know you will not let us down. A special word also to our many employee unions, who assisted us at every turn.

Finally, my thanks to all our shareholders – the Government of Sri Lanka, Emirates Airline, and share-owning employees – for their patience and faith in this Airline.



Nishantha Wickremasinghe

Chairman

27th July 2009

Chief Executive Officer's Review



Thanks to the Business Turnaround Plan initiatives SriLankan Airlines is now well placed to capitalise on the opportunities that will come with the Dawn of Peace in our Country and thereby support our Nation's future development.

A Bright Future Beckons

It is not often that a Chief Executive Officer begins his review by focusing on the future. But with our Airline having survived the most gruelling year in its history, I have complete confidence that we are now looking down the road to sustainable growth, although we now face fresh challenges which we must face with the same resolve that we have had.

The year 2008 was an exceptionally challenging one for all Airlines. SriLankan too was hit, first by an unprecedented spike in oil prices and then a precipitous drop in revenues caused by the global financial crisis and the domestic challenges we have had to endure.

SriLankan reacted with unusual speed to take on these rapidly evolving challenges, by first launching a Business Turnaround Plan and then resizing capacity in the face of slumping demand.

In launching the Business Turnaround Plan, I said that there is no magic formula, but there are a number of simple, concrete steps that will save us from failure very quickly. In the plan we said the key to turning our Airline around was simple: "Earn more, spend less and waste not".

Our strategy was to contain our losses, to tide over the period of high fuel prices, and to build a strong foundation from which to take SriLankan back to profitability when global and national conditions provide us the opportunities to do so. This is what we did. Every initiative was aimed at reducing our costs, eliminating wastage, and making SriLankan more competitive. But at

no time did we compromise on our strict standards on safety, security and service.

We've taken many steps. Some have worked well. Others not so well. And some still have a long way to go.

Thanks to these initiatives SriLankan Airlines is now well placed to capitalise on the opportunities that will come with the Dawn of Peace in our country, and thereby support our nation's future development.

However, there is no room for complacency on our part, as the world undergoes its most challenging recession since the 1930s and the global aviation industry braces for yet another tough year.

We Stood on Our Own Feet

As our Chairman has described in the preceding section, the SriLankan Family stood tall and proud, heads unbowed, and supported our nation during its hour of greatest need. At a time when many major Airlines cried out for and received financial bailouts from their governments and a number of countries imposed advisories that restricted travel to Sri Lanka, we at SriLankan Airlines stood firm in our resolve that we would be a source of strength to our nation, continue to be the country's link with the world, and yet not ask for a cent from our taxpayers.

In my 2007/8 review I identified the areas in which the Airline needs significant change. Foremost among these was the recognition that the Airline recorded a loss of Rs 6.1 billion in our core business during that year. This, I asserted at the time, was not a sustainable situation.

In 2008/9, even before the new Senior Management Team was appointed, the Airline suffered a staggering “air transportation” loss of Rs 5.8 billion in the first quarter, simply by following the operational policies that it had been left with.

The second quarter of 2008/9 saw the quarterly air transportation losses being rolled back to Rs 4.3 billion due to the start of many cost control measures.

With the bursting of the oil bubble and the continuation of the business turnaround initiatives, the air transportation loss was brought down to a mere Rs. 1.1 billion in the third quarter and the Airline achieved profits in the months of December 08 and January 09.

But the impact of the Global Economic Crisis and the tail-end of the humanitarian war in Sri Lanka posed fresh challenges in the last quarter, driving air transportation losses to Rs 2.5 billion.

These losses in our core business still challenge the sustainability of our business. Yet these must be viewed against the achievements of the Airline which carried out its business in conditions that severely undermined the financial viability of the global air transport industry.

Core Indicators of Performance

In the year under review, wide-ranging efforts were made to sensibly market and price our products. However, highly competitive market conditions prevented the immediate levying of a full fuel surcharge on fares to completely recover rising fuel costs.

Subsequently, the rapid removal of fuel surcharges by competitors when fuel prices declined in the third quarter, and the downturn in the global economy, also adversely affected revenue.

Passenger Revenue decreased by 8% or Rs. 5.4 Billion in the year under review. Passenger Yield per Revenue Passenger Kilometre (RPK) in 12 months through March 2009 has increased by 5% over the comparable period through March 2008.

Due to an unprecedented decline in freight during the latter part of the financial year, Cargo Revenue has decreased by 8.5% or Rs. 0.91 billion in the year under review.

Due to the restructuring of operations, Overall Capacity

was reduced to 1,635 million Available Tonne Kilometres (ATK), from 1,741 million. Passenger Capacity was decreased from 12,599 million Available Seat Kilometres (ASK) to 11,731 million.

Despite the reduction in capacity, SriLankan Airlines carried 2.7 million passengers during the year under review, in comparison with the previous year's 3.2 million.

Revenue Passenger Kilometres (RPK) totalled 8,546 million, down from 9,793 million.

Passenger Load Factor averaged 72.85% and Cargo Load Factor 53.17%. Overall Load Factor was 65.12%, down from 70.80%.

Overall Yield was increased significantly to Rs. 64.85 per Tonne Kilometre from Rs. 61.01.

Unit Cost increased from Rs. 46.48 per Tonne Kilometre to Rs. 50.71 on account of higher fuel costs, and the Breakeven Load Factor rose correspondingly to 78.19% from 76.18%. Non fuel unit cost is Rs. 29.42 per Tonne Kilometre for the year under review.

Average Staff Strength was 4,837, a significant decrease from the previous year's 5,113. This was due to strict controls on new recruitment, and a policy of filling only essential positions upon the resignation/retirement of existing staff.

Cost Savings Measures and Revenue Enhancement Initiatives of the Business Turnaround Plan added up to Rs. 6.0 billion in the year under review.

Implementation of the Business Turnaround Plan

The key achievement of the Business Turnaround Plan was the rapid changing of the Airline's culture from one of complacency to one where all activity had a bottom line focus.

The BTP was all-encompassing, but its key features included the following:

- Restructuring of passenger and cargo revenue generation.
- Restructuring of route network.
- Savings through increased fuel efficiency.
- Reducing company fixed costs.

Chief Executive Officer's Review cont'd....

- Renegotiating of contracts with service providers.
- Optimising of sales channels.
- Careful targeting of publicity efforts.
- Reduced IT and communication costs.
- Increasing productivity by focusing on People, Processes, and Technology.

Philosophy of 'Earn More, Spend Less, Waste Not'

In the face of the multiple challenges that we faced, "Earn More, Spend Less, Waste Not" became a battle cry which ensured the Airline's survival.

This strategy was driven throughout the organisation by the participation and buy-in of all key stakeholder groups – management, staff, employee unions, and suppliers.

Innovation in Revenue

SriLankan Holidays and SriLankan online

Innovation was very much a key tool in SriLankan's efforts to enhance its revenue in the face of shrinking opportunities. The Airline worked to optimise revenue through innovative offers. A multi-pronged approach was carried out which involved SriLankan Holidays, FlySmiLes, and the Airline's Online Sales channel.

The launch of "Hotseats" promising everyday low fare offers was of particular significance, as were offers of holiday packages for transit passengers, and special event based packages.

Launch of FlySmiLes

Our frequent flyer programme FlySmiLes was turned into a total customer loyalty programme by launching partnerships with no less than ten major companies to provide a wide range of exciting rewards for members through co-branded credit cards, communications, international air travel, domestic air travel, hotels, car rentals, and spas.

These partners are namely Malaysia Airlines, Etihad Airways, Dialog Telekom, American Express, Standard Chartered, Travelling Connect, Hertz, Taj Hotels Resorts and Palaces, Siddhalepa, and Deccan Aviation (Lanka). More partners will be selectively added to enhance rewards for members. Throughout the year, FlySmiLes provides its members with a wide array of attractive offers and benefits.

Network Rationalisation

The skyrocketing of fuel prices throughout 2008 posed a major challenge to the very existence of this Airline. Drastic action needed to be taken, and we did not shy away from taking tough decisions.

These included significant restructuring of our route network, with services on five loss-making Indian routes – Goa, Hyderabad, Cochin, Calicut, Coimbatore - being suspended, and the number of frequencies reduced on several other loss-making routes.

However, the Airline ensured that it continued to serve the needs of tourists, other travellers, and industries, by maintaining services to all major destinations in Europe, the Middle East, India, and the Far East.

Launch of Rome Service

The National Carrier responded to a request from the large Sri Lankan community in Italy through the government of Sri Lanka, and launched thrice-weekly services to Rome commencing in November 2008. This also serves the Italian leisure market to both the Maldives and Sri Lanka.

Fuel Efficiency

Another key initiative was the setting up of a specialised department for Aviation Fuel, with the responsibility of optimising fuel efficiency. Indeed, the entire Airline supported the work of this department, and it was able to achieve a high rate of success within a short period.

Cost Control and Elimination of Wastage

A key area of focus was the control of costs and the elimination of wastage in all departments and activities of the organisation.

These included identification of the largest cost items, renegotiation of contracts with suppliers, and by simply finding ways by which to do things in a less expensive and more efficient manner.

Productivity & Restructuring

The company carried out a continuous series of initiatives to enhance employee productivity in all areas of the organisation. The management and staffing of every Division and Department was also restructured, to make them more efficient to contribute to the organisation as it faces new challenges.

No less than six appointments were made to the Airline's Senior Management Team, to fill vacant posts in Finance, Worldwide Sales, Corporate Affairs, Service Delivery, Flight Operations, and Engineering. It is a measure of the confidence that this Airline has in its own staff that each of these appointments was made from within the organisation.

The programme for Productivity Based Remuneration for cabin crew was finalised and included in the collective agreement with the Flight Attendants Union. This is expected to significantly increase productivity, and reduce the cadre requirement of cabin crew by a significant number.

Diversification

The company is also carrying out a wide range of initiatives to diversify and strengthen its activities in the areas of Cargo, Airport Services for customer Airlines at BIA terminal, Ground Services for other Airlines at BIA, On-Board Duty Free Sales and Aircraft Engineering and Maintenance.

SriLankan Engineering was converted into a stand alone profit/cost centre with effect from the financial year 2009/10, in keeping with its growing reputation as a leading Maintenance Repair Overhaul (MRO) in the Asian region.

During the year under review, SriLankan Engineering secured a large contract to carry out 13 major maintenance checks on aircraft of the Indian carrier IndiGo between January and October 2009.

Rapidly Expanding Code share Network

The Airline focused on enhancing its code share partnerships with globally reputed Airlines, in order to widen its route network and offer greater travel choices to customers.

SriLankan began code sharing on Etihad Airways' flights to Amman, Geneva, Dublin, Munich, Brussels, and Manchester from October 2008, with Etihad doing the same on SriLankan's flights to Male. Discussions were held with Malaysia Airlines to code share on routes to Australia, USA and other destinations in the Far East. Discussions were also held with the British carrier BMI to enhance SriLankan's existing codeshare agreements. These were signed in the first quarter of the financial year 2009/10.

Re - fleetng

The advancing age of the narrow body fleet required immediate action, and a decision was taken to undertake this urgent project. It is significant that the Airline successfully carried out this programme without seeking financial assistance from the government, and also secured the confidence of globally reputed aircraft lessors.

The Airline acquired the first replacement Airbus A320 in November 2008, and a second in March 2009.

These were the first new aircraft to join the SriLankan fleet in four years. A third A320 was acquired in the first quarter of 2009/10.

By the end of the financial year, the Airline had a fleet of 12 aircraft – three A320's, four A330's, and five A340's with another A320 aircraft joining the fleet after the financial year end date.

Our Flag Flew High

Customer-centric Culture

We did not allow any cost saving measures to weaken our commitment to quality in any way.

The management recognised the need to focus on its customer service, which has been a traditional strongpoint of the Airline. A large number of programmes were launched in the areas of Inflight Service Delivery, Ticket Offices, Airport Service Delivery, Cargo and Customer Affairs to enhance the Airline's overall level of customer service.

The company's Product Development Department was re-launched, with a mandate to restore and enhance the image of the Airline by focusing on all relevant areas.

A Customer Charter is now being finalised to create further awareness among both staff and customers of the company's high standards and requirements in customer service. During the year under review, SriLankan Airlines achieved the following industry standards and certifications:

Chief Executive Officer's Review cont'd....

IATA Safety Audit for Ground Operations (ISAGO) from the International Air Transport Association (IATA).

We became only the sixth Airline in the world to achieve this certification, which encompasses quality and safety levels in all our ground operations. The audits were completed during the year under review, and the certification awarded in the first quarter of 2009/10.

IATA Operational Safety Audit (IOSA)

Recertification for the IATA Operational Safety Audit (IOSA) global safety and quality certification for two more years.

Planet Friendly Flights

Our commitment to the environment remained steadfast even at a time when green issues were being relegated in preference to economic issues.

The Airline formulated and launched its Corporate Environment Policy in January 2009.

SriLankan pioneered the concept of Planet Friendly Flights in the South Asian region, with its first such flight on 21st March 2009. These flights optimise fuel usage through a wide range of initiatives, and use recyclable materials wherever possible. The Airline intends to convert its entire global operation to Planet Friendly Flights within two years.

Future Prospects

The Dawn of Peace has brought with it many exciting possibilities for Sri Lanka's long-suffering tourism industry, and indeed the entire economy.

The tourism industry is looking forward to the 2009/10 Winter Season with much expectancy. A number of important European tour operators have already agreed to feature the island's attractions in their brochures, and the opening up of our eastern beaches have provided an added dimension with year-round possibilities that are not subject to the seasonal monsoon. SriLankan Airlines will certainly grow together with the tourism industry, and will continue to play its part as a catalyst by raising our standards higher, upgrading our product, and publicising Sri Lanka as a destination of choice in targeted markets such as Europe, Eastern Europe, the Middle East, North America, the Subcontinent, and the Far East.

The Airline's diverse ancillary operations are also

expected to grow at the same time to serve the needs of the larger number of customer Airlines that are expected to operate to Colombo.

The Airline will also continue to focus on its philosophy of "Earn More, Spend Less, Waste Not" in order to make it an even leaner and fitter organisation, ready to face any challenge that arises. This will necessarily involve a considerable degree of sacrifice on the part of the management and staff in the short term.

However, the continuing global recession has added a distinct note of caution to the good news. Unemployment and weak economies are holding back many of our key markets. As long as this uncertainty prevails, the full possibilities of growth will not be achievable for our tourism industry.

The Airline industry itself is undergoing an extremely challenging period, as the Chairman has described in detail. Although SriLankan Airlines has proven itself to be a dynamic organisation that has thus far weathered the storm without any external assistance, this Airline also faces the same challenges that have driven larger and more established Airlines to the verge of bankruptcy.

In addition, a close watch must be maintained on the volatility of global fuel prices, which have shown some indications of rising once again.

It is therefore of paramount importance that SriLankan Airlines continues to closely monitor opportunities and challenges, and that we react rapidly to them.

The coming year will be a crucial one indeed, as it will demonstrate the extent of the upturn in the country's tourism industry, and the resilience of the global economy, both of which will deeply affect this Airline's fortunes.

Thank You

I take this opportunity to express my gratitude to His Excellency the President, the Hon. Minister of Ports and Aviation, and the Deputy Minister of Aviation, for their support.

I gratefully acknowledge the guidance of our Chairman and the Members of the Board, who gave their time and expertise at all times.

This Airline would not have navigated a year filled with

so many challenges if not for the ingenuity and sheer hard work of our staff, who embraced change for the betterment of the company. My thanks also to all of our employee unions, whose co-operation the management could always depend upon.

I also take this opportunity to thank all of our shareholders, financiers, suppliers and business partners, who stood by us during a difficult year. Special mention must be made of our colleagues in Sri Lanka Tourism, and Sri Lanka's hotel and travel trade, whom we interact with frequently.

And finally, my thanks to my management team, who underwent a challenging year by my side.

I am heartened by the knowledge that I can count on the support of all of them, as SriLankan Airlines looks forward to the opportunities of the future.



Manoj Gunawardena
Chief Executive Officer

27th July 2009

SriLankan reacted with unusual speed to take on these rapidly evolving challenges, first by launching a Business Turnaround Plan and then resizing capacity in the face of slumping demand....





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Worldwide Sales

UL Marketing survives a year of unprecedented turbulence

The Company's Worldwide Sales Team was restructured during the year under review for enhanced operational efficiency to face the challenges of selling SriLankan's major products.

The earlier structure of the Worldwide Passenger Sales Division and the Cargo Division were both brought under the purview of the new division during the year under review, while continuing to maintain their individual operations and identity.

SriLankan's sales efforts resulted in it being named 'Airline of the Year' at the Presidential Awards for Tourism. SriLankan also won the title of 'Airline of the Year South Asia' for yet another year at the KLIA Awards in Malaysia.

Key Challenge – Optimising Revenue

The Worldwide Sales Team has faced a prolonged period of declining demand for travel initially due to increased Airline operating costs and a sharp drop in visitors to Sri Lanka due to the conflict situation, as well as increased competition in key markets such as India. The challenge was further intensified due to the onset of the global recession resulting in further reduced demand for travel and pressure on yields.

Therefore the Airline's mix of fares was continuously re-engineered to optimise revenue opportunities while remaining competitive.

The key strategy was to retain the Airline's existing customer base despite significant cutbacks in the promotional campaigns.

New Service to Rome

Following an in-depth study of traffic potential and market opportunities in central and southern Italy, thrice-weekly services were launched to Rome in December 2008.

London-Male Non-Stop

SriLankan optimised revenue opportunities in the Maldives, by increasing London-Male non-stop services during the year under review and re-introducing Male – London services, which provided a significant competitive advantage to the Airline.

Temporary Suspension of Loss-Making Sectors

The Airline consciously avoided sudden termination of loss-making destinations as it was ever-mindful of its

obligations as the National Carrier to support tourism into Sri Lanka, as well as the country's export industries, and migrant labour movement. Services were temporarily suspended to five destinations in India – Hyderabad, Calicut, Cochin, Coimbatore, and Goa. However, re-commencement of operations to some of these destinations is being commercially evaluated for the next financial year.

Increased Operations to Key Destinations

Frequencies to several destinations in the Middle East were increased to support the efforts of Sri Lanka Tourism, which had identified the region as a key area for development of tourist markets. SriLankan serves nine cities in the Middle East directly, and added Amman through its code share cooperation with Etihad Airways.

Services to the Middle East were also re-aligned to generate through traffic via Colombo to the Far East. Direct services were also commenced to Karachi, which reduced the flying time and enhanced the level of convenience for passengers.

Similarly, frequencies were also increased to several Southeast Asian destinations to optimise revenue.

The expansion of the route network through increased code share partnerships is described in greater detail in the Corporate Affairs & Planning section of this Annual Report.

Route Labs Give New Direction to Selling SriLankan

A significant exercise was initiated through 'Route Labs' which involves an in-depth study of specified routes in a selected region with the active participation of all departments and personnel, both local and overseas, in one centralised location over a specified period of time with the sole intention of identifying issues affecting the profitability of the routes under scrutiny and formulating effective remedial strategies to return such routes to profitability in the shortest possible time.

Accordingly, the first 'Route Lab' is due to be conducted on the Airline's European routes in the early months of the coming financial year.

Haj Charters

As in previous years, the Airline operated several special Haj Charters to cater to pilgrim traffic.

Optimising E-Commerce

The Airline focused sharply on increasing bookings through its Internet Booking Engine (IBE) during the year under review. Several innovative campaigns were carried out to increase market penetration in Sri Lanka, where internet usage is still relatively low.

The Company took a decision to invest in a state-of-the-art internet booking engine and this will be operational in the next financial year.

Creating Awareness through cost effective communication

In the face of stringent cost reductions, the Airline maximised use of more cost-effective methods of publicity. More than 100 media releases were issued in support of the Airline's sales campaigns and corporate image building measures.

In addition, the Airline continued to organise familiarization tours for overseas travel writers to Sri Lanka, including providing complimentary or discounted travel to writers to support the efforts of Sri Lanka Tourism.

Focusing on Major Trade Fairs

SriLankan participated at ITB (Berlin), BIT (Milan), ATM (Dubai), ITB Singapore, and WTM (London), in partnership with Sri Lanka Tourism.

A series of road shows were also conducted in the Middle East and in Eastern Europe, specifically targeting travel to Sri Lanka.

Future Plans and Outlook

- The Worldwide Sales Team will continue to seek out and optimise revenue generation opportunities in new and existing markets - both passenger and cargo.
- Adopt competitive pricing whilst maximising yields.
- Commence services to new destinations to widen the network.
- SriLankan Cargo will launch its new Exports Terminal, which will double its handling capacity at Bandaranaike International Airport.
- Re-commence freighter operations to regional destinations when market conditions are favourable.
- Provide enhanced services to FlySmiLes members to secure greater customer loyalty.
- Introduce more innovations through e-commerce marketing activities.
- Aggressively promote Hot Seats in the inbound and outbound markets, and also to Sri Lankan expatriates who wish to return home.
- Provide more products and innovations in the SriLankan Holidays range for both inbound and outbound travel to position it as a brand of choice in the leisure market.
- Pursue inbound leisure markets from the Middle East, India, and China.
- Expand SriLankan Holidays to niche markets such as youth, senior citizens, and students.
- Promote MICE, Adventure and special interest groups.
- Further expand the SriLankan Holidays' franchise network overseas with a view to increasing inbound tourism.

Worldwide Sales cont'd....

Seeing The World With SriLankan Holidays

SriLankan Holidays won the title of 'Best Outbound Tour Operator' at the country's premier industry awards – the Presidential Awards for Tourism.

This achievement is all the more remarkable considering the short time frame in which SriLankan Holidays has been in existence since its re-launch in October 2007 which was with a view to positioning the 'Holidays' programme as a frontrunner in terms of the Airline's sub-brands.

The macro situation in the air travel and leisure industries resulted in a drop in customer numbers during the year under review. The inbound market was affected by the internal conflict, and the outbound market suffered several shocks such as the local finance company crises, and global financial crisis, which caused travellers to put off non-essential travel. However, market share was increased significantly from major inbound markets such as the Middle East, Far East and India. SriLankan Holidays teamed up with tourism authorities in Singapore, Thailand, and Malaysia which funded marketing campaigns. Marketing

campaigns were also launched together with Amex and HSBC which tapped their customer bases at no cost to the Airline. SriLankan Holidays launched a groundbreaking "Shop-Over Discount Booklet", as a value addition to the total holiday experience which contains exciting discount vouchers from over a dozen popular establishments in Colombo.

A new Business Class range and Platinum Range of holiday packages were launched for the higher income market segment, partnering top of the range hotels, with a view to generating greater returns. Several event based packages were also launched, both inbound and outbound, including sports and cultural/musical related events. The SriLankan Holidays' franchise network was also expanded with larger markets now having more than one franchise operator.

During the year SriLankan Holidays also made a significant investment in a booking system for Holidays products. The Company, after careful consideration, decided on 'Rezgateway' as the new booking system to be developed.

FlySmiLes Positioned as a Loyalty Programme of Choice

The Airline formally launched its FlySmiLes Frequent Flyer Programme on 01 April 2008, as a complete customer loyalty programme that provides a range of exciting benefits to members through ten major partners.

The partners so far, chosen with care, are Malaysia Airlines, Etihad Airways, American Express Platinum co-branded credit card, Dialog Telekom, Travelling Connect, Hertz, Taj Hotels Resorts and Palaces, Siddhalepa, Standard Chartered co branded credit card, and Deccan Aviation (Lanka). Through these partners, FlySmiLes provides a comprehensive range of benefits to the discerning traveller. The Airline partnerships have enhanced the route network of

SriLankan and its partner Airlines and this enables members to earn and burn miles when travelling on the partner Airlines.

The Non Airline or Lifestyle partners have enhanced the value of FlySmiLes as it offers a range of benefits to its customers. The FlySmiLes promotions that have been carried out during the year have accelerated the level of activity of the members and also ensured that they continue to travel with SriLankan. The attractive promotions which permitted the redemption options have benefited members as they were able to utilise the Miles earned by flying SriLankan and its Airline partners on the programme.

HOTSEATS in Big Demand

Several new products were launched to optimise revenue. Most significant was the introduction of an early bird fare branded 'Hot Seats', to promote advance bookings on the Airline's website. This has proven to be immensely popular among travellers worldwide, resulting in a healthy increase in internet bookings.

Other promotions included the 'Kids Go Free' campaign to encourage family-oriented travel from key markets during school holiday periods; 'Buy One Get One Free' in key markets; and 'Ayubowan Sri Lanka' in Japan and Beijing and also 'Amazing Sri Lanka' packages out of the Middle Eastern Region.

SkyChain Gives Impetus to Cargo Operation

SriLankan Cargo is responsible for the Company's global freight handling operations, which is a key sphere of the Airline's business and contributed 13% to the Group's revenue. SriLankan Cargo has positioned Colombo as the "Hub in the Ocean" between Europe and the Middle East to the West, connecting South East Asia and the Far East. SriLankan also provides rapid connections through Colombo for cargo into and out of the Subcontinent, serving India's booming economy. As the cargo handling agent at Bandaranaike International Airport's Cargo Centre, SriLankan Cargo also handles all imports, exports and transshipments of cargo of all Airlines that operate to BIA.

Impact of Global Economic Meltdown

During the year under review, the global economic crisis led to a dramatic reduction in air cargo volumes around the world. SriLankan Cargo suffered a significant drop in volumes of freight carried by the SriLankan fleet, together with corresponding reductions in revenue and cargo yield.

Freighter Operations

Due to reduced demand, the Company suspended operations of its dedicated freighter service in the region which had used an Antonov AN12F aircraft, and concentrated on freight carriage in the cargo holds of the SriLankan fleet. However, the Company actively sought new marketing opportunities, and operated an ad hoc freighter service on an aircraft chartered locally, to support network sales. Freighter operations were carried out to Male and Trivandrum.

Cargo Centre Operations

The Cargo Centre continued to operate at a high level of efficiency, which was constantly monitored by a cross-functional committee. The Company introduced a competition among the Centre's four cargo handling teams, which resulted in an even greater focus on efficiency. The total freight volume handled at the

BIA Cargo Centre during the year was 130,725 tones, which was the same level as the previous year.

SkyChain Cargo Handling System

The Airline invested in the new SkyChain cargo handling system, which provides advanced features for customer convenience and operational efficiency. This will be operational in the first quarter of the next financial year.

Enhancement of Cooling Facilities

An Air-Conditioned Storage Area was introduced at the Cargo Centre, with a temperature range of 15-25 degrees Celsius. This provides the Cargo Centre with a full range of temperature controlled areas, adding to the existing Freezer Rooms (0 to minus 30 Celsius), and Cool Rooms (0 to +10 Celsius).

Preparatory work for ISAGO Audit

SriLankan Cargo played a significant role in preparations for the ISAGO certification for airport ground handling, which is described in detail in the Service Delivery section of this Annual Report.

BIA Cargo Centre to double handling capacity in 2010

During the year under review, SriLankan Cargo made significant progress in negotiations with Airport & Aviation Services (Sri Lanka) Ltd. for the lease of a new warehouse building, which would double the Cargo Centre's handling capacity up to 300,000 metric tonnes per year. This will place the Airline in an ideal position for the expected increased cargo traffic on the strength of the country's economic growth following the Dawn of Peace. The building is scheduled to be opened for operations in January 2010 and will house the Cargo Centre's Exports Terminal. The existing warehouse will be used as the Imports Terminal.

Colombo Sales Office relocated

The Cargo Sales Office in Colombo was re-located with easier access for its customers.

Service Delivery

2009 - Year of the customer

SriLankan Airlines renewed its focus on customer service during the year under review, with the retention of existing customers and the attraction of new customers being a key element in its Business Turnaround Plan.

Key Challenge

The management acknowledged a drop in customer service standards in recent years, and began implementing a series of wide-ranging initiatives to take SriLankan's customer service back to the levels when it was acclaimed as a global award winning carrier. The Airline declared 2009 to be "The Year of the Customer" in order to impress upon all frontline staff the urgent need to focus fully on customer satisfaction.

Uniforms to Refresh SriLankan's Image

A project was commenced to enhance the image of SriLankan's product through a series of initiatives including an enhancement of the uniforms of frontline customer touch point staff, which have remained unchanged for three decades.

Emphasis on Inflight Service

The training of cabin crew was revamped, with the number of instructors being increased from four up to twenty. This will ensure continuous monitoring and training, with instructors travelling on board flights to carry out on-site monitoring and evaluation of crew members. They will also serve as mentors and advisors to the cabin crew.

Improvement of Meal Services

SriLankan's award winning subsidiary, SriLankan Catering (Pvt) Ltd, provides the catering requirements of the Airline, and its team of chefs closely supported measures to enhance the quality of meals served on board. Significant changes were made to inflight menus in order to enhance the level of variety according to customer



preferences. The Airline also looked at ways and means of reducing wastage and overall meal costs as one of the initiatives of the Business Turnaround Plan. This included renegotiation of contracts with overseas caterers, resulting in significant savings.

Enhancements to Inflight Entertainment

The Airline's inflight entertainment was re-aligned to suit the customer preferences on the respective sectors. Movies are now available in nine languages. During the year under review, the Airline commenced publishing the titles and descriptions of non-English movies in the On-Board entertainment guide in each respective language and in English. The other languages are Sinhala, Tamil, Hindi, Mandarin Chinese, Japanese, Urdu, Arabic, and Malayalam.

SriLankan's fleet of widebodied Airbus A330 and A340 aircraft feature a modern entertainment system with Touch Screen facilities in every seat; over 40 Movie, Television and Radio channels, and 16 Interactive Games. The movie channels feature some of the latest releases, while the 22 radio channels air Country and Classics to popular Sinhala songs, Arabic hits, and Hindi songs. Business Class passengers also have access to a well-stocked library of movies to play on their personal in-seat video players, on request.

Hollywood and Bollywood blockbusters on board SriLankan's line-up of inflight movies during the year under review won 12 of the 19 Oscars awarded in 2009, plus several Golden Globe and Filmfare Awards, evidence of the high quality movies screened on board.

The Exclusive Serendib Treasures Collection

The Airline's on-board duty free sales, under the brand name "Serendib Treasures" continued to make a significant contribution towards its revenue.

The Serendib Treasures Collection was completely updated following the changeover in the Airline's management, with an all-new range of 180 products. These included many of the world's leading brands. In addition, a large number of Sri Lankan items, such as tea, jewellery, Sinhala music CD's, and handicrafts, were included.

The Serendib Treasures Catalogue was also re-designed with a contemporary new look, and is now produced in Sri Lanka. The Airline continued with several methods

to increase duty free sales on board, through various rewards schemes for cabin crew with the highest sales.

Caring for the Sick - Heart Start Machines on board

SriLankan added yet another dimension to its customer service by becoming the first Airline in South Asia to carry 'Heart Start Machines' on all its long-haul flights for medical emergencies.

Chinese Passenger Assistants

The Airline recruited Chinese Passenger Assistants to provide greater convenience on the Beijing service for Chinese passengers, and to assist cabin crew. All of them have prior experience in the travel industry. In addition to flying between Beijing, Bangkok and Colombo, they assist Chinese passengers at Bandaranaike International Airport, including passengers in transit.

SMS Alerts on flight status

An SMS Alert Service was commenced to keep passengers informed of the status of their flights.

Ground Handling Services at BIA

SriLankan is the main Ground Handler at the country's only international airport, and receives a significant stream of revenue from its services for other Airlines. These include passenger services, and support services for aircraft on the ground at BIA. The Airline focused on uplifting service standards in both these areas, in order to enhance customer satisfaction and position itself for the country's expected tourism boom in the near future.

The level of service provided at BIA was recognised by one customer Airline - Kuwait Airways – which presented an award to SriLankan. The government of India also commended SriLankan for its handling of VVIP's at BIA during the SAARC Summit in August 2008.

ISAGO registration

SriLankan completed all audits by the International Air Transport Association for its prestigious new airport ground handling industry standard IATA Safety Audit for Ground Operations (ISAGO). The certification is expected in the first quarter of the next financial year, and SriLankan will become the first company in South Asia, and only the sixth Airline in the world, to obtain this registration.

Service Delivery Cont'd.....

Training of New Airport Service Staff

A new batch of Airport Service staff was recruited and trained early during the year under review. Training is an on-going process to meet the significant staff turnover and movement created by industry demand for well-trained ground staff in the region.

Own Ground Handling in Chennai and Trichy

As a cost reduction measure, SriLankan took over its own ground handling in Chennai and Trichy.

Sky Marshals Enhance Security on Board

The Airline continued to maintain a high standard in security, and trained four more batches of Sky Marshals who fly on board to ensure the security of passengers and crew. This tripled the number of Sky Marshals in the Airline, with one batch being exclusively women Sky Marshals.

Innovation and Cost Control

The staff of Service Delivery actively participated in contributing ideas to reduce the Airline's costs. These included in-house production of specialised vehicles and equipment especially with regard to airport airside activities, and a modification to airsickness bags to enable rapid identification of unused bags that resulted in savings of millions of rupees.

Closing of Airport Offices Overseas

With the Airline facing a series of financial challenges, the cost reduction by the closure of some overseas airport offices was identified as a Key (Crucial) area. A number of other initiatives were carried out to reduce overseas rentals and staff costs.

Future Plans and Outlook

- Continue to enhance customer service at BIA in anticipation of significant growth in passenger numbers on SriLankan and customer Airlines following the Dawn of Peace.
- Prepare to support more Airline customers at BIA with wide range of airside services for aircraft.
- Work towards a policy of "Zero Complaints" from customers.
- Further improve service standards on board through training and awareness for cabin crew.
- Enhance meal service on board with wider choice of menus and higher quality of cuisine.
- Expand range of Serendib Treasures duty free items on board.
- Enhance inflight entertainment through more innovations.
- Maintain high standard of on-board security to protect passengers and crew.
- Provide optimum customer satisfaction at our overseas destinations served by our own airport staff and companies contracted by SriLankan.
- Reduce costs in overseas stations wherever possible.
- Arrange secondment programme with other Airlines to enable SriLankan staff to gain more exposure overseas.
- New innovations will be implemented to increase customer convenience, including the launch of check-in through mobile phones.
- Launch 'Five-star Meal Service' in Business Class, initially on selected European sectors, and next on selected Far Eastern and Middle Eastern sectors.

SriLankan Engineering

Strong Growth in MROs

SriLankan Engineering significantly strengthened its growing reputation as a Maintenance, Repair and Overhaul (MRO) entity of choice in the Asian region, which is a key element in the Group's efforts at diversification, by attracting new customer Airlines and strengthening relationships with existing customers.

The Division also carried out a number of important projects with regard to SriLankan's own fleet, which included engineering processes in the re-fleeting programme of the narrowbody fleet, upon the acquisition of new aircraft and the de-commissioning of old aircraft.

Stand Alone Sub Business Unit

A number of extensive changes were carried out to the administrative processes of SriLankan Engineering in order to prepare it as a stand alone sub business unit. Commencing from the financial year 2009/10, SriLankan Engineering is an independent revenue and cost centre which is expected to play a significant role in strengthening the business activities of the Group.

Major Contract with Indian Carrier IndiGo

SriLankan Engineering signed a major contract with India's third largest Airline, IndiGo, to carry out maintenance checks (C-checks) on its A320 fleet. A total of 13 aircraft are to be brought to BIA for these checks, with three completed during the financial year under review, and a further 10 by October 2009.

It is significant that IndiGo chose to contract SriLankan Engineering, switching over from a larger and more established MRO that it had worked with earlier.

Close Relationship with Airblue

A close relationship was maintained with the Pakistani carrier Airblue, which has been a long-term customer, with regard to future maintenance contracts and the training of Airblue aircraft engineers at SriLankan Technical Training. Contracts for major projects on two Airblue aircraft were discussed, and carried out in the first quarter of the next financial year.



SriLankan Engineering Cont'd.....

Aircraft Part-Out Programme

SriLankan Engineering carried out an Aircraft Part-Out Programme for the first time, having been contracted by the lessor of an A320 that was being retired from the SriLankan fleet and was to be scrapped by the lessor.

Certification of Other Airlines'

Aircraft at BIA

Over the past financial year SriLankan Engineering carried out certification on aircraft of many Airlines at BIA including Air Arabia, Kuwait Airways, Kingfisher, Qatar Airways, Royal Jordanian, Condor, First Choice, Etihad, Gulf Air, Jazeera, Bahrain Air, China Eastern, Livingston, and Emirates.

Training of Aircraft Technicians

SriLankan Technical Training completed one more programme in training external students to become Aircraft Technicians. The batch comprised 45 young men and 2 young women, including 10 foreign students from the Maldives and Oman.

Yet another batch of 27 trainees commenced their 2-year training during the year under review, which includes eight students from Oman, Maldives and India.

Modifications to A330 Fleet

An important programme was commenced to carry out mandatory structural modifications to the aircraft of the A330 fleet, as instructed by Airbus Industrie for all A330's in operation in all Airlines.

The work on the first aircraft in this programme was carried out successfully, which signifies yet another milestone in the development of the SriLankan Engineering, as only a few major Airlines and MRO's have performed this task in-house to the standard specified by Airbus Industrie. This also resulted in significant cost savings to the company.

Narrowbody Re-fleeting Programme

Aircraft engineers were dispatched to inspect prospective aircraft identified by the company, and completed detailed inspections prior to the signing of lease agreements. Upon their arrival at BIA, these aircraft were subjected to further rigorous checks and some modifications inside their cabins prior to joining the fleet.

Retiring of A320's

Engineering programmes were carried out with regard to the retirement of SriLankan's A320's, prior to their being handed back to their lessors. These included two Re-delivery Heavy Checks to EASA 145 standard, which resulted in significant cost savings to the company in comparison to having these carried out externally.

Global Certifications

SriLankan Engineering and SriLankan Technical Training were successful in several audits carried out by the European Aviation Safety Agency (EASA), with regard to the EASA 145 and EASA 147 certifications that the Airline currently possesses.

Recruitment of Graduate Engineers

Eight graduate engineers were recruited during the year under review, with several more scheduled for the first quarter of the next year, as part of SriLankan Engineering's long-term succession planning for positions of aircraft engineers and instructors in various departments.

Fuel Efficiency and Punctuality

SriLankan Engineering focused on increasing the fuel efficiency and punctuality of the Airline's fleet, and worked closely with Flight Operations to optimise this programme. Significant success was achieved, which is described in detail in the Flight Operations section of this Annual Report.

Innovations to Assist Cost Control

The staff of SriLankan Engineering also contributed to the cost control efforts of the company in a significant manner. This included the in-house manufacture of various machinery for use in the engineering workshops, to international standards and specifications.

Renegotiated Costs of Aircraft Spares

Considerable savings were achieved through renegotiation with major suppliers of aircraft parts, engine parts and materials, especially with regard to the widebody fleet.

Future Plans and Outlook

- Marketing programmes will be carried out to increase awareness of SriLankan Engineering's capabilities as an MRO, in order to attract new customers and enhance revenue.
- Discussions are being held with IndiGo to carry out C-checks on several more aircraft.
- Negotiations are underway with a budget carrier based in Southeast Asia to carry out maintenance checks on its fleet.
- Discussions are underway to train more aircraft engineers for Airblue, and to carry out maintenance checks for the Pakistani carrier.
- Another Aircraft Technicians programme will be commenced for one more batch of external students.
- Continued emphasis will be placed in the key areas of fuel efficiency and punctuality.
- The mandatory structural modifications of the A330 Fleet will continue in the next financial year until programmes on all aircraft are completed.



Flight Operations

Fuel saving makes big impact

The company's renewed focus on safety, efficiency, and punctuality in its air operations resulted in the elevation of Flight Operations to the status of a Division during the first quarter of the year under review.

Perfect Air Safety Record

The company maintained its Air Safety record of zero accidents during the year, and continued the long-time tradition of SriLankan having the maximum standard in terms of flight safety. Continuous programmes were carried out to increase the level of awareness in cabin safety, flight safety, and ground safety in the 'airside' areas. The Airline's Emergency Response & Planning Unit organised the first ever Full-Scale Emergency Exercise at BIA, involving an actual aircraft, crew, and volunteers carried as passengers. This involved the Airline's various emergency response teams, the BIA fire fighting team, medical teams, SLAF security, air traffic control, and other key agencies.

Zero Reports of Non-compliance

Flight Operations also maintained the highest standard in monitoring and regulatory compliance, and no reports were received from regulators for non-compliance.

Renewal of IATA Operational Safety Audit (IOSA)

The International Air Transport Association (IATA) renewed SriLankan Airlines' global safety and quality registration IATA Operational Safety Audit (IOSA) for two more years, up to 1st December 2010. This was preceded by a series of stringent audits by independent international auditors appointed by IATA.

ISO 9000:2008

The Flight Operations Division completed all audits for the international quality standard of ISO 9001:2008. The new certification, which is an enhancement upon the earlier standard of ISO 9001:2000 that Flight Operations has possessed for three years, was received in the first quarter of 2009/10.

Improvement in Punctuality

SriLankan's flight punctuality standards and processes were completely overhauled and streamlined, leading to a greater sense of urgency and professionalism among all departments which are responsible for having our flights depart on time. This led to a significant improvement in punctuality throughout the route network.

Integration of Operations Control Centre

A new Integrated Operations Control Centre was set up at BIA to combine the functions of the existing Flight Control Centre, Crew Control, Schedules Planning, Load Control, and Maintenance Control. By the end of 2009, the entire network will be served from Colombo.

Cadet Pilot Training Programme

Two groups totalling 25 Cadet Pilots completed training, with two more groups being recruited, to ensure a sufficient cadre of pilots for the near-term. The Airline also worked closely with the Sri Lanka Air Force to recruit officers who wish to begin careers in civil aviation, as a reward for their service to the nation.



Command Training for Captains

A total of 14 First Officers were promoted to Captains during the year under review, a record for a single year, ensuring that the Airline will have a sufficient number of Captains for future requirements. The new Captains were appointed after fulfilling the stringent criteria of the Command Training Programme, including periodic testing to the highest standards, and gathering of experience over a minimum of seven years as First Officers.

Focus on Fuel Efficiency

A specialised department was set up to spearhead the Airline's drive to increase fuel efficiency, as fuel is the largest cost factor in the air transport industry, and the company was faced with the highest aviation fuel prices in history. Significant results were achieved within a very short period, which were recognised by IATA fuel experts who carried out on-site inspections of the process. Key initiatives included:

- Continuous descent approaches into Bandaranaike International Airport.
- Use of diesel-operated Ground Power Units to power internal systems and air-conditioning on aircraft parked at BIA, instead of using Auxiliary Power Units of the aircraft.
- "Flap 3" landings to reduce fuel burn while landing.
- Single engine taxi between terminals and runways.
- Minimised use of reverse thrust during landings.
- Flying shorter routes whenever possible.
- Re-evaluation of the choice of alternate airports.
- Use of a new Re-despatch Procedure for flights.
- Maximum usage of tail winds.
- Recalculating the most efficient cruising speed for each flight.
- New climb and cruise methods to optimise fuel burn.
- "Tankering", where aircraft uplift more fuel from cheaper points than is required, to save on purchases at airports where the cost is higher.
- Stopping of over-fuelling of aircraft, to reduce weight.
- Reductions in cabin weight – smaller magazines and cutlery, lighter blankets, lighter galley carts, etc
- Evaluating the performance of every aircraft / aircraft engine, to bring each up to optimum efficiency.

- Focusing on having 'clean' aircraft to reduce drag while in flight, with minimum dust and rough surfaces.

While the reduction of cost was the dominant factor in increasing fuel efficiency, the focus is now shifting to early compliance with the European Union's mandatory carbon emission standards that are coming into effect. Airlines that do not operate within the allocated limits will face stiff penalties.

Minimising Overflying Charges

The air transport industry faced an additional challenge of a tremendous increase in overflying charges by several key countries. SriLankan continuously re-evaluated the cost of overflying charges on each route, and carried out negotiations with the objective of obtaining concessions on these charges.

Future Plans and Outlook

The Flight Operations Division will focus on the following key areas during the year ahead:

- Continuously increase fuel efficiency to reduce costs and ensure compliance with future global regulatory requirements.
- Enhance productivity in key operational areas in order to reduce costs and increase efficiencies of the Airline's flying operations including route planning and flight dispatch.
- Raise the level of flight punctuality throughout the network by co-ordinating with other operational departments.
- Maintain the Airline's 100% safety record.
- Maintain the optimum pilot cadre while planning ahead to fulfil the expected requirements of the Airline's future operations.
- Maintain the IOSA standard in operations.
- Safety awareness will be expanded for greater impact on all categories of staff who are not involved in aircraft and airside operations, including those in administrative, sales and other functions throughout the Airline's premises in Katunayake, and also in overseas offices.

Human Resources

A performance driven team

The company focused on Human Resources with the broad strategic objective of enhancing employee productivity and transforming SriLankan into a more competitive organisation to overcome the challenges of the industry.

Human Resources has under its purview the day to day staffing matters of the company, maintaining of employee systems and databases, employee relations, welfare facilities, medical facilities, recruitment, training, and succession planning. Some of these are described in greater detail in the Sustainability section of this Annual Report.

The division was restructured for greater effectiveness and efficiency in serving the more than 4,500 internal customers on the company's staff.

Key Challenge

The key challenge for Human Resources was to increase productivity whilst ensuring job security of all members of the SriLankan Family during the year under review, despite the financial challenges to the Airline.

Creating a Performance Driven Organisation

Several initiatives were launched to create a performance driven organisation. These included the introduction of productivity based pay schemes for cabin crew, and the revamping of the companywide performance appraisal system. Plans are underway to introduce a variable pay concept for employees based overseas.

Building Domestic Harmony

A large number of programmes were carried out to improve all-round communication between management and staff, and among employees. These are described in greater detail in another section of this Annual Report.

The company's Whistleblowing Policy, described in detail below, has also become an important mechanism through which employees highlight issues and concerns even up to the level of the Board of Directors.



Bringing All Employees Under One Roof

Human Resources worked with other departments to provide expanded facilities at Katunayake to cater to the increased number of staff, following the moving of Colombo staff to Katunayake. This included enhancing canteen, transport, and other support facilities. The company's New Year's Day celebration was held in Katunayake for the first time with more than a thousand staff attending.

Managerial Positions Filled Internally

The Airline is pleased to report that every single managerial position except for one was filled by internal applicants, testimony to the high quality of the Airline's career development and succession planning programmes.

This included six positions on the Senior Management Team which fell vacant during an extensive restructuring of the company.

IAA Focuses on Customer Service

The International Aviation Academy, the training wing of the Airline, focused on supporting the company's customer service efforts by launching a new Customer Service Training Unit.

The Airline took a policy decision to bring all training arms under the purview of the IAA, resulting in greater co-ordination between Flight Operations Training and the Engineering Technical Training School. The Airport Service Academy was amalgamated with the IAA during the previous year.

Formulation of Business Council

A new Business Council was formed to provide a forum for managers around the Airline to discuss fresh ideas and the progress of ongoing initiatives. The council meets once a month for an extensive session that has greatly improved inter-departmental co-operation and teamwork.

Recruitment

Due to the challenges faced by the company, recruitment was halted except for key identified positions. The Airline's staff strength fell to 4837 from the previous year's 5,113 as a result.

The company invited a large number of long-term contract staff to apply for permanent positions. A total of 250 persons were absorbed into the permanent staff during the year under review.

Meanwhile, the Airline's recruitment process was further enhanced by the introduction of the latest global methodologies. In-house resources have been developed to conduct psychometric tests for recruitment and development purposes.

The Airline also commissioned the National Universities to design new and improved recruitment testing processes.

Several batches of engineering graduates and Trainee Technicians were recruited, which is described in greater detail in the SriLankan Engineering section of this Annual Report.

Corporate Whistle Blowing Policy and Brainwaves

Employees at all levels were encouraged to participate in transforming the organisation by sending in their suggestions through a new Corporate Whistle Blowing Policy. This has become a useful mechanism which is increasingly used by employees to highlight numerous issues including cost saving, waste reduction, and process improvement, and to promote ethical and fair conduct, good corporate governance, etc.

A programme named Brainwaves was also launched to tap into new ideas from the staff.

Pilot Training

A key focus was on training of new and existing pilots. This is described in greater detail in the Flight Operations section of this Annual Report. The Airline took a decision to absorb the full cost of training of pilots, as opposed to the previous practice of recovering the cost on a staggered basis from the trainees. The Bonding Policy of the Company was further strengthened as a retention strategy.

Poaching of Staff by Other Airlines

SriLankan's staff continued to be in high demand by other Airlines, especially those in the Middle East, India and Southeast Asia. The Airline's training programmes continued to train young men and women to fill these vacancies.

However, the downturn in the global air transport industry resulted in levels of poaching stabilising considerably. It is a measure of SriLankan's reputation as an employer of choice that a number of former employees sought to return. However, the Airline took a decision late in the year under review to halt all such recruitments.

Human Resources cont'd....

Long Service Awards

SriLankan feted 452 of its employees for their sterling service over the years, in an awards ceremony at the Waters Edge Ballroom in October 2008. The award-winners included 16 staff from 12 overseas stations, and were presented awards for lengths of service of 10, 15, 20, and 25 years.

Fine-tuning Communication Skills

The Airline's Toastmasters Club and Orators Club expanded their training programmes which provide leadership and communication skills in English and other languages respectively.

Enhancing of Children's Scholarship Programme

The long-running scholarship programme for children of employees was widened to present three scholarships to the finest performing children at the Year 5 Scholarship Examination. Each of the three Year 5 winners receives an annual financial grant throughout the rest of their school careers, through O-levels and A-levels.

More Welfare Facilities

The company commissioned its holiday bungalow in Nuwara Eliya during the year under review, fulfilling a long-felt need among staff. The bungalow has proven to be very popular with all levels of staff, with its picturesque location overlooking the Hakgala Forest Reserve, and its excellent facilities.

Equitable Distribution of Bonus

Despite the challenges facing the company, a bonus was provided to the employees in December 2008. The company ensured an equitable distribution of the bonus by focusing on employees who are at a lower remuneration bracket.

Engaging Employee Unions and Strengthening Relationships

A key feature of this process was in engaging the Airline's six employee unions in a constant and cordial dialogue on all types of matters, ranging from employee related issues to operational and strategic business topics.

The company views its unions as important stakeholders with an enormous potential for value addition to the organisation. The Chairman and CEO dedicated a considerable amount of time towards this aspect of domestic harmony, and met with the leadership of the

unions, together with the Head of Human Resources and other members of the Senior Management Team.

The unions made a significant number of important suggestions on various matters that were evaluated and implemented by the company.

Remuneration, Rewards and Compensation Committees

The company launched a programme to set up Remuneration, Rewards and Compensation Committees to develop and recommend appropriate policies in related areas.

The Remunerations Committee will recommend to the Board of Directors the rewards / compensation / entitlements of the Chairman, Directors, Chief Executive Officer and Heads of Divisions. The Rewards and Compensation Committee is entrusted with developing policies relating to rewards / compensation / entitlements of Managers, Executives and all other employees of the Company for consideration and adoption by the Board of Directors.

Medical Awareness Programmes

The Airline's Medical Services Department carried out a series of workshops and seminars to enhance awareness among employees of common ailments such as dengue, back pain, and taking care of one's heart, and diabetes. These programmes are described in greater detail in the Sustainability section of this Annual Report.

This was in addition to the ongoing level of care provided by the Airline's Medical Centre and its external panel of doctors, dentists and other care providers.

Future Plans and Outlook

- Continuing to review company structure for greater effectiveness and productivity.
- Customising development intervention programmes to the requirements of user departments and business demands.
- Introduction of various measures such as No-Pay Schemes, to reduce staff costs.
- Continuous improvement of welfare facilities.
- Engaging employee unions in the decision-making process through dialogue.
- Enhancement of recruitment processes for the future.

Corporate Communications

Transparency through Corporate Communications

The Company identified the need for greater transparency in its day to day activities following the management changeover. This includes both openness to external and public scrutiny, and a full revamping of its internal lines of communication.

The Corporate Communications Department was brought under the direct purview of the Chief Executive Officer, and greater emphasis was placed on communicating in Sinhala, English and Tamil for both internal and external audiences.

Key features of the new communications strategy included:

- Publishing of important financial results in the monthly Monara staff newsletter.
- Revitalising of 'Monara' and re-organising its distribution to ensure that every employee receives a copy in their choice of Sinhala or English.
- Notice boards being set up at strategic locations throughout the Airline's premises which provide insights into the company's progress and the state of the industry.
- Publication of annual updates on the company's Business Turnaround Plan.
- Enhanced employee communications via the Intranet, with a new user-friendly and interactive system to be launched in 2009/10.
- More than 100 media releases on all types of activities by the Airline which are published in all national newspapers. These are also sent to all employees via the Intranet and special notice boards.
- Annual Report with more informative data on the company's performance.
- Full and rapid response to questions in Parliament.
- A large number of Press Conferences and Media Interviews covering key issues and activities, at which the CEO dedicates time to the media.
- Regular dialogue with employee unions.

Corporate Affairs & Planning

Responding to rapid changes

The Corporate Affairs and Planning Division was established during the year under review to spearhead key functional and support areas in implementing the Airline's strategy to change rapidly to overcome new challenges, take full advantage of opportunities and to reposition itself in the industry.

The areas of Network Planning and Revenue Planning; International Relations & Industry Affairs (General Sales Agents); Distribution; Environment Compliance & Strategy; Product Development; Customer Affairs; Marketing Communications and Legal & Insurance were brought within the purview of this Division.

Key Challenge – Network Restructuring

The year under review was characterised by unprecedented fuel prices, a global recession of a magnitude not witnessed for decades and a worsening ground situation due to the escalation of hostilities in the north of the Island resulting in travel to Sri Lanka being curtailed due to the adverse travel advisories in major tourism generating markets. In this backdrop, the Network Planning area was faced with the key challenge of restructuring the Company's route network in consultation with Worldwide Sales Division to take into account all of these factors and balance network traffic with destination traffic and rationalise capacity according to demand and cost.

This involved the increasing of frequencies on higher revenue generating routes, rationalising frequencies on routes which had become unsustainable due to overcapacity and even temporarily suspending some routes. The restructuring process was carried out in a phased manner as the Airline responded to the dynamic nature of the market and the challenges presented. The Division continuously monitored industry demand trends and responded to changed circumstances through capacity adjustments where deemed necessary and expedient.

New Destinations

During the year under review despite the unprecedented challenges, the Airline continued to seek and evaluate new opportunities with traffic potential – the introduction of Rome was a result of this selective route expansion process. Milan has also been evaluated and will be added to the Network in the next financial year.

Offering a greater choice to our Customers Expansion of the Network through Code Shares

The International Relations area maintained a constant dialogue with several reputed carriers with the intention of expanding code share operations with partners to expand our reach and network coverage. An 'East-West Strategy' was implemented with chosen Airline partners to expand the Airline's route network through code sharing.

As a result of these negotiations, to the West, SriLankan greatly expanded its existing code share operations with Etihad Airways in the third quarter of the financial year which resulted in our services being extended to Brussels, Dublin, Geneva, Manchester, Munich, and Amman. Etihad similarly code shares on SriLankan's services from Abu Dhabi to Colombo and Male.

Expansion of code shares to the East focused on Malaysia Airlines, a longstanding partner of SriLankan with which carrier discussions were finalised, and code shares to Sydney, Melbourne, Jakarta and Seoul will become operational in the first quarter of the next financial year. The key Australian destinations of Perth, Adelaide and Brisbane are due to be added on to the code share network with Malaysia Airlines during the forthcoming Winter 09 season.

Several other carriers had also expressed interest in co-operation with SriLankan. Notable among these was the UK-based Airline British Midland (bmi), with which SriLankan has been code sharing on domestic UK and intra Europe sectors. This Airline was keen to code share on SriLankan's services from London to Colombo and Male. The negotiations and groundwork for this has been completed and it will become operational in the early part of the next financial year.

Supporting the Sales Teams by expanding the General Sales Agency (GSA) Network

The sales efforts of SriLankan's regional staff worldwide were strongly supported by efficiently managing the Airline's global network of Passenger and Cargo GSAs. In consultation with Worldwide Sales, off-line GSA's were accordingly appointed in Jordan, Turkey, and the Western Indian States of Maharashtra, Goa, Gujarat and Madhya Pradesh.

Corporate Affairs & Planning Cont'd....

Enhancing Traffic Rights for Future Operations

A close working relationship was maintained with government agencies with regard to obtaining and securing enhanced traffic rights for possible operations in line with future business plans.

Accordingly, Sri Lanka secured additional traffic rights to key countries in the West African region such as Kenya, South Africa, Madagascar and Mauritius. In addition, certain longstanding bilateral impediments with Italy, Pakistan and Nepal were dismantled, providing the Airline with the opportunity of a greater degree of operational flexibility to these destinations.

There was also continuing co-operation with government agencies through the provision of input into projects to develop the Bandaranaike International Airport and formulating aviation policy matters.

Management Information for Decision Making

Responding to challenges and dynamic decision making requires information to be readily available to the Sales Teams and Management. Accordingly, detailed route-wise passenger revenue reports are now generated and circulated daily. Estimated weekly route results are also prepared and circulated. Forecasted monthly route results are prepared for ensuing months in order that Sales Teams can take remedial action where gaps are observed.

The 'Price-Wise' system was developed and will be deployed in the next financial year. This system will streamline the existing manual fare management work process and facilitate speedier decision making and higher productivity through automation. The System will also provide a platform to measure productivity of different types of fares by tracking sales.

Focus on Compliance with Future Global Conservation Standards

During the year under review, SriLankan rapidly formulated and implemented strategies to enhance environmental safeguards throughout its global operations, and played a pioneering role in the south Asian region in many aspects on this issue.

The Airline's Corporate Environment Policy was formally announced in January 2009, following which the 'Planet Friendly Flights' campaign was launched with the

first 'green flight' in March, which received significant recognition in Europe and Asia as the first such flight by a south Asian Airline.

The Airline set up a dedicated 'Environment Strategy & Compliance Unit' (ENV Unit) to create awareness and to drive environmental conservation initiatives throughout the company. The Unit works closely with Flight Operations, Inflight Services and Legal Affairs on preparing for compliance with the European Union's mandatory carbon emission standards and exploring avenues to control and reduce compliance costs through the adoption of internationally accepted environmental best practices.

The ENV Unit was placed under the purview of the Corporate Affairs and Planning Division with the specific aim of driving the message that SriLankan Airlines considers the adoption of universally accepted environmental best practices of paramount importance and an integral part of its corporate identity and responsibility towards the global community.

Marketing Communications Campaigns

Marketing Communications worked closely with the Worldwide Sales Division and developed the Airline's advertising and promotions campaigns during the course of the year, focusing on sales and revenue generation. These included campaigns for the Airline's sub-brands of 'Hot Seats', 'FlySmiLes', and 'SriLankan Holidays'.

Marketing Communications, with the use of web monitoring techniques, closely monitors revenue generating marketing communications campaigns in terms of return on investment (ROI) for the Company.

Collaborative Advertising campaigns were also carried out with Tour Operators in the UK, France and Germany, promoting Sri Lanka in those markets. Collaborative campaigns have allowed the Airline to stretch its marketing communications budget internationally through the commitments made by the Tour operators on a 50/50 basis.

In addition, corporate campaigns were carried out in support of the Airline's 'Planet Friendly Flights' campaign with a view to positioning SriLankan as an environmentally friendly Airline.

Promotional Activities

A selected number of promotional activities were carried out during the year under review, giving careful consideration to the level of costs, whilst keeping the objectives of the Airline firmly in view.

These included participation in the 'Deyata Kirula' exhibition showcasing products and service offerings of SriLankan Airlines; sponsoring the 'Singer SriLankan Rugby Sevens' and sponsoring the 'ASP SriLankan Airlines Pro Surf' in the Maldives.

Focus on the Customer

The Airline's continued commitment to customer satisfaction culminated in 2009 being declared the "Year of the Customer" at SriLankan.

The Product Development Department laid special emphasis on improving the quality of service at customer touch points throughout the Airline including check in, on-board service, telephone sales, ticket offices, FlySmiLes, SriLankan Holidays and Customer Affairs. Product Development identified the key standards of service (Minimum Standards) to be provided to customers whilst also working on service recovery measures with the Customer Affairs area. This process was initiated in order to introduce a 'Customer Charter'. The 'Customer Charter' which has been developed clearly spells out the responsibilities of the Airline to each customer. This Charter is scheduled for launch in the fourth quarter of the next financial year.

A project was commenced for the re-launch of the Airline web site and the implementation of a Customer Relationship Management (CRM) solution. This customer-centric project will be commissioned during the course of the coming financial year. Through the proposed CRM solution the Airline will empower customers to readily access necessary information while at the same time managing customer relationships and controlling marketing cost, through direct Data Base marketing. This web-revamp strategy will also encompass a fully fledged CMS (Content Management System) designed to make the SriLankan web site more efficient and speedier, by allowing authorized business users and subject matter experts around the globe to add or update web content at "anytime" and "anywhere". The proposed solution will enable the Airline to handle multi language sites and destination related content efficiently. It will further aid the effective positioning of the Airline's brand across the network and streamline all SriLankan site content.

Future Plans and Outlook

- Continuously reviewing the Company's range of products and the Company's level of services to enable the Airline to provide greater customer satisfaction and to increase customer retention.
- Developing strategies to enhance the Airline's image among existing and potential customers.
- Supporting the activities of the Worldwide Sales Team in rapidly restructuring the route network to meet challenges and opportunities.
- Identifying and studying new markets for introducing services or adding capacity.
- Actively pursuing possible new code share partnerships with reputed Airlines.
- Implementing environmental safeguards throughout the Company's operations and ensuring compliance with global standards.
- Supporting government policies with regard to aviation and tourism including updating the Company's Strategic Plan in consultation with the Tourism authorities to facilitate the Government's objective of 2.5 million tourist arrivals by the year 2016.

Information Technology

IT makes life easier for passengers

The IT Division played a key support role to all departments in the company during a year of multiple changes.

The Division was detached from the Finance Division and made an independent entity as part of the process to align all Divisions with the corporate strategy in an IT perspective, and for the entire organisation to benefit from modern technology and improve their processes and productivity.

Key Challenge

The IT Division reorganised itself to respond to the requirements of the company which was undergoing unprecedented challenges.

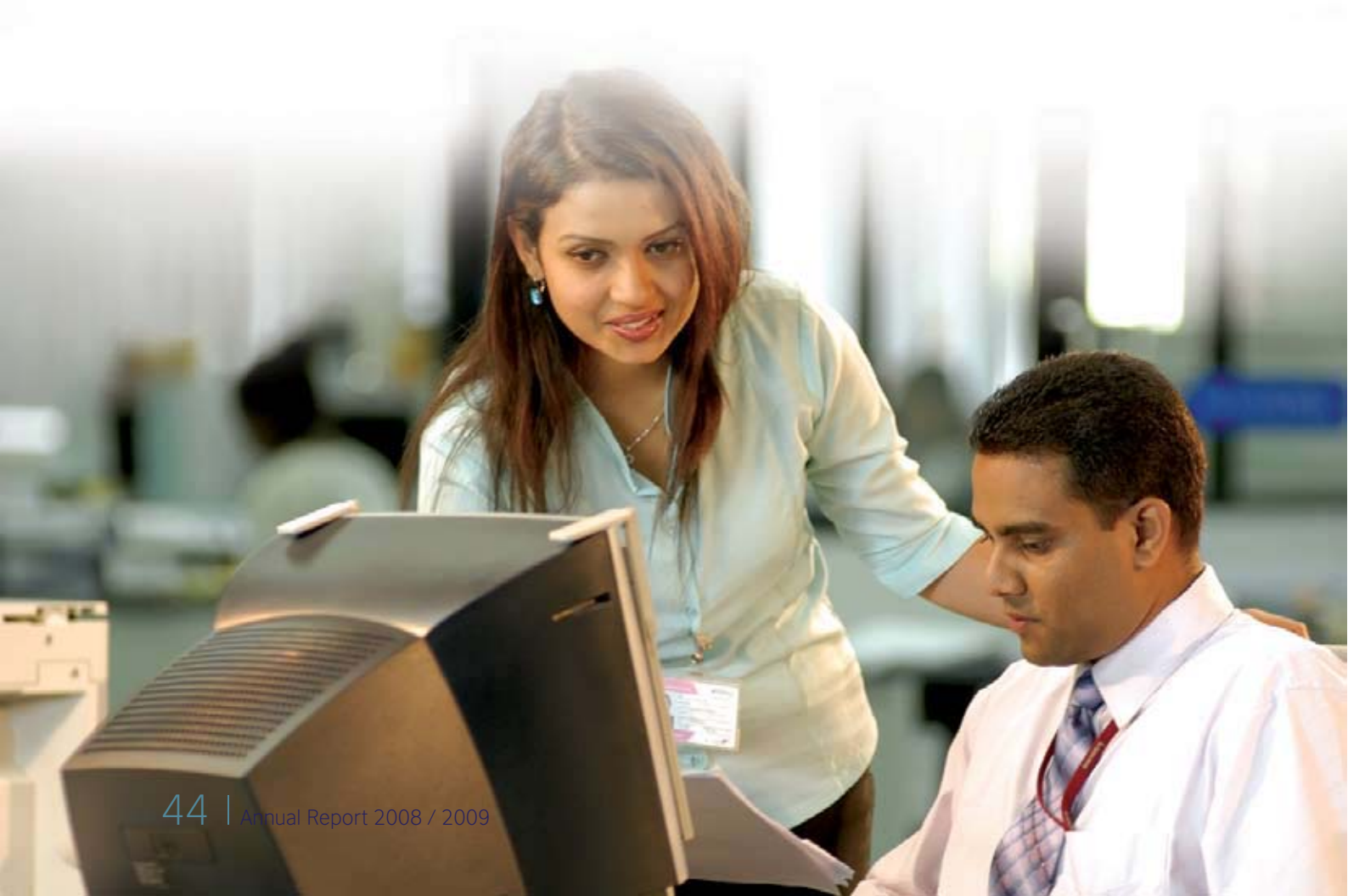
Investment was carefully targeted for key projects, due to the limited financial resources available during the year under review. Projects were focused on productivity enhancement measures, mission critical and

process improvement programmes, in support of user departments throughout the company, both in Sri Lanka and overseas.

Moving of Corporate Offices to Katunayake

A highly successful project during the year under review was the moving of the company's corporate offices from Colombo to Katunayake, to improve on operational efficiencies and reduce costs by bringing the entire team under one roof. This was carried out in a phased manner over a period of only one month in the third quarter.

IT infrastructure was pre-positioned to ensure a seamless operation that did not disrupt day to day business activities in any way. Departments were shifted according to a well-planned schedule, with employees leaving their offices in Colombo on Friday and arriving at Katunayake on Monday to find their facilities set up over the weekend.



Consolidation of Data Centres

The move to Katunayake required the consolidation of the Colombo and Katunayake Data Centres in one location. The IT Division took the opportunity to upgrade old systems and bring in new technology, which resulted in reduced IT operational costs (licensing, air conditioning, power), and a significant increase in the eco-friendliness of the company's IT operations.

Revamping of Corporate Website

The revamping of the corporate website was given high priority since it is a key area of focus in the marketing efforts of the company.

Discussions and negotiations were carried out with vendors, and this project is expected to be implemented on a phased out basis throughout the next financial year, to provide the Airline with a state of the art interactive website that will optimise user-friendliness and capture more customers and generate increased revenue for the company. The new website is intended to increase penetration levels for internet bookings with a set of rich features for customer experience, and will incorporate adequate content management tools for internal users, empowering them to provide instant information to customers.

Call Centre Project

The IT Division is closely supporting the development of the company's new integrated Call Centre, which will centralise global call centre operations to one location. The new call centre will be a 24-hour operation, and will provide a multi-lingual service to customers around the world, and will considerably enhance customer service levels in the company.

Mobile Check-In Project

A programme to provide greater customer convenience through check-in facilities on mobiles was completed. It is to be commissioned during the next financial year and would ease time duration at airport check-in counters.

Locally Developed Pricing Management System

A new Pricing Management System, Price-Wise, was brought on-line during the second quarter of the financial year. This project was carried out throughout the year under review, and was developed in Sri Lanka to the exact specifications of the Airline.

Price-Wise is a tool which greatly simplifies data and communications with regard to the fare management process. It is a structured database that allows rapid access to information, and also provides the ability to generate reports automatically.

Interline E-Ticketing with Other Airlines

SriLankan complied 100% with IATA's e-ticketing policy by successfully interlining 80 Airlines and 10 Global Distribution Systems (GDS).

Enhanced E-learning Project

The company prepared to implement an advanced E-learning Suite that is projected to reduce training costs through facilitating distance learning, especially those of overseas staff. Groundwork on this project was carried out and it is scheduled for implementation during the next financial year. This project is expected to provide a relatively rapid return on investment.

New Crew Management System

Preparations were carried out to introduce a new Crew Management System, which will streamline operations of cabin crew and pilots. This is also scheduled to be completed during the next financial year.

IT Security Audit

As a periodic check on security levels, an IT Security Audit was completed by a team of external resource persons, who evaluated the company's IT Risk Management systems in identified areas.

Time Attendance System

A Time Attendance System based on fingerprinting was commissioned throughout the company's offices in Katunayake. This has enabled greater productivity and also provides for enhanced access control in terms of security.

Information Technology Cont'd....

Future Plans and Outlook

The IT division has planned out a multi-dimensional approach to provide solutions for the company's technology requirements over the next financial year. These include:

- Retiring and replacing IT assets as per the IT Asset Retirement Policy and prioritising key areas in the face of financial constraints.
- Support for systems for which support has been discontinued by vendors.
- Maximizing the utilisation of existing systems to user departments.
- Creating a common customer database to integrate different sub business units which interacts with customer profiles.
- Introduction of a Customer Relationship Management (CRM) system.
- Enhance the company's technology standards to those in the industry in all hardware and software development undertaken by the company.
- Provide members of the Senior Management Team with Management Information Dashboards that will provide instant access to information of commercial, financial, or corporate nature which will enable enhanced decision-making for a variety of purposes, including Enterprise Resource Planning.
- Continue in-house development of new systems wherever possible to reduce cost levels.
- Minimise IT Risk to ensure continuity of business processes.
- Install a Project Management Dashboard that will display the status of IT projects which will be accessible to user departments. This will provide an up to date realistic view of the progress and scheduled completion of each project.
- Commission Internet Kiosks at strategic locations to provide greater levels of customer convenience, and reduce time at customer touch points.
- Enable greater internet usage solutions for overseas stations to carry out non-critical work at reduced communication costs, and free up more bandwidth on the SriLankan IT network for critical applications.
- Enhanced Passenger Services systems for Reservations and Departure Control.

Finance

Giving a lead to restructuring our business

The Finance Division carried out a wide range of initiatives to ensure business continuity and the smooth running of the SriLankan Airlines Group following the changeover in management.

In addition, the Finance Division played a key role in restructuring and strengthening the Airline's business to meet the multiple challenges faced during the year under review. While the impact of a number of initiatives was immediately evident, many programmes are of long-term value whose results will continue to strengthen the Group during the next financial year.

Re-fleeting of the Narrowbody Fleet

Strong relationships were built with several new aircraft lessors which resulted in the Airline being successful in the re-fleeting of its narrowbody fleet. Two A320's were acquired during the year under review, and negotiations were begun to obtain a third in the first quarter of the

next financial year. These lessors included two of the largest players in this industry, which augurs well for SriLankan's aircraft requirements in the future.

Extending Leases of Widebody Fleet

The strengthening of relationships with existing lessors ensured the extension of leases on two of the Airline's four widebody A330 aircraft during the year under review on favourable terms.

Existing Aircraft Leases

Following the changeover in the Group's management, the Finance Division successfully carried out a confidence-building process on the part of all its aircraft lessors, to facilitate business continuity of its operations.



Finance Cont'd....

Ensuring the Confidence of Financiers

Close relationships were maintained with all financial partners, ensuring the liquidity of the Airline throughout the year under review, and protecting its image and creditworthiness. This included frank disclosures and discussions with the Airline's bankers with regard to challenges faced and the company's initiatives to overcome these issues.

Business Turnaround Plan

The Finance Division played a key role in planning and co-ordinating the wide-ranging initiatives of the company's Business Turnaround Plan that is described in more detail elsewhere in this Annual Report, working with departments throughout the company to optimise revenue and cost savings. This included rapidly providing financial information on various activities in tandem with respective departments.

A key focal area of the Finance Division in the Business Turnaround Plan was in support of the Airline's route rationalisation process, which is described in more detail in the Worldwide Sales and Corporate Affairs sections of this Annual Report.

Enhancing Financial Reporting

The success of the Business Turnaround Plan necessitated the enhancement of the company's financial reporting. Within a short period, the Finance team commenced the generation of weekly reports to all essential senior management personnel, to facilitate their decision-making processes.

Restructuring of Sub Business Units

The diversification of business operations by unleashing the potential of sub business units to turn them into stand alone businesses in their own right, an important long-term programme identified in the Business Turnaround Plan, required the full involvement of the Finance team. A key initiative was the successful separation of accounting to turn SriLankan Engineering into an independent Strategic Business Unit, details of which are to be found in another section of this Annual Report.

Transparency in Procurement and Enhanced Cost Control

A key element in the Business Turnaround Plan was the repositioning and re-examining of the company's business model, encouraging individual departments to take on more responsibility with regard to their respective

costs. It also involved the streamlining of all procurement procedures, to maximise transparency and accountability, and to optimise cost savings from all suppliers and business partners.

RAPID Revenue Accounting System

A new version of the RAPID Revenue Accounting System was commissioned, ensuring that the Airline's accounting systems continued to stay abreast of current technology, facilitating the swift flow of accounting information.

Future Plans and Outlook

The Finance Division will focus on the following key areas during the year ahead:

- Maintaining the liquidity of the Group, especially in the critical period in the first three quarters of the next financial year, prior to the expected increase in revenue with the growth of tourism to the country in the Winter 2009/10 season.
- Continuous enhancement and implementation of the Business Turnaround Plan in co-operation with all departments.
- Continuously restructuring key units and business activities of the Group to increase competitiveness and efficiency.
- Recapitalising the Airline by unleashing the potential investments in sub business units.
- Strengthening relationships with aircraft lessors, financiers and other business partners.

SriLankan Catering

On a winning streak

SriLankan Catering (Pvt) Ltd.

SriLankan Catering (Pvt) Ltd. (SLC) is the fully owned subsidiary of the Group, and specialises in providing inflight catering services to Airlines that operate to BIA. SriLankan Catering, which was founded in 1979, is a BOI approved company.

The subsidiary supported the Group with a strong performance during the year under review, and achieved an impressive profit after tax of Rs. 1.26 billion. This was a 30% increase over the net profit of the previous year.

This was the third time in the past four years that SriLankan Catering crossed the Rs. 1 billion mark in profit after tax, and was a tremendous achievement during a year of downturn in the global Airline industry, and particularly in air traffic to Sri Lanka.

Turnover decreased to Rs. 2.79 billion, compared with Rs. 3.28 billion in the previous year.

Key Challenge – Preparing for Sustained Growth

The subsidiary began preparing for long-term sustained growth through a multi-dimensional approach to enhance its core business activities and support operations. This is in anticipation of rapid expansion following the Dawn of Peace and the expected rise of tourist and other visitor arrivals to Sri Lanka, coupled with an increase in air traffic.

This included:

- Key appointments to its management team.
- Enhanced training for its staff.
- Focus on safety, quality and hygiene.
- Preparations to diversify its products.
- Introduction of entirely new menus in the next financial year.
- Cost restructuring to maximise use of resources.
- Streamlining of management information systems.
- A concerted marketing drive to regain lost customers.
- Adopting a zero-tolerance policy on customer complaints.

Airline Customer Base

Despite the drop in air traffic at BIA, SLC continued to serve several globally reputed Airlines including Cathay Pacific, Emirates, Qatar Airways, and Malaysia Airlines, as well as SriLankan Airlines, and currently produces more than 60 different menus.

It is confident of rapidly expanding this customer base within the next financial year, and has begun discussions with several Airlines in this regard.



SriLankan Catering Cont'd.....

Enhanced Certifications

SLC remains one of the few Airline caterers to possess triple certification. During the year under review, it successfully completed audits to upgrade its quality management standard to that of ISO 9001:2008 - the latest international standard – which was received in the first quarter of the next financial year.

In addition, SLC possesses the following certifications:

- ISO 2200:2005 for quality and efficiency
- HACCP Codex Alimentarius for food safety and hygiene

Accreditations

SLC is a member of the International Travel Catering Association of (ITCA), and the Inflight Food Service Association of the United States. The flight kitchen is Halal certified.

Board of Directors

The Chairman of SriLankan Airlines Group also serves as the Chairman of the SLC Board. The SLC Board comprises four Directors who are appointed by the Group Board, and are Members of the Board of SriLankan Airlines.

- Nishanta Wickremasinghe (Chairman)
- Sunil G. Wijesinha (Director)
- Sanath Ukwatte (Director)
- Nihal Jayamanne (Director)

SLC Team

The subsidiary has a staff strength of 552 (26 Executives and 526 Non-Executives) with an average experience of 11.5 years. During the year under review, the management team was strengthened with the appointment of its new Chief Executive Officer in March 2009.

A new Executive Chef was headhunted and recruited, and was appointed in the first quarter of the next financial year. A new Manager Finance & Systems was appointed during the year under review.

Performance of Flight Kitchen

SLC's state of the art 18,000 square metre production facility at BIA, produced an average of 11,000 meals per day during the last financial year. With a production capacity of 25,000 meals per day, it is well prepared to handle the expected growth in production for the next several years.

Airport Restaurants and Lounges

The subsidiary also operates three restaurants at BIA, and supplies catering services for several other restaurants and lounges that are operated by other institutions.

These are for the use of passengers who are departing, arriving and in transit; Business Class and First Class passengers; visitors; airport staff; VIP's, VVIP's and CIP's (Commercially Important Persons).

Commitment to Quality, Safety and Hygiene

SLC continued to maintain its industry reputation for quality, food safety and hygiene, and enhanced its testing and monitoring at each step in the process, including procurement, storage, production, and operations. It possesses a modern laboratory with a fully qualified team.

Future Plans and Outlook

SriLankan Catering is looking forward to rapid and sustained long-term growth with the expected boom in the country's tourism industry following the Dawn of Peace.

SLC's future plans include

- Maximizing revenue from existing customers.
- Actively soliciting new Airline customers at BIA.
- Recapturing business of former customer Airlines.
- Enhancing productivity of its facility and staff.
- Diversification of business activities to non-Airline related catering market segments.
- Working towards obtaining international certification in environmental standards for its production process.
- Competing in national and international culinary competitions to provide greater exposure for its staff.
- Enhance restaurant and lounge services at BIA.

In the face of the multiple challenges that we faced, "Earn More, Spend Less, Waste Not," became a battle cry which ensured the Airline's survival.



Risk Management Statement

Risk Management Structure

Risk Management is considered an integral part of a business and processes are in place to identify, evaluate and mitigate risks at all levels of the organisation. Individual business units are responsible for the risk management within the company policy frame work. The overall responsibility for compliance is with the Board of Directors. Internal Audit reports to the Audit Committee of the Board on risk management and compliance issues. The Audit Committee reviews such internal audit reports and recommends corrective action and follows up on the implementation of such corrective action.

Risk Management Activities

Numerous risk management activities have been adopted in the following critical areas of the business during the year under review;

- a. Operation Risk**
- b. Safety Risk**
- c. Business Continuity / Disaster Recovery**
- d. Financial Risk**
- e. Human Resource Risk**

The major risks associated with each of these areas have been identified and mitigating actions implemented. High risk items within each category are continuously monitored to ensure that timely mitigating action is taken as per the company risk management policy.

During the year under review, the Audit Committee adopted a new Risk Management Policy and a Risk Management Procedure Manual. The new policies and guidelines which have been subsequently adopted by the Board of Directors will enhance the risk management activities at all levels of the organisation and is expected to be fully implemented during the course of the next financial year.

Statement of Corporate Governance

This statement of corporate governance describes the responsibilities and best practices exercised by the Board and the management of the Company with a view to provide strategic directions, ensuring that the company objectives are achieved, ascertaining that risks are managed appropriately and verifying that the organization resources are used responsibly. The Board and the management will continue to uphold the highest standards of corporate governance within the Company in accordance with principles and provisions recommended by the Institute of Chartered Accountants of Sri Lanka.

Board of Directors

The responsibility for strategic management and setting the overall direction for SriLankan Airlines resides with the Board of Directors of the Company. The Board of Directors of SriLankan Airlines meets on a regular basis to discuss achievement of and changes in the entity's strategies, policies, priorities and set standards for the management. The board held 05 meetings during the financial year ended 31st, March 2009.

The principle functions of the board includes,

- Monitoring the Company and its subsidiary's overall performance, by reviewing Monthly Financial and Management Reports.
- Adopting of Annual Consolidated Accounts of the Company and Group before they are published.
- Approval of the recurrent and capital expenditure budgets and monitoring progress against the budgets, and allocating necessary financial and human resources in order for the Company to meet its targets and objectives.
- Monitoring the strategies and capabilities of the Company's major competitors.
- Evaluating the external environment of the Company and assessment of business and financial risks that could impact the Company's performances and profitability.
- Setting overall Direction of the Company and ensuring the obligation to the shareholders and other stakeholders, are met.

- Reviewing of long-term plans based on the changes in the external and internal environmental factors that have a significant impact on this company's business

The Board is ultimately responsible and accountable for the Company's activities, strategy and financial performance.

The Board of Directors has complete access to all relevant information, on a regular basis enabling them to discharge their duties effectively. Members of the Board are provided with appropriate documentation in advance of Board meetings, enabling them to make informed decisions and the minutes of the meetings for the Senior Management Team, are also circulated to the members of the Board.

The Chief Executive Officer and the Company Secretary are responsible for ensuring that all Directors are properly briefed on matters that are discussed at Board meetings.

The Board works towards delivering best value to the Company shareholders and are committed towards providing and adequate transparent information on the activities of the Company.

Senior Management Team

The Senior Management Team comprises of the Chief Executive Officer, Chief Financial Officer, Head of Information Technology, Head of Corporate Affairs & Planning, Head of Worldwide Sales, Head of Human Resources, Head of Service Delivery, Head of Engineering, and Head of Flight Operations. 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. 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 issued by the Board.

Statement of Corporate Governance cont'd.....

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 disclosure are made in the Annual Report and Accounts, giving a true and fair view of the Company's financial and operational performances.

The Financial Report of the Company 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.

Internal Controls

The Board of Directors and the management are responsible for the maintenance of the Company's systems of internal control including the internal financial controls to safeguard shareholders' investment and the assets of the Company.

The Board ensures the effectiveness of the controls that prevail in the company to provide reasonable assurance on safeguarding of assets against unauthorized use or disposal and maintenance of proper and reliable records of information. It includes all controls such as financial, operational, compliance and risk management. However, any system can ensure only reasonable and not absolute assurance that errors and irregularities are prevented or detected within a reasonable time frame.

The Board and the management also take into account the significant social, environmental and ethical aspects that relate to the Company's business and work practices. The Management has put in place an organizational structure with formally defined lines of reporting and appropriate limits of authority for different processes. There are also established procedures for planning and investment, and information and reporting systems to monitor the Company's business.

The Company maintains an independent Internal Audit Department reporting directly to the Board of Directors and to the Chairman.

The Internal audit plan which is approved by the Board of Directors covers a period of three years. The adequacy

and effectiveness of business controls of the Company are reviewed on an on-going basis both locally and overseas based on the three-year plan prepared using a risk model covering high risk areas of the Company. The Group Internal Auditor has access to management and authority to seek information and explanation.

Human Resource Policies and Practices

The professionalism and competence of staff is maintained both through rigorous recruitment policies and, performance appraisal system which establishes targets, reinforces accountability and controls and identifies appropriate training requirements. Systems are in place to ensure that staff skills are developed and maintained to fulfill their responsibilities, and that the company can meet its future staff requirements.

Employee Relations

The functions of SriLankan Airlines Human Resources includes improving and enhancing the working relationship between the employees, increasing labour flexibility through the review and improvement of work place practices, complying with the collective agreements negotiated with unions and reviewing ways to better motivate the work force through wage restructuring and wage reforms.

Remuneration

The Group's remuneration policy is designed to attract, retain and motivate staff in view of optimising individual objectives and thereby improving the Group's overall performance.

Remuneration, rewards and promotions of staff based overseas are reviewed and approved by the Senior Management Team

Remuneration of staff, excluding the executives and managerial staff based in Sri Lanka is determined in accordance with the Collective Bargaining Agreements with unions, which are in line with industry norms.

Position Request Committee

Staff position requirements are subject to scrutiny by the Senior Management Team. On the recommendations of the Senior Management Team, the requested position is filled by an internal promotion or an external appointment.



Audit Committee and the Auditors

To ensure greater transparency and good governance, an Audit Committee comprising two non-executive directors, one independent observer and the Group Internal Auditor was established during 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. The Audit committee has held 03 meetings during the financial year ended 31 March 2009. All Audit committee meetings are attended by the Chief Executive Officer and Chief Financial Officer.

Regulatory Compliances

The Company is committed to comply with domestic and international rules and regulations governing the operations of the Business. This includes abiding by the rules and regulations established by the Civil Aviation Authority of Sri Lanka, International Air Transportation Association (IATA), and various other agencies, which have a bearing on the operations of the Airline. Further, various divisions of the Company have been working towards certification in their respective fields (SriLankan Engineering - European Aviation Safety Agency (EASA), and Flight Operations - International Operational Safety Audit (IOSA)).

Tender Board

The procurement process of the Company complies with relevant policies and procedures approved by the Board of Directors. The Tender boards' function as a supervisory body to oversee and approve the supplier selection and purchase of products and services in excess of Rs. 5 million.

Going Concern

The going concern basis has been adopted in the preparation of the Company's Financial Statements.

Transparency

The Board places great emphasis on complete disclosure of both financial and non-financial information within the bounds of commercial reality, and on the early adoption of sound reporting practices. The Chairman's and the Chief Executive Officer's review present a balanced assessment of the Company's performance and its future strategic direction. The Statement of Directors Responsibilities in relation to the transparency of Financial Statement is set out on page.

External Auditors

The external auditors are primarily responsible for auditing the Financial Statements of the Company and reporting thereon. Remuneration of the external auditors is approved by the Board of Directors on the recommendation of the Chief Financial Officer. The external auditor's Management Letter, which identifies areas of improvement in controls and management's response there to, is discussed by the Members of the Board with the auditors annually, on completion on the audit.

SriLankan Airlines Sustainability Report 2008/09

SriLankan Airlines' tradition of commitment to Sustainability and Social Responsibility was considerably enhanced during the year under review, despite the financial challenges faced by the Company.

As an Airline that has served tens of millions of passengers around the world for three decades and rendered yeoman service to the nation, SriLankan Airlines views its responsibilities with high importance.

The Airline has well understood that customer satisfaction is a perception that revolves around not merely providing the customer with a 'great Airline experience' but that a holistic approach is key to enhancing the customer's experience in flying with SriLankan, thereby positioning the SriLankan brand as one that truly understands the customer and adds value. Accordingly, the Airline has consistently adopted an all encompassing approach and has looked at investing in customer well-being in addition to the usual areas linked to customer satisfaction, some of which are 'firsts' in the South Asian region.

Structure of our Sustainability Operations

As the National Carrier of Sri Lanka, the Company involves itself in numerous aspects of the day to day activities of the Nation. Our sustainability activities are also therefore planned and executed to have the optimum positive impact on all areas of operations over a long-term perspective.

Sustainability operations are structured under the following categories:

- Customers
- Nation & Government
- Nationwide Community
- Partners and Suppliers
- Environment
- Employees
- Shareholders

Customers

The Year of Our Customer

SriLankan Airlines declared 2009 as the "Year of Our Customer" to heighten customer service levels throughout the Airline. A series of activities were

launched, spearheaded by the newly reconstituted Product Development Department.

Modernisation of Fleet

The Airline carried out a modernisation programme on its narrow body fleet during the year under review, acquiring two new Airbus A320 aircraft, and a third is due in the first quarter of the next year. This has served to increase levels of punctuality, safety and reliability, and the Airline is finalising plans to upgrade the passenger cabins of the newly acquired aircraft within the course of next year.

Preparation of Customer Charter

A Customer Charter was prepared, which describes in detail what passengers could expect from the Airline in terms of minimum service standards and the responsibilities of the Airline's employees towards them at all stages of their journey, from booking to post-flight care.

The Customer Charter is scheduled to be launched during the next financial year.

Making Leisure Travel Affordable to Sri Lankans

The National Carrier's leisure arm, SriLankan Holidays, increased its wide range of packages which provides value for money fares for outbound leisure travellers, including affordable tour packages and hotel accommodation through a network of franchise operators. Popular destinations among Sri Lankans were Bangkok, Singapore, Kuala Lumpur, Beijing, Chennai, and the Maldives. Promotions were also carried out in partnership with two major credit card companies- HSBC

and Amex - which allowed travellers the opportunity to 'fly now and pay later'.

Supporting our Migrant Workers

The Airline continued its tradition of assisting the country's migrant workers, by serving nine destinations in the Middle East (Dubai, Abu Dhabi, Riyadh, Dammam, Jeddah, Doha, Kuwait, Muscat and Bahrain) as well as Singapore and other cities with a significant Sri Lankan migrant workforce.

Serving Foreign Tourists around the World

The National Carrier carried by far the largest number of tourists into Sri Lanka. According to Sri Lanka Tourism Development Authority (SLTDA) statistical reports, SriLankan carried well over 50% of foreign tourists to Sri Lanka, totalling in excess of 220,000 for the period January – December 2008.

In comparison, the largest number of foreign tourists into Sri Lanka carried by a foreign Airline was a little over 56,000.

SLTDA statistical reports further indicate that for the period January – March 2009, SriLankan had carried approximately 52,260 tourists to Sri Lanka, whereas the most number of tourists carried by a foreign Airline over the same period stands at around 15,000.

Spirit of Honesty in Returning Items Left on Board

The Airline felicitated more than 50 employees for their spirit of honesty during the year under review.

Several items found on board by security and cleaning crews were handed over to airport officials, who traced the passengers concerned and returned the items, usually while the passengers were still in the airport.

Responding to Medical Emergencies - Heart Start Machines on Board

SriLankan added yet another dimension to its superior customer service by becoming the first Airline in South Asia to carry 'Heart Start Machines' on all its long-haul flights for medical emergencies.

This simple piece of equipment can save lives in the unlikely event of a passenger suffering a heart attack on board a flight. Every one of our Airbus A330 and A340 aircraft which operate long-haul routes now has one of

these state-of-the-art machines on board, and our cabin crew are trained in using them.

The machines, known formally as Automated External Defibrillators (AED), monitor and evaluate pulse rates when attached to a patient. Through voice commands the machine recommends immediate actions such as CPR (Cardio Pulmonary Resuscitation), and if a patient's condition is serious, it can also discharge an electric shock to stimulate the heart.

Chinese Language Assistants on Beijing Sector

The Airline introduced Chinese Language Assistants to assist Chinese speaking passengers on the Beijing sectors.

Serving the Sri Lankan Community Overseas

The National Carrier launched services to Rome in December 2008 with a view to boosting tourist arrivals from Italy and providing the large Sri Lankan community in central and southern Italy with a direct air link to their homeland. Rome is also a destination for a significant number of Sri Lankan Christian pilgrims. The Airline has taken a decision to launch non-stop services between Milan and Colombo in December 2009 which will also serve the Sri Lankan community in northern Italy.

Security & Investigations Department

The Airline's Security & Investigations Department is charged with the responsibility of protecting the Airline's passengers, employees, and assets from all types of security related risk. The Department comprises a mix of former personnel of the armed forces and police, and direct entry personnel, all of whom have been provided with specialised training in aviation security.

During the year under review, the Department significantly expanded its Sky Marshals programme and now has 57 trained Sky Marshals who travel on flights to provide security on board, to deter any possible threat, and to assist cabin crew in handling of the occasional unruly passenger. This Department is also responsible for security of the Company's aircraft and passengers while overseas, and also assists authorities in anti-smuggling (drugs, dangerous goods, gold, etc) operations.

Sustainability Report 08/09 cont'd....

Nation & Government

Airlifting National Cricket Team Following Terror Attack

The Airline responded immediately to a direct request by His Excellency President Mahinda Rajapaksa to urgently airlift the National Cricket Team out of Lahore, Pakistan, following the terrorist attack on the team bus.

Preparations were made to take an aircraft out of scheduled service and despatch it to Lahore with a security contingent and a medical team. Less than 18 hours after the incident, the aircraft touched down at Bandaranaike International Airport with the team.

Supporting Bandaranaike International Airport

The National Carrier continued to support the development of Bandaranaike International Airport (BIA) by providing ground handling services to other Airlines, passengers, baggage, cargo, and aircraft.

The Airline operates the 'Serendib Lounge' for Business Class passengers, which is reputed to be one of the finest lounges in Asia. The Airline's catering arm, SriLankan Catering, also operates three lounges and restaurants, and provides catering services to all other lounges at BIA.

SriLankan also provided complimentary training in Aircraft Marshalling for staff of Airport & Aviation Services (Sri Lanka) Ltd. during the year under review.

The Airline is completing plans to double its cargo handling capacity at BIA during the next financial year, with the commissioning of a new state of the art Exports Terminal. SriLankan is the sole cargo handling agent for all Airlines at BIA.

In addition, the Airline continues to support all export and import industries through the carrying of cargo throughout its network. SriLankan Cargo carried 78,106 tonnes of cargo during the year under review, and handled 130,725 tonnes at the BIA Cargo Centre.

SriLankan Cargo also enhanced customer convenience through the commissioning of the user-friendly SkyChain Cargo Management and Tracking System during the year under review, which allows customers to track the progress of their shipments around the world.

Supporting the Tourism Industry

The Airline continued with, and significantly enhanced, its support for Sri Lanka's travel and tourism industries during the year under review. Awareness campaigns were carried out overseas with the Travel Agents Association of Sri Lanka, Tourist Hotels Association of Sri Lanka, and the Sri Lanka Association of Inbound Tour Operators, as well as Sri Lanka Tourism.

The National Carrier facilitated the activities of the above organisations by providing discounted air tickets and cargo rates to their members.

The National Carrier also participated in events that promoted both foreign and local tourism such as the following:

- Colombo Marathon
- Galle Literary Festival
- Deyata Kirula
- Singer-Sri Lankan Rugby Sevens
- Kandy Perahera

Special Flights for Hajj

The Airline provided special treatment for pilgrims during the Hajj festival season on its flights to Jeddah, the gateway to the Muslim holy city of Makkah. This included a choice of special meals on both scheduled and chartered flights.

In addition, a special 60-minute documentary on the Hajj was screened on board during the Hajj pilgrimage in November and December. This was on wide-screen for charter flights, while passengers on scheduled flights to Jeddah could view it on one of the movie channels on their personal seatback television.

Suppliers & Partners Sharing our Success

Sri Lanka Tourism

SriLankan Airlines worked closely with the Sri Lanka Tourism Promotions Bureau (SLTPB) and the Ministry of Tourism to create awareness in Sri Lanka's major tourism markets as a value destination, during a year in which the Country's tourism suffered due to the impact of adverse travel advisories. Joint campaigns were carried out at major industry events, as well as joint advertising and publicity campaigns overseas.

SriLankan Airlines, in partnership with the SLTPB, facilitated inbound travel of over 100 journalists from its worldwide network, during the year under review.

Enhanced Relationships with Partner Airlines

SriLankan greatly enhanced its relationship with partner Airlines such as Malaysia Airlines and Etihad Airways during the year under review. These are described in greater detail in the Worldwide Sales section and Corporate Affairs section of the Annual Report.

FlySmiLes Partners

The Airline entered into partnerships with no less than ten major companies for its FlySmiLes Customer Loyalty Programme. These are described in detail in the Worldwide Sales section of the Annual Report.

Encouraging Local Suppliers

The changeover of the Company's management resulted in a greater focus on doing business with local suppliers, and significant efforts were made to promote and strengthen relationships with the numerous local suppliers who do business with the Airline.

Serving the Community

SriLankan Cares

The Airline has a dedicated community service arm, SriLankan Cares, which is registered as a Trust, and operates under a Board of Trustees appointed by the Airline. SriLankan Cares is dedicated towards uplifting the health and education of children of all ages throughout Sri Lanka. In the past, it has been involved in numerous projects which include the adoption of Meepagama Jayanthi Maha Vidyalaya in Kalawana in the Ratnapura District, and the reconstruction of Tsunami damaged Al Bahiyah Maha Vidyalaya at Kalmunai in the Batticaloa District.

Staff Contributions

While the Airline itself carries out a wide range of sustainability activities, it is to be noted that the staff of SriLankan also take great pride in sustainability efforts through their own initiatives and contribute substantially by carrying out significant projects; notably in the area of social responsibility.

These are often conducted by departmental or other working units of the company.

SriLankan Cares Gifts Building to Children of Debarawewa

During the year under review, SriLankan Cares launched and completed the first phase of a major project to enhance the standard of education in the Southern Province, with the completion of a brand new building at Debarawewa Primary Navodaya Vidyalaya; a school of over 3,000 students.

The building, constructed in just five months at a cost of Rs. 12.4 million, was officially handed over by the Chairman of SriLankan Airlines to the Director of Education of the Southern Province on 6th January 2009, in the presence of the principal, teachers, students, and parents of the school.

SriLankan Cares worked in partnership with the German aid agency GTZ, which provided furniture, sports equipment, computers, musical instruments, and hearing aids for differently-abled students.

With this building - an 8-classroom block of 4,500 square feet, together with furniture - the school now has the facilities to educate its children through Year 9. The school, which has 3,076 children and a staff of 93 teachers, had up to then provided education only up to Year 8, although its students have an enviable academic record. Thereafter, students were obliged to seek entry to other schools for their Ordinary Level education.

The planned Phase II will accordingly involve a second set of classrooms to house Year 10 students, thereby obviating the need to seek admission to other schools. The Airline is also carrying out a series of support programmes to assist the development of students and teachers of the school.

Reaching Out to Neighbourhood Schools

SriLankan embarked upon a programme to assist children in schools around Bandaranaike International Airport to enhance their oratory and leadership skills.

Members of the Airline's Orator's Club worked with children of four schools in the neighbourhoods of Andiambalama, Peellawatta, Kurana, and Katunayake. With their guidance from last October, each school has formed an Orator's Club to further enhance their children's skills.

A Joint Orators' Club has also been formed to encourage community based activities, networking and interaction among students of the participating schools

Sustainability Report 08/09 cont'd....

Andiambalama Maha Vidyalaya, David Silva Primary School of Peellawatta, The High School at Kurana, and Roman Catholic Maha Vidyalaya in Katunayake.

Supporting Our Universities

SriLankan Airlines continued to provide invaluable support for undergraduates of several universities to acquire new skills which will enhance their prospects for employment.

The National Carrier has carried out several programmes to provide assistance to undergraduates from the universities of Ruhuna, Moratuwa, and Colombo, and also the Tharuna Aruna programme run by the Government of Sri Lanka for unemployed graduates.

The latest group during the year under review comprised 25 final year undergraduates from various faculties of the University of Ruhuna, who underwent six months' On-The-Job Training at various departments throughout the Airline. This was the fourth such group from this University alone.

Participants were also given specially designed classroom training in skills such as Leadership, Effective Communication, Team-building, Telephone Etiquette, Social & Office Etiquette, Facing Interviews, Project Management, and Computer related functions.

Blood Donation Programme

The Airline carried out its annual Blood Donation Campaign during the month of September, and succeeded in collecting a significant number of donors, numbering more than 100. This programme is held annually in conjunction with the Airline's anniversary celebration.

Christmas on Wings at Helpage Home

Employees of SriLankan Airlines took their trademark warmth and caring to the Helpage Day Care Centre for Elders in Ratmalana, when they spent the day with 65 elderly members of the community.

The Airline's staff had a full day of activities with residents of the Helpage Day Care Centre, which is a place where elderly persons, men and women, spend the daytime while their family members go off to work. It included an extensive variety of entertainment, fun and games, with gifts for all. They took with them a 4-member calypso band which was in attendance throughout the day.

The annual Christmas on Wings Service Project was made possible by financial contributions from hundreds of members of the staff throughout the Airline. In previous years, the team has brought cheer into the lives of those in children's homes, elders' institutions, and even prisons.

Help to form Toastmasters Club at Nations Trust

During the year under review, the SriLankan Airlines Toastmasters Club assisted Nations Trust Bank to form a Toastmasters Club for its employees, in a spirit of friendship and co-operation. Toastmastering is the worldwide art form dedicated to communication, public speaking, and leadership.

Poson Udanaya at Naga Viharaya

The staff of SriLankan celebrated the Buddhist holy day of Poson at the historic Naga Viharaya in Kotte with the SriLankan Airlines Poson Udanaya which featured the SriLankan Poson Choir in an impressive rendition of 10 songs, six of which were written especially for the occasion.

The 1 ½ hour event on 18th June 2008 was preceded by a Bodhi Pooja. A special feature of the evening was the singing of six songs by students of the temple's Dhamma School, which provided important exposure and experience for these youngsters.

The event was followed three days later by a special performance of three songs at the studios of the country's largest TV channel Rupavahini, for a live performance on its popular Sandakada Pahana programme.

The annual SriLankan Poson Udanaya is a traditional event at the Airline, and is usually staged on Poson Poya Day, which commemorates the arrival of Buddhism in Sri Lanka more than 2,000 years ago.

Environment - Protecting our World

Launch of Corporate Environment Policy

In January 2009, SriLankan Airlines launched a Corporate Environment Policy, with the objective of promoting a culture of adhering to the highest standards in environmental management throughout the Company's many business activities.

The Airline already had a large number of individual environmental safeguards, and the adoption of this formal Corporate Environment Policy brought conservation under a single umbrella, for maximum effectiveness.

The Corporate Environment Policy states: "SriLankan Airlines is fully committed to a strong corporate policy and culture which recognises and maintains the highest global standards in the conduct of our business as a passenger and cargo carrier, and a provider of Airline catering, ground handling and engineering services. We shall endeavour to provide the highest standards of excellence in environmental management, which will be committed, co-ordinated, planned and directed towards the attainment of our objectives with minimal environmental impact."

The wide range of activities under the Corporate Environment Policy include a process for setting corporate and operational level environmental goals; delineating lines of accountability and responsibility for achieving these goals; the setting up of an Environmental Management System across the organisation; ensuring the availability of adequate resources, facilities and information to achieve environmental goals; a programme to monitor and evaluate the results of environmental initiatives; the creation of awareness among all staff including training programmes; and the setting up of a reporting and communication system to keep relevant authorities informed of environmental activities.

Fuel Management Department

A specialised Fuel Management Department was formed during the year under review in the Flight Operations Division, to co-ordinate and drive all fuel savings activities throughout the company.

The Department worked with all aircraft related units of the Company to put in place fuel conservation measures. These included measures to reduce fuel consumption during pushback, taxiing, flight, descent, and landing, use of ground power units while parked, and increasing fuel efficiency through heightened engine maintenance and aircraft servicing.

The performance of every aircraft in the fleet was also closely evaluated, to ensure optimum operational efficiency.

These initiatives achieved a remarkable level of success which was validated by a team of fuel efficiency experts

from the International Air Transport Association (IATA) and served to significantly reduce the Airline's carbon emissions.

Environmental Strategy & Compliance Unit

This Unit is being set up to underscore the Airline's focus on environmental conservation; to minimize its carbon imprint; to co-ordinate environment related activities throughout the company; and to ensure compliance with all national and global regulations. The Unit will act in close co-ordination with environmental agencies both in Sri Lanka and overseas.

SriLankan Pioneers 'Planet Friendly Flights'

SriLankan Airlines began transforming its worldwide operations into environment-friendly 'Planet Friendly Flights', becoming the first Airline in South Asia to make a full and unconditional commitment to environmental conservation.

SriLankan Airlines first Planet Friendly Flight was operated on 21st March 2009, and began a new chapter in the history of Sri Lanka's National Carrier.

The flight involved a comprehensive range of measures to make it as environment-friendly as possible, minimising fuel consumption and carbon emissions and reducing noise levels.

For the passengers, the experience began with a Special Green Counter at BIA; paperless ticketing; and strict weight control on luggage. Even the vehicles used for support services for the aircraft at BIA were certified as environment friendly, with minimum usage.

On board, cabin crew carried the message of conservation by creating awareness among passengers; there was maximum use of recyclable materials for meals using biodegradable and recyclable plastic items; waste was separated on board the aircraft to be disposed of; and the duty free bags were recyclable. Even the weight of magazines carried on board had been reduced.

Noise Reduction

The Airline's fleet of aircraft operate well within regulatory requirements in all countries around its network. In addition, the modernisation of the narrow-body fleet during the year under review resulted in significantly lowering average noise levels.

Sustainability Report 08/09 cont'd....

Waste Sorting / Recycling Project

The Airline's main employee union launched a Waste Sorting and Recycling System throughout the Company's premises in Katunayake, with the assistance of the Ministry of Environment, and the Central Environmental Authority.

Different coloured bins were placed at strategic locations around the Company and staff were given awareness training on their usage and importance.

Dialogue with Environmental Partners

SriLankan commenced discussions with the Environmental Unit of the International Air Transport Association (IATA) - the global aviation industry's governing body - to exchange the latest information and developments on aviation related environment issues. SriLankan also participated in IATA's current survey on Environment Management Systems among Airlines.

Employees - The SriLankan Family

Enhanced Career Development

The International Aviation Academy (IAA) introduced no less than 15 new programmes during the year under review, which will assist employees in all departments to advance their careers. These include programmes related to Airline technical skills, soft skills, productivity, leadership, and languages.

These are in addition to the more than fifty existing programmes in the categories of Management & Leadership, Information Communication Technology, Passenger Ticketing & Sales, Cargo, Marketing & Sales and Airport Passenger Handling.

All of the programmes at the IAA are provided free of charge to employees.

Permanency for Contract Staff

Upon representation from the Airline's main employee union, the Company invited long-term contract staff to apply for permanent positions. A total of 250 such persons were absorbed into the permanent cadre during the year under review.

Expanded Welfare Facilities

The Airline significantly expanded welfare facilities for the

use of staff during the year under review. These included canteen facilities at various locations throughout the premises, welfare shops that provided bread and other items, a Christmas Sale of household items offered at discounted rates by merchants, and a similar New Year Sale.

Enhanced Medical Programmes

A series of special programmes were carried out in relation to medical awareness and requirements of the staff. These included several Cancer Screening Programmes, and an HIV/AIDS Awareness Programme.

These were in addition to the extensive medical services offered by the Airline's specialised Medical Centre, and its External Medical Panel of general practitioners, specialists, and dentists.

Developing Leadership Skills among Staff

The Airline continued to develop leadership and communication skills among its employees through the SriLankan Airlines Toastmasters Club and SriLankan Orators Club.

Both clubs trained several groups in speech-crafting. In addition, a seminar was held on Public Speaking by well known communications specialist David Brooks.

Talent Contests for Staff

Several talent contests were held for staff of the Airline to develop and display their various artistic talents in music, song and dance. Notable among these was the first ever Talent Show for staff of the Airport Service Support (Ramp) Department, and the continuation of the Airport Service Delivery Talent Show after a lapse of two years.

SriLankan Airlines Sports Council

SriLankan honoured its many champions who excelled in 21 different sports during 2008, with an awards ceremony at the Trans Asia Hotel.

The Airline's Sports Council presented Gold Awards to three champions who excelled at the National level. Hundreds of other sportsmen and women received Awards of Merit, Commendation and Appreciation for winning honours at the international, national, mercantile, and travel trade levels in sports ranging from Archery to Volleyball.

The Engineering & Maintenance Department was crowned Best Department for the year based on all

points earned in each inter departmental tournament. The Airport Service Department was the Runner-Up.

During the year, the Airline distinguished itself and won National level honours in Cricket, Badminton, Basketball, Elle, Netball and Athletics.

Due to the financial challenges facing the Airline industry, the company temporarily curtailed its sports activities during the latter part of the financial year.

Enhanced Transparency and Communication

The Airline also focused on expanding all lines of communication with staff. Full details of this are to be found in the Transparency section of this Annual Report.

Flight & Ground Safety Department

The Airline has appointed a specialised team under its Flight & Ground Safety Department to oversee all aspects of safety in the Airline, which includes training of cabin crew, technical crew (pilots), and employees who work in airside areas around the aircraft. The Department is also responsible for the Airline's Emergency Response Plan.

Apart from operational areas, the Department is also in charge of safety related matters among all employees of the Airline, including building evacuation and fire training.

The Airline worked to optimise revenue through innovative offers. A multi-pronged approach was carried out which involved SriLankan Holidays, FlySmiles, and the Airline's Online Sales Channel.





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Financial Highlights

		Group		Company	
		2009	2008	2009	2008
Financial					
Revenue	Rs. Million	74,255.28	80,031.47	73,298.45	79,128.56
Operating Expenditure	Rs. Million	84,402.01	81,794.32	84,794.86	82,154.01
Profit Before Tax	Rs. Million	(9,957.00)	4,938.80	(9,269.15)	4,454.76
Net Profit for the Year	Rs. Million	(9,996.85)	4,899.66	(9,305.94)	4,428.23
Total Assets	Rs. Million	37,210.84	51,283.80	34,341.56	47,940.10
Shareholders' Funds	Rs. Million	12,800.86	22,797.71	6,230.06	15,536.00
Traffic					
Passenger capacity	ASK Millions			11,731.56	12,599.58
Overall capacity	ATK Millions			1,635.62	1,741.10
Passengers carried	RPK Millions			8,546.44	9,793.05
Overall load carried	RTK Millions			1,065.15	1,232.62
Passenger load factor	%			72.85	77.73
Overall load factor	%			65.12	70.80
Breakeven load factor	%			78.19	76.18
Staff Productivity					
Average Strength	Nos.	5,317	5,685	4,837	5,113
Revenue per employee	Rs. Million	13.97	14.08	15.15	15.48
Value added per employee	Rs. Million	0.28	3.05	0.34	3.19
Aircraft Fleet as at 31st March 2009					
On Operating Lease					
A320-200	Nos.	3			
A330-200	Nos.	4			
A340-300	Nos.	5			
Aircraft in service at year end	Nos.	12			

Annual Report of the Board of Directors

The Board of Directors of SriLankan Airlines Limited, take pleasure in presenting the Annual Report for the year ended 31 March 2009.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal business activities of the Company is the operation of international, scheduled/non-scheduled air services for the carriage of passengers, freight and mail as the designated carrier of Sri Lanka. Providing air terminal services at the Bandaranaike International Airport, sale of duty-free goods on-board, marketing inbound and outbound holiday packages constitute other main activities of the Company. Providing third party maintenance and conducting aviation related training programs 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 provision of Inflight Catering Services to airlines operating through Bandaranaike International Airport, Katunayake, Sri Lanka.

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 2009 are attached to this Report.

ACCOUNTING POLICIES

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 76 to 81.

GROUP TURNOVER

The turnover of the Group amounted to Rs. 74,255.28 million (2007/08: Rs. 80,031.47 million). A detailed analysis of Group Turnover is given in Note 16 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 results before taxation amounted to a deficit of Rs. (9,957.00) million (2007/08: Group surplus Rs. 4,938.80 million). After adjusting Rs. 39.85 million (2007/08: Rs. 39.14 million) for taxation, the Group result for the year was a deficit of Rs. (9,996.85) million (2007/08: Group surplus of Rs. 4,899.66 million).

The consolidated income statement for the year is given on page 73.

GROUP INVESTMENT

Group capital expenditure during the year on property, plant and equipment amounted to Rs. 453.47 million (2007/08: Rs. 544.07 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. 4,535.18 million (2007/08: Rs. 5,173.65 million). Details of Property, Plant and Equipment and their movements are given in Note 3 to the Financial Statements.

STATED CAPITAL

The Stated Capital of the Company, consisting of 51,463,463 Ordinary Shares, amounts to Rs. 5,146.35 million (2007/08: Rs. 5,146.35 million).

RESERVES

Total Group Reserves as at 31 March 2009 amount to Rs. 7,654.51 million (2007/08: Rs.17,651.36 million). This consists of accumulated profits of Rs. 6,552.74 million (2007/08: Rs.16,549.59 million), Capital Reserves of Rs. 1,047.70 million (2007/08: Rs. 1,047.70 million), Revenue Reserves of Rs. 0.63 million (2007/08: Rs. 0.63 million), and General Reserves of Rs. 53.44 million (2007/08: 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.

In the case of the wholly owned Subsidiary, SriLanka Catering (Pvt) Limited the income derived from the Flight Kitchen and Transit Restaurant is exempted from taxation with effect from 1 June 2006, in terms of its agreement with the Board of Investment of Sri Lanka.

The income derived from the Public Restaurant is liable at the prevailing tax rate.

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 2009 and Commitments made on Capital Expenditure as at that date are given in Note 22 to the Financial Statements.

Annual Report of the Board of Directors cont'd....

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 23 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 5,317 (2007/08: 5,685).

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.

Mr Nishantha Wickremasinghe	-	Chairman
Mr Sunil G Wijesinha	-	Director
Mr Nihal Jayamanne PC	-	Director
Mr Sanath Ukwatte	-	Director
Mr Kapila Chandrasena	-	Director

The Board of Directors as at 01 April 2008 was as follows.

Dr P B Jayasundera	-	Chairman
Mr Nishantha Wickremasinghe	-	Director
Mr Lalith De Silva	-	Director
Mr Sunil G Wijesinha	-	Director
Mr Tim Clark	-	Director
Mr Gary Chapman	-	Director
Mr Nigel Hopkins	-	Director

Mr Nishantha Wickramasinghe/Director held office as Executive Director from 8th April 2008 until he relinquished this position in September 2008 as he was appointed to the position of Acting Chairman on 30th September 2008 to fill the vacancy created by the resignation of Dr P B Jayasundera on the same day. Mr Wickremasinghe was appointed as Chairman on 29th June 2009.

Messrs Nihal Jayamanne PC and Sanath Ukwatte were appointed as Directors to the Board of SriLankan on 30 September 2008.

Dr U N B Obeysekera who was appointed to the SriLankan Board on 17 September 2008 deceased on 10 March 2009.

Mr Lalith De Silva who was on the Board from 01 April 2008 resigned from his position as Director on 31 December 2008 and Mr Kapila Chandrasena was appointed Director on the same day to fill the vacancy on the Board.

The following EK Directors were in office during the period 01 April 2008 to 19th August 2008 until their resignation from the Board on 20th August 2008.

Mr Tim Clark	-	Director
Mr Gary Chapman	-	Director
Mr Nigel Hopkins	-	Director

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

Mr Nishantha Wickremasinghe	-	Chairman
Mr Sunil G Wijesinha	-	Director
Mr Nihal Jayamanne PC	-	Director
Mr Sanath Ukwatte	-	Director

The SriLankan Catering Board as at April 2008 was as follows,

Dr P B Jayasundera	-	Chairman
Mr Nishantha Wickremasinghe	-	Director
Mr Sunil G Wijesinha	-	Director
Mr Gary Chapman	-	Director

Mr Nishantha Wickremasinghe was nominated and appointed Chairman with effect from 30 September 2008 to fill the vacancy created by the resignation of Dr P B Jayasundera on the same day. Mr Gary Chapman

resigned from his position as Director on 30th August 2008 and Messrs Nihal Jayamanne PC and Sanath Ukwatte were appointed Directors to fill the vacancies on the Board on 28 October 2008.

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 2009. 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 Acting Chairman are holders of 01 Ordinary Share each in the Company.

DIRECTORS' INTERESTS IN CONTRACTS

Directors' interests in contracts of the Company are disclosed in Note 24 to the Financial Statements and have been declared at Meetings of the Directors. The Directors have no direct or indirect interest in any other contracts or proposed contracts with the Company.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 14 September 2009.

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 19 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



Chairman
27th July 2009



Director

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 71.

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.

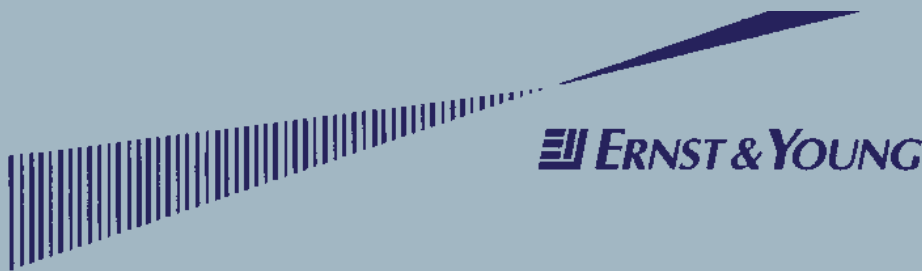
The Directors confirm that to their best of knowledge, all taxes, levies and financial obligations of the Company and its subsidiary as at the Balance Sheet date have been paid or adequately provided for in the financial statements.

By Order of the Board



Mildred Peries
Company Secretary
27 July 2009

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 AUDITORS' REPORT TO THE SHAREHOLDERS OF SRILANKAN AIRLINES LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of SriLankan Airlines Ltd ("Company"), the consolidated financial statements of the Company and its subsidiary, which comprise the balance sheets as at 31 March 2009, 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 2009 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2009 and its loss 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 2009 and the loss 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.

Without qualifying our opinion we draw attention to Note 2.1.2 in these financial statements.

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
27 July 2009

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 2009

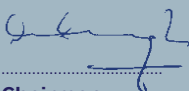
	Note	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
ASSETS					
Non-current Assets					
Property, Plant and Equipment	3	4,535.18	5,173.65	2,488.94	2,821.49
Major Overhauls and Upgrade of Aircraft Engines	4	9,988.61	9,109.53	9,988.61	9,109.53
Aircraft Maintenance Reserve	5	4,704.73	3,509.99	4,704.73	3,509.99
Intangible Asset	6	219.60	205.19	212.86	193.52
Investments	7	23.52	25.50	93.92	95.90
		19,471.64	18,023.86	17,489.06	15,730.43
Current Assets					
Inventories	8	4,240.08	3,989.67	4,029.26	3,804.13
Trade and Other Receivables	9	9,519.72	12,369.67	8,986.30	11,738.55
Aircraft Maintenance Reserve	5	1,194.24	2,768.51	1,194.24	2,768.51
Investments	7	-	6,856.41	-	6,856.41
Cash and Bank Balances	10	2,785.16	7,275.68	2,642.70	7,042.07
		17,739.20	33,259.94	16,852.50	32,209.67
Total Assets		37,210.84	51,283.80	34,341.56	47,940.10
EQUITY AND LIABILITIES					
Capital and Reserves					
Stated Capital	11	5,146.35	5,146.35	5,146.35	5,146.35
Reserves	12	1,101.77	1,101.77	1,101.77	1,101.77
Accumulated Profit / (Loss)		6,552.74	16,549.59	(18.06)	9,287.88
Total Equity		12,800.86	22,797.71	6,230.06	15,536.00
Non-current Liabilities					
Interest Bearing Liabilities	13	1,228.98	1,653.18	4.44	20.14
Other Deferred Liabilities	14	3,241.06	3,395.87	3,094.75	3,249.07
		4,470.04	5,049.05	3,099.19	3,269.21
Current Liabilities					
Trade and Other Payables	15	18,760.90	21,840.24	24,360.55	28,026.01
Income Tax Payable		184.11	177.50	175.45	175.45
Interest Bearing Liabilities	13	994.93	1,419.30	476.31	933.43
		19,939.94	23,437.04	25,012.31	29,134.89
Total Equity and Liabilities		37,210.84	51,283.80	34,341.56	47,940.10

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 76 through 100 form an integral part of these financial statements.

Colombo - 27 July 2009

Income Statement

Year ended 31 march 2009

	Note	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Revenue	16	74,255.28	80,031.47	73,298.45	79,128.56
Cost of Sales		(75,488.74)	(70,551.34)	(76,606.48)	(72,119.34)
Gross Profit / (Loss)		(1,233.46)	9,480.13	(3,308.03)	7,009.22
Other Income and Gains	17	94.63	6,404.95	2,044.08	7,020.57
Sales and Marketing Cost		(5,810.87)	(7,849.88)	(5,791.39)	(7,811.50)
Administrative Expenses		(3,102.40)	(3,393.10)	(2,396.99)	(2,223.17)
Finance Cost	18.1	(218.82)	(206.55)	(128.40)	(41.96)
Finance Income	18.2	313.92	503.25	311.58	501.60
Profit / (Loss) Before Tax	19	(9,957.00)	4,938.80	(9,269.15)	4,454.76
Income Tax Expense	20	(39.85)	(39.14)	(36.79)	(26.53)
Profit / (Loss) for the Year		(9,996.85)	4,899.66	(9,305.94)	4,428.23
Basic Earnings Per Share (Rs.)	21	(194.25)	95.21		

The accounting policies and notes on pages 76 through 100 form an integral part of these financial statements.

Colombo
27 July 2009

Statement of changes in Equity

Year ended 31 March 2009

GROUP	Stated Capital Rs. M	Share Capital Rs. M	Capital Reserve Rs. M	Revenue Reserve Rs. M	General Reserve Rs. M	Accumulated Profit Rs. M	Total Rs. M
Balance as at 31 March 2007	-	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	5,146.35	(5,146.35)	-	-	-	-	-
Balance as at 31 March 2008	5,146.35	-	1,047.70	0.63	53.44	16,549.59	22,797.71
Loss for the year	-	-	-	-	-	(9,996.85)	(9,996.85)
Balance as at 31 March 2009	5,146.35	-	1,047.70	0.63	53.44	6,552.74	12,800.86

The accounting policies and notes on pages 76 through 100 form an integral part of these financial statements.

Colombo
27 July 2009

COMPANY	Stated Capital Rs. M	Share Capital Rs. M	Capital Reserve Rs. M	Revenue Reserve Rs. M	General Reserve Rs. M	Accumulated Profit Rs. M	Total Rs. M
Balance as at 31 March 2007	-	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	5,146.35	(5,146.35)	-	-	-	-	-
Balance as at 31 March 2008	5,146.35	-	1,047.70	0.63	53.44	9,287.88	15,536.00
Loss for the year	-	-	-	-	-	(9,996.85)	(9,996.85)
Balance as at 31 March 2009	5,146.35	-	1,047.70	0.63	53.44	(18.06)	6,230.06

The accounting policies and notes on pages 76 through 100 form an integral part of these financial statements.

Colombo
27 July 2009

Cash Flow Statement

Year ended 31 March 2009

	Note	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Cash Flows From/(Used in) Operating Activities					
Profit / (Loss) before Income Tax Expense		(9,957.00)	4,938.80	(9,269.15)	4,454.76
Adjustments for					
Net of Depreciation / Amortisation		6,324.00	5,042.46	5,939.60	4,673.15
Finance Cost	18.1	218.82	206.55	128.40	41.96
Amortisation of Pre-delivery Payments		98.23	98.19	98.23	98.19
Profit on disposal of Property, Plant and Equipment	17	(2.61)	(5,633.88)	(2.61)	(5,633.88)
Finance Income	18.2	(313.92)	(503.25)	(311.58)	(501.60)
Dividend Income		-	-	(1,950.00)	(500.00)
Provision for Prolongation Claims		-	4.93	-	-
Provision for Bad & Doubtful Debts		96.58	161.40	91.00	123.44
Provision for Slow Moving Inventory		43.03	25.21	43.03	25.21
Provision for Doubtful Recoveries of Maintenance Reserves		583.95	702.70	583.95	702.70
Write Back of Provision for Gratuity	14.1	(149.19)	403.10	(181.16)	364.40
Operating Profit / (Loss) before Working Capital Changes		(3,058.11)	5,446.21	(4,830.29)	3,848.33
Increase in Inventories		(293.44)	(433.59)	(268.16)	(363.78)
(Increase)/Decrease in Trade and Other Receivables		2,620.33	(2,325.82)	2,528.21	(2,548.29)
Increase/(Decrease) in Trade and Other Payables		(2,570.84)	1,432.00	(1,211.43)	2,425.07
Cash Generated from/ (used in) Operations		(3,302.06)	4,118.80	(3,781.67)	3,361.33
Finance Cost Paid		(91.92)	(167.58)	(4.13)	(2.99)
Gratuity Paid	14.1	(224.50)	(233.47)	(192.04)	(220.82)
Income Tax Paid		(3.53)	(14.70)	-	-
Net Cash flows from/ (used in) Operating Activities		(3,622.01)	3,703.05	(3,977.84)	3,137.52
Cash Flows From/(Used in) Investing Activities					
Proceeds from Fixed Deposit		6,866.32	(6,856.41)	6,866.32	(6,856.41)
Interest Received		259.50	227.39	257.16	225.74
Net (Payments) / Recoveries of Maintenance Reserve		323.02	(1,067.90)	323.02	(1,067.90)
Acquisition of Property, Plant and Equipment		(546.17)	(201.77)	(472.60)	(145.25)
Net Payments made on Major Overhauls of Aircraft Engines		(6,459.38)	(7,828.32)	(6,459.38)	(7,828.32)
Acquisition of Intangible Assets		(77.97)	(78.11)	(77.97)	(77.33)
Proceeds from Disposal of Property, Plant and Equipment		3.06	12,793.87	3.06	12,793.87
Net Cash from / (used in) Investing Activities		368.38	(3,011.25)	439.61	(2,955.60)
Cash Flows From/(Used in) Financing Activities					
Repayment of Interest Bearing Liabilities	13.1	(390.69)	(354.40)	(14.94)	(14.28)
Principal Payments under Finance Leases		-	-	-	-
Net Proceeds from Interest Bearing Loans and Borrowings		230.50	-	230.50	-
Dividend Paid		-	-	-	-
Net Cash from/ (used in) Financing Activities		(160.19)	(354.40)	215.56	(14.28)
Net Effect of Exchange Rate Changes		(386.96)	(85.95)	(386.96)	(85.95)
Net Increase / (Decrease) in Cash and Cash Equivalents		(3,800.78)	251.45	(3,709.63)	81.69
Cash and Cash Equivalents at the beginning of the year	10	6,357.18	6,105.73	6,123.57	6,041.88
Cash and Cash Equivalents at the end of the year	10	2,556.40	6,357.18	2,413.94	6,123.57

The accounting policies and notes on pages 76 through 100 form an integral part of these financial statements.

Colombo
27 July 2009

Notes to the Financial Statements

Year ended 31 March 2009

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 and the principal place of business is located at Airline Center, 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. 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 financial statements for the year ended 31 March 2009 were authorized for issue in accordance with a resolution of the Board of Directors on 27 July 2009.

2. GENERAL ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements 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. 2.4.9 (a) of these financial statements. The financial statements are presented in Sri Lanka Rupees Million and all values are rounded to the nearest one hundred thousand Sri Lanka Rupees except when otherwise indicated.

2.1.1 Statement of Compliance

The financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLAS).

2.1.2 Going Concern

During the current year the Company recorded a loss of Rs.9,305.94 million (2008 Profit – Rs.4,428.23 million). Further, the Company has recorded an accumulated loss of Rs.18.06 million (2008 – Accumulated Profit – Rs.9,287.88 million) and Company's current liabilities exceeded its' current assets by Rs.8,159.81 million (2008 current assets exceeded its current

liabilities by – Rs.3,074.78 million) and the total equity of the Company as at current balance sheet date has declined to Rs.6,230.06 million from Rs.15,536.00 million in 2008. These factors raise doubts that the Company will be able to continue as a going concern.

However, the Directors have assessed and are confident of the Company's ability to continue in operation for the foreseeable future, as the significance of the above indicators is expected to be mitigated by a series of activities including the following, undertaken with the objective of turning around the core business:

Revenue Enhancement Measures

- Implementing effective pricing and revenue management strategies to market and price the product.
- Forging new Code-share partnerships with major airlines to widen the route network.

Route Rationalisation

- Withdrawing from unprofitable routes and reconfiguring and optimising the route network.

Operational Efficiencies

- Reducing direct costs and overheads through a series of cost reductions measures and benchmarking operations against industry best practices to enhance effectiveness.
- Actively pursuing re-fleeting of narrow-bodied aircraft to increase operational efficiencies and reduce maintenance costs.
- Increasing employee productivity and ensuring enhanced performance.

Other Activities

- Implementing strategies to realise the full potential of its other strategic business units such as SriLankan Engineering, SriLankan Cargo, Airport Services (Ground Handling), SriLankan Catering, SriLankan Holidays, SriLankan Training (IAA) and Duty-Free Sales.
- Restructuring and recapitalizing the airline.
- Securing additional credit lines and less onerous terms from aircraft lessors.

2.1.3 Comparative Information

The accounting policies adopted are consistent with those of the previous financial year. Certain prior year figures and phrases have been re-arranged wherever necessary to conform to the current year's presentation.

2.1.4 Adoption of Revised Sri Lanka Accounting Standard

In the current financial year, the Company and its Subsidiary

Notes to the Financial Statements cont'd....

Year ended 31 March 2009

have adopted the revised SLAS 16 (Revised 2006) – Employee Benefits which is effective for financial years beginning on or after 1 July 2007. The principal effects of this decision are discussed below and in Note 14.1 to the financial statements.

Company

The adoption of revised SLAS 16 did not have a significant impact on the Financial Statements of the Company.

Subsidiary

Company carried out an actuarial valuation of the Defined Benefit Obligation as at the year end and the increased Liability has been recognized during the current year.

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, unless otherwise indicated.

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 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 amongst others require subjective and complex judgments:

(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 utilization 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 Unutilized Passenger tickets and Airway bills
Passenger and cargo sales are recognized 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. The cut-off period of three years has been based on historical trends in the upliftment of tickets and airway bills.

(iii) Determining fair value of award credits under 'FlySmiLes'

The Company operates a frequent flyer program 'FlySmiLes' that provides travel awards to members of the program based on accumulated mileage. The fair value of credits awarded is estimated by reference to the fair value of the services for which the award credits may be redeemed. Determination of the fair value of the award credit involves estimating, based on the network average of air fares, the value of each award credit assuming a 100% redemption rate, and estimating the expected award credit redemption rate. These estimates are reviewed as and when a significant change in the assumptions used is observed and the liability is adjusted annually as appropriate.

(b) Assumptions

Defined Benefit Plan

The cost of the retirement benefit plan of local staff 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 and its Subsidiary'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 recognized 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

Notes to the Financial Statements cont'd....

Year ended 31 March 2009

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

The income from Flight Kitchen and Transit Restaurant is exempt from income tax up to 31 May 2021 as per the agreement with Board of Investment (BOI).

The Public Restaurant is liable at the normal rate.

(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

As the Company is in its tax holiday period the provisions of the Inland Revenue Act will not apply and temporary differences do not exist during the tax exemption period. Accordingly, no deferred taxation has been provided for in these financial statements.

Subsidiary

No deferred tax is accounted as the temporary difference is not expected to reverse in the foreseeable future due to the 15 year tax holiday available to the Company.

2.4.3 Borrowing Costs

Borrowing costs are recognized 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 capitalized as part of that asset.

2.4.4 Intangible Assets

Intangible assets are recognized 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 amortization and any accumulated impairment losses.

The costs of acquisition or development of computer software that is separable from an item of related hardware is capitalized separately and amortized 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 Major Overhaul of Aircraft Engines

Cost of major engine overhauls that provides future economic benefits for more than one period are capitalized and amortised over the shorter of average expected life between major overhauls or lease period. This item is grouped under "Non-current Assets".

2.4.6 Inventories

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

2.4.7 Trade and Other Receivables

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

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

2.4.8 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.

2.4.9 Property, Plant and Equipment

Company

(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.

Notes to the Financial Statements cont'd....

Year ended 31 march 2009

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 profit / (loss) 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 it's Subsidiary and the cost can be reliably measured.

Cost of repairs 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) 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".

(ii) 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.

(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, in equal installments.

Aircraft rotatable spares	-	over 8 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 asset's useful lives, residual values and method of depreciation are reviewed and adjusted for, if required, 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 derecognized.

Subsidiary

Owned Assets

Items of property, plant and equipment are stated at cost less accumulated depreciation. The cost of self constructed assets include the cost of materials, direct labour and a proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as a separate item of property, plant and equipment.

Buildings constructed by the Company on leasehold land are capitalized as building.

2.4.10 Aircraft Maintenance Reserves

Aircraft maintenance reserves consist of payments made to lessors on a monthly basis for the future overhaul of engines, airframes and aircraft components as specified in 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.

2.4.11 Leases

(a) Operating Leases

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

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

(b) Sale and Lease back

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. This amount is included within Non-current assets and amortized

Notes to the Financial Statements cont'd....

Year ended 31 March 2009

over the shorter of useful life of the asset or lease period with the corresponding liability measured in accordance with SLAS 36 and grouped under "Other Deferred Liabilities" in the Balance Sheet.

2.4.12 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 recognize 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.

2.4.13 Impairment of Non Financial Assets

The Company and its Subsidiary assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing is required for an asset, the Company and its Subsidiary 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.

2.4.14 Provisions

Provisions are recognized when the Company and its Subsidiary 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 and its Subsidiary expect some or all of the provisions to be re-imbursed, the re-imbursalment is recognized as a separate asset but only when the re-imbursalment is virtually certain. The expense relating to any provision is presented in the income statement net of any re-imbursalment. 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 recognized as a finance cost.

2.4.15 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 | | 12% |
| ii) Rate of Salary Increase | - LKR | 10% |
| | - USD | 2% |
| (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 2009 is Rs. 1,386.10. The amount recognised as an actuarial gain for the current year is Rs. 481.91 million. The gratuity liability is not externally funded. This item is grouped under "Other Deferred Liabilities" in the Balance Sheet.

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

Subsidiary

The Subsidiary 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 | - | 12% |
| ii Rate of Salary Increase | - LKR | 10% |
| iii. Retirement Age | Male - | 55 years |
| | Female - | 55 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 2009 is Rs.146.3 million. The amount recognised as an expense for the current year is Rs. 31.9 million. The gratuity liability is not externally funded. This item is grouped under "Other Deferred Liabilities" in the Balance Sheet.

(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.

2.4.16 Frequent Flyer Programme

The Company operates a frequent flyer programme called

Notes to the Financial Statements cont'd....

Year ended 31 March 2009

'FlySmiLes' that provides travel awards to programme members based on accumulated mileage. Revenue received in relation to miles earning flights is allocated, based on fair value, between the flight and miles earned by members of the FlySmiLes program. The value attributed to the awarded miles is deferred as a liability, within sales in advance of carriage, until the miles are ultimately utilized.

As members of the program redeem miles for an award, revenue is brought to account within the Income Statement. Revenue is recognized at point of redemption where non-flight rewards are awarded. Revenue in relation to flight awards is recognized when the passenger coupons are uplifted.

Revenue received from partner companies for the issue of miles is also deferred as a liability, within sales in advance of carriage. Difference between the fair value of the miles accrued and the accrual paid by the partner at the contracted rate is taken to the Income Statement.

The value attributed to miles that are expected to expire is recognized as revenue when the risk expires, based on the number of miles that have been redeemed relative to the total number expected to be redeemed.

2.4.17 Revenue Recognition

Company

(a) Airline Revenue

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 excluded inter-company transactions.

(i) Passenger and cargo sales are recognized as operating revenue when the transportation is provided.

(ii) 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.

(iii) Revenue from the provision of airport terminal services is recognized upon rendering of services.

(iv) Revenue from provision of third party maintenance services is recognized 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 recognized on an accrual basis.

(d) Interest income

Interest income is accrued on a time apportioned basis.

(e) Other income

Other income is recognized on an accrual basis.

Subsidiary

(a) Sale of goods

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value added sales taxes and is arrived at after deduction of trade discounts. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods and continuing management involvement with the goods.

2.4.18 Fuel Risk Management

The Company incurred a net loss of Rs. 942.21 Million (USD 8.43 million) under the fuel risk management program for the financial year ended 31 March 2009. Two fuel hedging contracts remain outstanding as at 31 March 2009. The negative mark to market value of the two outstanding contracts as at 31 March 2009 amounts to Rs. 431.6 million (USD 3.74 million).

2.4.19 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.

Management considers that there is no suitable basis for allocating 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 in flight

Notes to the Financial Statements cont'd....

Year ended 31 March 2009

3 PROPERTY, PLANT AND EQUIPMENT 3.1 GROUP

	Land and Buildings	Plant & Equipment	Improvements to Aircraft / Engines on Operating Leases	Aircraft Related Equipment	Capital Work-in- Progress	Total
	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M
Cost/Revaluation						
Balance as at 01 April 2008	3,143.17	5,133.87	867.18	4,718.99	62.69	13,925.90
Acquisitions/Modifications/Revaluations	55.89	118.31	77.17	245.20	11.13	507.70
Transfers/Adjustments	-	(24.22)	-	-	(54.23)	(78.45)
Disposals	-	(4.26)	-	-	(17.62)	(21.88)
Balance as at 31 March 2009	3,199.06	5,223.70	944.35	4,964.19	1.97	14,333.27
Accumulated Depreciation						
Balance as at 01 April 2008	566.28	3,719.89	582.64	3,883.43	-	8,752.24
Charge for the Year	170.47	559.93	114.39	206.06	-	1,050.85
Transfers/Adjustments	-	(0.74)	-	-	-	(0.74)
Disposals	-	(4.26)	-	-	-	(4.26)
Balance as at 31 March 2009	736.75	4,274.82	697.03	4,089.49	-	9,798.09
Net Book Value as at 31 March 2009	2,462.31	948.88	247.32	874.70	1.97	4,535.18
Net Book Value as at 31 March 2008	2,576.89	1,413.98	284.54	835.56	62.69	5,173.65

- 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. 453.47 million (2007/08 - Rs. 544.07 million). Cash payments amounting to Rs. 546.17 million (2007/08 - Rs. 201.77 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. 1,681.28 million (2007/08 - Rs. 2,117.31 million).

Notes to the Financial Statements cont'd....

Year ended 31 March 2009

3 PROPERTY, PLANT AND EQUIPMENT

3.3 Company

	Land and Buildings	Plant & Equipment	Improvements to Aircraft / Engines on Operating Leases	Aircraft Related Equipment	Capital Work-in-Progress	Total
	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M
Cost/Revaluation						
Balance as at 01 April 2008	1,587.67	3,551.62	867.18	4,718.99	62.69	10,788.15
Acquisitions/Modifications/Revaluations	51.24	49.42	77.17	245.20	11.13	434.16
Transfers/Adjustments	-	(24.22)	-	-	(54.23)	(78.45)
Disposals	-	(4.26)	-	-	(17.62)	(21.88)
Balance as at 31 March 2009	1,638.91	3,572.56	944.35	4,964.19	1.97	11,121.98
Accumulated Depreciation						
Balance as at 01 April 2008	432.25	3,068.34	582.64	3,883.43	-	7,966.66
Charge for the Year	92.55	258.38	114.39	206.06	-	671.38
Transfers/Adjustments	-	(0.74)	-	-	-	(0.74)
Disposals	-	(4.26)	-	-	-	(4.26)
Balance as at 31 March 2009	524.80	3,321.72	697.03	4,089.49	-	8,633.04
Net Book Value as at 31 March 2009	1,114.11	250.84	247.32	874.70	1.97	2,488.94
Net Book Value as at 31 March 2008	1,155.42	483.28	284.54	835.56	62.69	2,821.49

- 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 31st 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

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. 379.93 million (2007/08 - Rs. 487.56 million). Cash payments amounting to Rs. 472.60 million (2007/08 - Rs. 145.25 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. 1,511.37 million (2007/08 - Rs. 1,694.91 million).

Notes to the Financial Statements cont'd....

Year ended 31 march 2009

4 MAJOR OVERHAULS AND UPGRADE OF AIRCRAFT ENGINES Group / Company

Cost	2009 Rs. M	2008 Rs. M
Balance as at 01 April	12,489.75	5,657.87
Incurring during the year	7,305.95	8,294.12
Disposals	(4,139.14)	(1,462.24)
Balance as at 31 March	<u>15,656.56</u>	<u>12,489.75</u>
Accumulated Amortisation		
Balance as at 01 April	4,565.24	3,568.44
Amortisation for the Year	5,241.85	2,459.04
Disposals	(4,139.14)	(1,462.24)
Balance as at 31 March	<u>5,667.95</u>	<u>4,565.24</u>
Net Book Value as at 31 March	<u>9,988.61</u>	<u>7,924.51</u>
Work-in-progress	-	1,185.02
Total	<u>9,988.61</u>	<u>9,109.53</u>

Major overhauls and upgrade of Aircraft Engines were previously classified under "Property, Plant and Equipment".

Notes to the Financial Statements cont'd....

Year ended 31 March 2009

5 AIRCRAFT MAINTENANCE RESERVE Group / Company

	2009			2008		
	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 (Note 5.1)	1,194.24	4,704.73	5,898.97	2,768.51	3,509.99	6,278.50

	Balance as at 01 April 2008 Rs. M	Payments Rs. M	Interest Accrued Rs. M	Recoveries Rs. M	Balance as at 31 March 2009 Rs. M
5.1 Aircraft Maintenance Reserve	6,278.50	3,229.45	54.42	(3,552.47)	6,009.90
Less: Provision for doubtful Recoveries		-	-	-	(583.95)
Exchange Gain					473.02
Net Recoverable					5,898.97

6 INTANGIBLE ASSET Computer Software

	Group Rs. M	Company Rs. M
Cost		
Balance as at 01 April 2008	599.10	572.75
Acquisitions/Modifications	101.50	101.50
Balance as at 31 March 2009	<u>700.60</u>	<u>674.25</u>
Accumulated Amortisation		
Balance as at 01 April 2008	393.91	379.23
Charge for the Year	87.09	82.16
Balance as at 31 March 2009	<u>481.00</u>	<u>461.39</u>
Net Book Value as at 31 March 2009	<u>219.60</u>	<u>212.86</u>
Net Book Value as at 31 March 2008	<u>205.19</u>	<u>193.52</u>

Notes to the Financial Statements cont'd....

Year ended 31 March 2009

7 INVESTMENTS

7.1 GROUP

Non-Current

Investments in Equity Securities

-SITA INC Foundation (Directors Valuation Rs 23.52 M
(2008: Rs 25.5 M))

Country of Incorporation	Holding %	2009 Cost Rs. M	2008 Cost Rs. M
Netherlands	0.8%	23.52	25.50
		23.52	25.50

Current

Investment in Fixed Deposits

2009 Rs. M	2008 Rs. M
-	6,856.41
-	6,856.41
23.52	6,881.91

The Company and the Subsidiary hold equal shareholding in Air Lanka (Private) Limited,

7.2 COMPANY

Non-Current

Investments in Equity Securities

-SriLankan Catering (Pvt) Limited
(Directors Valuation Rs 70.4 M (2008: Rs 70.4 M))

-SITA INC Foundation
(Directors Valuation Rs 23.52 M (2008: Rs 25.5 M))

Country of Incorporation	Holding %	2009 Cost Rs. M	2008 Cost Rs. M
Sri Lanka	100%	70.40	70.40
Netherlands	0.8%	23.52	25.50
		93.92	95.90

Current

Investment in Fixed Deposits

2009 Rs. M	2008 Rs. M
-	6,856.41
-	6,856.41
93.92	6,952.31

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

Notes to the Financial Statements cont'd....

Year ended 31 March 2009

8 INVENTORIES

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Consumables and Spares	3,978.62	3,803.37	3,931.23	3,753.23
Raw Materials	163.43	135.40	-	-
Duty Free Merchandise	98.03	50.90	98.03	50.90
	4,240.08	3,989.67	4,029.26	3,804.13

9 TRADE AND OTHER RECEIVABLES

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Trade Receivables	4,872.81	6,874.41	4,719.90	6,675.05
Less: Provision for doubtful debts	(230.94)	(175.05)	(227.92)	(136.92)
	4,641.87	6,699.36	4,491.98	6,538.13
Other Debtors	2,057.92	2,588.56	1,710.33	2,200.90
Advances and Prepayments	2,785.52	3,048.82	2,754.93	2,971.48
	9,485.31	12,336.74	8,957.24	11,710.51
Loans and Advances to Company Officers (Note 9.1)	34.41	32.93	29.06	28.04
	9,519.72	12,369.67	8,986.30	11,738.55

9.1 Loans to Company Officers:

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

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Balance as at 01 April	5.43	4.60	1.50	2.67
Loans granted during the year	7.43	4.53	2.16	1.33
Repayments	(3.88)	(3.70)	(2.34)	(2.50)
Balance as at 31 March	8.98	5.43	1.32	1.50

10 CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Components of Cash and Cash Equivalents				
10.1 Favourable Cash and Cash Equivalents Balance				
Cash and Bank Balances	1,687.64	2,000.23	1,545.18	1,766.62
Short Term Deposits	1,097.52	5,275.45	1,097.52	5,275.45
	2,785.16	7,275.68	2,642.70	7,042.07
10.2 Unfavourable Cash and Cash Equivalents Balance				
Bank Overdrafts (Note 13)	(228.76)	(918.50)	(228.76)	(918.50)
Total Cash and Cash Equivalents for the purpose of Cash Flow Statement	2,556.40	6,357.18	2,413.94	6,123.57

Notes to the Financial Statements cont'd....

Year ended 31 March 2009

11 STATED CAPITAL Group / Company

Issued and Fully Paid

	2009 Rs. M	2008 Rs. M
51,463,463 Ordinary Shares	5,146.35	5,146.35
	<u>5,146.35</u>	<u>5,146.35</u>

12 RESERVES

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Capital Reserves (Note 12.1)	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 12.2)	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>

12.1 Capital Reserves

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

12.2 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 cont'd....

Year ended 31 March 2009

13 INTEREST BEARING LIABILITIES

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Current Liabilities				
Long-term Loans (Note 13.1(b))	535.67	500.80	17.05	14.93
Short Term Loan	230.50	-	230.50	-
Bank Overdraft	228.76	918.50	228.76	918.50
	<u>994.93</u>	<u>1,419.30</u>	<u>476.31</u>	<u>933.43</u>
Non-current Liabilities				
Long-term Loans (Note 13.1(b))	1,228.98	1,653.18	4.44	20.14
	<u>1,228.98</u>	<u>1,653.18</u>	<u>4.44</u>	<u>20.14</u>

13.1 (a) Long-term Loans

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Balance as at 01 April	2,153.98	2,508.67	35.07	49.64
Additions during the year	-	-	-	-
Payments during the year	(390.69)	(354.40)	(14.94)	(14.28)
Adjustments	1.36	(0.29)	1.36	(0.29)
Balance as at 31 March	<u>1,764.65</u>	<u>2,153.98</u>	<u>21.49</u>	<u>35.07</u>

13.1 (b) Long-term Loans Group

	2009 Rs. M	2008 Rs. M	2009 USD M	2008 USD M
Payable within one year included under Current Liabilities	535.67	500.80	4.65	4.64
- After one year but not more than five years	1,228.98	1,477.81	10.66	13.69
- Later than five years	-	175.37	-	1.62
Payable after one year included under Non - current Liabilities	1,228.98	1,653.18	10.66	15.31
	<u>1,764.65</u>	<u>2,153.98</u>	<u>15.32</u>	<u>19.95</u>

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

Company

	Rs. M	Rs. M	USD M	USD M
Payable within one year included under Current Liabilities	17.05	14.93	0.15	0.14
- After one year but not more than five years	4.44	20.14	0.04	0.19
Payable after one year included under Non - current Liabilities	4.44	20.14	0.04	0.19
	<u>21.49</u>	<u>35.07</u>	<u>0.19</u>	<u>0.33</u>

Notes to the Financial Statements cont'd....

Year ended 31 March 2009

14 Other Deferred Liabilities

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Retirement Benefit Obligation (Note 14.1)	1,682.95	2,056.64	1,536.64	1,909.84
Deferred Engine Upgrade Cost (Note 14.2)	1,558.11	1,339.23	1,558.11	1,339.23
	3,241.06	3,395.87	3,094.75	3,249.07

14.1 Retirement Benefit Obligation

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Balance as at 01 April	2,056.64	1,887.01	1,909.84	1,766.26
Current year service cost and interest cost	344.64	403.10	312.67	364.40
Actuarial Gain	(493.83)	-	(493.83)	-
Payments during the year	(224.50)	(233.47)	(192.04)	(220.82)
Balance as at 31 March	1,682.95	2,056.64	1,536.64	1,909.84

14.2 Deferred engine upgrade cost is recognised in line with Accounting Policy No. 2.4.11 (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.

15 TRADE AND OTHER PAYABLES

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Trade Payables	8,421.33	9,635.36	14,143.27	16,054.41
Sales in Advance of Carriage	10,140.96	11,287.59	10,140.96	11,287.59
Provisions, Accrued Expenses and Other Payables	198.61	917.29	76.32	684.01
	18,760.90	21,840.24	24,360.55	28,026.01

16 REVENUE AND SEGMENT INFORMATION

16.1 Revenue

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Scheduled services - Passenger	58,429.30	63,808.34	58,429.30	63,808.34
- Cargo	9,754.95	10,629.34	9,781.04	10,689.73
- Excess Baggage	651.07	619.34	651.07	619.34
- Mail	117.76	89.29	117.76	89.29
	68,953.08	75,146.31	68,979.17	75,206.70
Air Terminal and Other Services	3,683.42	3,385.66	3,725.84	3,407.99
Duty Free	502.19	499.68	502.19	499.68
Non-Scheduled Services	91.25	-	91.25	-
Air Taxi Services	-	14.19	-	14.19
Flight Catering	1,025.34	985.63	-	-
Total	74,255.28	80,031.47	73,298.45	79,128.56

Notes to the Financial Statements cont'd....

Year ended 31 march 2009

16.2 Segment Information

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

	Asia	Europe & Africa	Middle East	North & South America	South West Pacific	Total 2009 Rs.
Revenue						
Scheduled services - Passenger	26,873.79	17,118.06	12,042.37	1,700.29	694.79	58,429.30
- Cargo	8,216.11	880.78	501.34	136.92	19.80	9,754.95
- Excess Baggage	396.49	38.03	214.11	2.09	0.35	651.07
- Mail	55.49	56.62	0.38	0.41	4.86	117.76
	35,541.88	18,093.49	12,758.20	1,839.71	719.80	68,953.08
Air Terminal and Other Services	3,683.42	-	-	-	-	3,683.42
Duty Free	128.52	168.48	136.09	-	69.10	502.19
Non-Scheduled Services	91.25	-	-	-	-	91.25
Flight Catering	1,025.34	-	-	-	-	1,025.34
Segment Revenue	40,470.41	18,261.97	12,894.29	1,839.71	788.90	74,255.28

	Asia	Europe & Africa	Middle East	North & South America	South West Pacific	Total 2008 Rs.
Revenue						
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
	38,962.39	19,734.56	13,707.36	2,140.31	601.69	75,146.31
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	43,475.74	19,902.20	13,842.77	2,140.31	670.45	80,031.47

Notes to the Financial Statements cont'd....

Year ended 31 march 2009

(b) Secondary Reporting by Business Segment

	Business Segment			Group	Business Segment		
	Airline	Flight Catering	2009 Rs. M		Airline	Flight Catering	2008 Rs. M
	2009 Rs. M	2009 Rs. M			2008 Rs. M	2008 Rs. M	
Revenue							
Sales to external customers	73,229.93	1,025.34		79,045.84	985.63		
Inter-segment Sales	68.52	1,765.96		82.72	2,303.99		
Total Revenue	73,298.45	2,791.30	74,255.28	79,128.56	3,289.62	80,031.47	
Results							
Profit / (Loss) After Tax	(9,305.94)	1,259.06	(9,996.85)	4,428.23	966.78	4,899.66	
Other Segment Information							
Assets	34,341.56	8,723.37	37,210.84	47,940.10	9,975.34	51,283.80	
Liabilities	28,111.50	2,082.23	24,409.98	32,404.10	2,643.26	28,486.09	
Acquisition of Property, Plant and Equipment	379.93	73.54	453.47	487.56	56.51	544.07	
Depreciation and Amortisation	6,093.62	384.41	6,478.03	4,771.34	369.31	5,140.65	
Operating Expenses	78,701.24	1,579.02	77,923.98	77,382.67	1,608.69	76,599.99	

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

17 OTHER INCOME AND GAINS

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Profit on Disposal of Property, Plant and Equipment (Note 17.1)	2.61	5,633.88	2.61	5,633.88
Gain on Exchange	-	565.41	-	681.24
Miscellaneous	82.46	92.53	81.91	92.32
Net Income on Third Party Maintenance	9.32	112.89	9.32	112.89
Rental	0.24	0.24	0.24	0.24
Dividend	-	-	1,950.00	500.00
	94.63	6,404.95	2,044.08	7,020.57

17.1 Profit on disposal of Property, Plant and Equipment included the gain on sale and leaseback of three Airbus A340-300 aircraft amounting to Rs. 5,487.94 million in the financial year 2007/08.

Notes to the Financial Statements cont'd....

Year ended 31 march 2009

18.1 FINANCE COST

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Interest Cost on Borrowings and Bank Overdrafts	94.55	167.58	4.13	2.99
Finance Charges on Deferred Engine Upgrade	124.27	38.97	124.27	38.97
	218.82	206.55	128.40	41.96

18.2 FINANCE INCOME

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Interest Income	313.92	503.25	311.58	501.60
	313.92	503.25	311.58	501.60

19 PROFIT / (LOSS) FROM OPERATING ACTIVITIES stated after charging/(crediting):

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Included in Cost of Sales:				
Staff Costs	8,654.93	8,954.11	8,654.93	8,954.11
Defined Benefit Plan Costs - Gratuity	(169.40)	274.26	(169.40)	274.26
Defined Contribution Plan Costs - EPF & ETF	604.86	594.40	604.86	594.40
Operating Lease Rentals	9,025.86	9,197.27	9,025.86	9,197.27
Depreciation / Amortisation	5,839.55	4,529.44	5,834.62	4,529.43
Amortisation of A330 Pre-delivery Payments	98.23	98.19	98.23	98.19
Provision for Slow Moving Inventory	77.70	25.21	77.70	25.21
Net (Gain) / Loss on Fuel Risk Management Program	942.21	(1,129.61)	942.21	(1,129.61)
Franchise Fees	223.30	220.01	119.45	103.78
Included in Administrative Expenses:				
Staff Costs	1,102.05	1,705.16	731.35	1,366.81
Defined Benefit Plan Costs - Gratuity	(6.74)	101.78	(38.71)	63.08
Defined Contribution Plan Costs - EPF & ETF	121.74	111.64	95.42	88.09
Provision for Doubtful Debts	96.30	161.40	90.72	123.44
Depreciation / Amortisation	539.54	511.51	160.07	142.20
Loss on Exchange	544.71	-	544.71	-
Auditors' Remuneration				
- Audit	5.12	5.52	4.22	4.22
- Non-Audit	-	0.60	-	0.60
Provision for Prolongation Claim	-	4.93	-	-
Provision for Maintenance Reserve	583.95	702.70	583.95	702.70
Included in Sales & Marketing Costs:				
Advertising Costs	396.12	1,067.77	396.12	1,067.77
Staff Costs	29.42	33.89	29.42	33.89
Defined Benefit Plan Costs - Gratuity	26.95	27.06	26.95	27.06
Defined Contribution Plan Costs - EPF & ETF	69.43	73.49	69.43	73.49
Depreciation / Amortisation	0.70	1.52	0.70	1.52
Marketing Fees FlySmiLes	275.79	-	275.79	-

Notes to the Financial Statements cont'd....

Year ended 31 march 2009

20 TAXATION

Tax Expense

The major components of income tax expense for the years ended 31 march are as follows:

Current income tax

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Current Tax Expense on Ordinary Activities for the Year (Note 20.1)	29.97	26.53	26.91	26.53
Economic Service Charge	(33.95)	12.61	(33.95)	-
Under/(Over) Provision of current taxes in respect of prior years	43.83	-	43.83	-
	39.85	39.14	36.79	26.53

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

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Accounting Profit / (Loss) before Tax	(9,957.00)	4,938.80	(9,269.15)	4,454.76
Aggregate Disallowed Items	-	39.24	-	29.34
Aggregate Allowable Expenses	-	(4.31)	-	-
Income not subject to Tax	10,081.04	(4,858.27)	9,385.70	(4,368.64)
Total Assesable Income	124.04	115.46	116.55	115.46
Set-off of Current Year Loss	(40.41)	(40.41)	(40.79)	(40.41)
Taxable Profit	83.63	75.05	75.76	75.05
Statutory Tax Charge at Normal Rate of Tax	29.13	26.27	26.51	26.27
Tax effect of net non deductible expense	1.47	-	-	-
Utilization of brought forward tax loss	(1.08)	-	-	-
Social Responsibility Levy @ 1.5% (2008 - 1%)	0.45	0.26	0.40	0.26
Current Income Tax Expense	29.97	26.53	26.91	26.53

21 EARNINGS PER SHARE

21.1 Basic Earnings Per Share is calculated by dividing the Profit / (Loss) for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

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

	Group 2009 Rs. M	Group 2008 Rs. M
Profit / (Loss) attributable to Ordinary Shareholders for Basic Earnings Per Share (Rs. Million)	(9,996.85)	4,899.66
Weighted average number of Ordinary Shares in issue	51,463,463	51,463,463
Basic Earnings Per Share Rs.	(194.25)	95.21

Notes to the Financial Statements cont'd....

Year ended 31 March 2009

22 COMMITMENTS AND CONTINGENCIES

22.1 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:

	2009 Rs. M	2008 Rs. M
Contracted but not provided for		
Tangible	92.15	69.91
Intangible	12.05	10.56
Engine Overhaul	1,325.38	391.48
	<u>1,429.58</u>	<u>471.95</u>
Authorised by the Board, but not contracted for		
Tangible	60.29	22.37
Intangible	2.19	0.74
	<u>62.48</u>	<u>23.11</u>
	<u>1,492.06</u>	<u>495.06</u>

22.2 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	
	2009 Rs. M	2008 Rs. M
Within one year	19,447.66	8,231.52
After one year but not more than five years	14,935.84	25,814.83
Later than five years	3,864.79	4,129.72
	<u>38,248.29</u>	<u>38,176.07</u>

(b) 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 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Installment payable:				
Within one year	158.07	157.12	147.62	147.62
After one year but not more than five years	899.79	672.78	844.40	634.78
Later than five years	3,503.75	3,844.04	2,914.29	3,271.54

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

22.3 Commitment on Guarantee of Loan

The Company has guaranteed the loan of USD 15.1 million obtained by its' Subsidiary SriLankan Catering (Pvt) Ltd. for the construction of the new flight kitchen.

Notes to the Financial Statements cont'd....

Year ended 31 March 2009

22.4 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. 7,838.29 million as at 31 March 2009.
- 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 2009 is based on a salary escalation rate of 10% and 2% per annum in respect of salaries denoted in Sri Lanka Rupees and in US Dollars respectively, and a discount rate of 12% per annum. Based on these assumptions the present value of accrued benefits, as at 31 March 2009 is Rs. 1,386.10 million (2008 - 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 2009 would be Rs. 2,079.66 million (2008 - Rs. 2,164.66 million). Hence there is a contingent liability of Rs. 693.56 million (2008 - Rs. 384.22 million) which would crystallise if the Company ceases to be a going concern.

Subsidiary

There are several cases pending before the Labour Tribunal against the Company as at 31st March 2009. No provision has been made in the financial statements as the amount of the obligation cannot be established at this stage.

23 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The Company took delivery of an Airbus A320 aircraft under a five year operating lease term in June 2009. The lease commenced on 2nd June 2009 and is due to expire on 1st June 2014. The total future commitment under this lease agreement is valued at Rs.1,590.45 million. (USD 13.80 million).

Conversion rate - 1 US Dollar = Rs. 115.25

Notes to the Financial Statements cont'd....

Year ended 31 march 2009

24 RELATED PARTY DISCLOSURES

24.1 GROUP

24.1.1 Transactions with Key Management Personnel (KMP)

Related parties include KMP's defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company and its Subsidiary. Such KMPs include the Board Directors, Chief Executive Officer and other Senior Management Executives of the Group who meet the criteria described above.

	Group 2009 Rs. M	Group 2008 Rs. M	Company 2009 Rs. M	Company 2008 Rs. M
Short Term benefits	163.9	186.27	106.63	148.99
Post Employment Benefits	40.08	6.97	29.66	6.97

24.1.2 KMP's are granted airline tickets annually free of charge based on their entitlement as per the Group Policy.

Related parties include KMP's defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company and its Subsidiary. Such KMPs include the Board Directors, Chief Executive Officer and other Senior Management Executives of the Group who meet the criteria described above.

24.2 COMPANY

24.2.1 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 24.3.1 for details of transactions carried out with the Subsidiary.

24.2.2 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 had 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:

	2009 USD Receipts/ (Payments)	2009 Rs. Receipts/ (Payments)	2008 USD Receipts/ (Payments)	2008 Rs. Receipts/ (Payments)
(a) Information systems and related services	(4,137,111)	(453,135,957)	(11,968,045)	(1,326,463,156)
(b) Purchase of other goods and services	(163,582)	(17,605,758)	(2,013,493)	(221,406,897)
(c) Net receipt on transactions relating to international air transport, settled through IATA Clearing House	7,440,340	808,503,115	1,696,579	184,620,257
(d) Galileo segment commission	749,728	82,878,508	2,754,053	310,995,452
(e) Frequent flyer program - (net)	(118,985)	(12,826,979)	86,783	9,512,199
(f) Net Sales	2,401,032	261,641,005	2,881,963	318,390,086
(g) Net Payment on Ground Handling Services	(3,262,651)	(359,567,732)	(2,900,498)	(320,497,097)
(h) Revenue on C-Check carried out on EK aircraft	-	-	1,898,135	208,305,013
Total	2,908,771	309,886,202	(7,564,523)	(836,544,143)

Notes to the Financial Statements cont'd....

Year ended 31 March 2009

	2009 Rs. Receivable/ (Payable)	2008 Rs. Receivable/ (Payable)
Emirates Group	(46,952,938)	(413,325,250)

For purposes of disclosing related party transactions Emirates Group comprises of the following entities:

Emirates
Dnata
Mercator
Changi International Airport Services Pte Limited

24.2.3 Transactions including the following have been carried out with the entities controlled by the Government of Sri Lanka in the ordinary course of business.

	2009 Rs. Receipts/ (Payments)	2008 Rs. Receipts/ (Payments)
Sales	222,850,282	275,819,587
Others	1,413,197,706	680,588,341
Purchase of Goods and Services	(19,995,832,679)	(19,324,269,603)
	(18,359,784,691)	(18,367,861,674)

	2009 Rs. Receivable/ (Payable)	2008 Rs. Receivable/ (Payable)
Net Balance Outstanding as at 31 March	458,091,613	632,938,392

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
Sri Lanka Airforce	Sri Lanka Tourism Promotion Bureau
Civil Aviation Authority	Presidents Secretariat
Secretary to Treasury	

Notes to the Financial Statements cont'd....

Year ended 31 March 2009

24.2.4 Transactions including the following have been carried out with other related entities in the ordinary course of business.

Name	Organisation	Position	Nature of transaction	2009 Rs.	2008 Rs.
Mr D H S Jayawardena *	Sri Lanka Insurance Corporation Limited	Chairman	Insurance premiums paid	-	548,773,616
	Periceyl (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	3,041,427	302,705

* Mr. D H S Jayawardena (Chairman) of the Company and it's subsidiary resigned from the Company and it's Subsidiary with effect from 17 March 2008.

24.2.5 Balances from / to related parties are included in the Trade Receivables / Trade Payables in the Balance Sheet.

24.3 SUBSIDIARY

24.3.1 Transactions with Related Parties

(i) The Company in the ordinary course of business has made the following Transactions:

	2009 Rs. Revenue/ (Expenses)	2008 Rs. Revenue/ (Expenses)
SriLankan Airlines Limited	1,765,955,898	2,303,993,783
Emirates	582,778,702	568,923,625
Mihin Lanka Ltd	15,110,904	89,497,697
Airport & Aviation Services Ltd.	(160,836,328)	(181,706,153)
	<u>2,203,009,176</u>	<u>2,780,708,952</u>

	2009 Rs. Receivable/ (Payable)	2008 Rs. Receivable/ (Payable)
SriLankan Airlines Limited	5,783,765,792	6,561,281,834
Emirates	72,802,590	106,465,514
Mihin Lanka Ltd	48,644,449	37,959,802
Airport & Aviation Services Ltd.	(15,891,246)	(23,352,210)
	<u>5,889,321,586</u>	<u>6,682,354,940</u>

(ii) Transactions (excluding sales) including the following have been carried out with other related entities in the ordinary course of business.

Notes to the Financial Statements cont'd....

Year ended 31 March 2009

Organisation	Relationship	Nature of transaction	2009 Rs. Payments	2008 Rs. Payments
SriLankan Airlines Limited	Parent Company	Freight Services	26,100,970	60,411,796
		Other Services	42,422,540	22,333,553
Lanka Milk Foods (Pvt) Limited	} Mr D H S Jayawardena, who was the Chairman of the Company as at 31 March 2008, was also a Director of these Companies.	Purchase of Raw Materials	-	5,318,568
Sri Lanka Insurance Corporation Limited		Insurance Services	-	18,123,021
Stassens Exports (Pvt) Limited		Purchase of Raw Materials	-	16,923,425
Browns Beach Hotels Limited		Laundry Services	-	3,289,603
Lanka Dairies (Pvt) Ltd.		Purchase of Raw Materials	-	2,626,189

Mr. D H S Jayawardena (Chairman) of the Company and it's subsidiary resigned from the Company and it's Subsidiary with effect from 17 March 2008.

Ten Year Review - Company

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
INCOME STATEMENT											
Revenue	Rs. Million	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	73,298.45
Operating expenditure	Rs. Million	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	84,794.86
Net profit/(loss)	Rs. Million	3,661.34	(4,734.89)	(2,048.95)	3,347.23	7,424.48	479.87	476.53	568.04	4,428.23	(9,305.94)
BALANCE SHEET											
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	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	12,477.55
Current assets	Rs. Million	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	16,852.50
Total assets	Rs. Million	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	34,341.56
Current liabilities	Rs. Million	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	25,012.31
YIELD/UNIT COST											
Overall yield	Rs. tkm	31.8	30.2	38.6	43.0	47.3	48.1	52.2	55.71	61.01	64.85
Unit cost	Rs. tkm	22.9	24.5	27.5	31.5	34.8	36.2	37.62	40.30	46.48	50.71
Breakeven load factor	%	72.0	81.1	71.3	73.3	68.7	74.9	72.0	72.34	76.18	78.19
Revenue per RPK	Rs./RPK	3.4	3.1	3.8	4.3	4.9	5.1	5.3	5.6	6.5	6.8
PRODUCTION											
Passenger capacity	ASK Millions	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	11,731.56
Overall capacity	ATK Millions	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	1,635.62
TRAFFIC											
Passengers carried	Nos. Thousands	1,475	1,891	1,615	1,806	2,065	2,423	3,005	3,176	3,196	2,735
Passengers carried	RPK Millions	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	8,546.44
Passenger load factor	%	67.92	68.38	68.51	76.08	75.08	71.89	75.83	77.05	77.73	72.85
Cargo carried	Tonnes	41,670	58,618	46,067	47,650	54,943	66,977	82,142	88,833	93,161	73,106
Cargo load carried	RTK Millions	195.67	266.75	186.47	200.45	240.90	296.68	300.73	325.97	350.35	302.36
Overall load carried	RTK Millions	703.28	932.72	711.72	785.11	896.59	1,039.34	1,102.77	1,150.84	1,232.62	1,065.15
Cargo load factor	%	57.53	54.77	44.19	46.22	52.08	56.95	56.11	58.44	61.60	53.17
Overall load factor	%	64.62	64.11	61.96	69.98	69.51	70.04	69.33	67.86	70.80	65.12
STAFF											
Average strength	Nos.	5,070	5,196	4,049	4,182	4,714	5,163	5,395	5,272	5,113	4,837
Revenue per employee	Rs.	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	15,153,701
Capacity per employee	Tonne-km	214,670	279,981	283,706	268,266	273,640	287,433	294,820	321,683	340,523	338,148
Load carried per employee	Tonne-km	138,713	179,507	175,777	187,735	190,197	201,305	204,406	218,293	241,077	220,210
FLEET											
L1011-500	Nos.	-	-	-	-	-	-	-	-	-	-
L1011-100	Nos.	-	-	-	-	-	-	-	-	-	-
L1011-50	Nos.	-	-	-	-	-	-	-	-	-	-
A320-200	Nos.	2	2	1	2	3	5	5	5	5	3
A330-200	Nos.	4	6	4	4	4	4	4	4	4	4
A340-300	Nos.	4	4	3	3	5	5	5	5	5	5
Turbo Otter	Nos.	-	-	-	-	-	2	2	2	2	-
Aircraft in service at year end	Nos.	10	12	8	9	12	16	16	16	14	12



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



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