



ANNUAL REPORT 2011

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## **Corporate Information**

### **LEGAL FORM**

Public Limited Liability Company

### **COMPANY REGISTRATION NUMBER**

PB 67

### **DIRECTORS**

Nishantha Wickremasinghe – Chairman

Nihal Jayamanne PC

Kapila Chandrasena – Director / Chief Executive Officer

Shameendra Rajapakse

Manilal Fernando

Dr Chris Nonis

### **COMPANY SECRETARY**

Mildred Peries

### **REGISTERED OFFICE**

Airline Centre

Bandaranaike International Airport

Katunayake

Sri Lanka

### **AUDITORS**

Ernst & Young

Chartered Accountants

P O Box 101

Colombo 10

## HIGHLIGHTS

Financial		Group 2011	Group 2010	Company 2011	Company 2010
Revenue	Rs. Million	78,515.24	63,358.45	77,125.45	62,363.58
Operating Expenditure	Rs. Million	81,569.55	69,283.84	81,334.34	69,026.74
Loss Before Tax	Rs. Million	(176.74)	(6,004.61)	(377.75)	(2,673.91)
Net Loss for the Year	Rs. Million	(202.32)	(6,034.27)	(381.61)	(2,698.20)
Total Assets	Rs. Million	41,218.62	46,821.79	38,139.46	44,287.19
Shareholders' Funds	Rs. Million	6,302.55	6,833.16	3,216.82	3,598.43

### Traffic

Passenger capacity	ASK Millions			12,481.41	10,724.83
Overall capacity	ATK Millions			1,755.23	1,541.03
Passengers carried	RPK Millions			9,584.02	8,357.89
Overall load carried	RTK Millions			1,184.13	1,028.11
Passenger load factor	%			76.79	77.93
Overall load factor	%			67.46	66.72
Breakeven load factor	%			76.11	78.94

### Staff Productivity

Average Strength	Nos.	5,659	5,192	4,998	4,614
Revenue per employee	Rs. Million	13.87	12.20	15.43	13.52
Value added per employee	Rs. Million	1.82	0.81	1.89	1.53

### Aircraft Fleet as at 31st March 2011

A320-200	Nos.	4
A330-200	Nos.	5
A340-300	Nos.	5
Turbo Otter	Nos.	2
Aircraft in service at year end	Nos.	16

## **Chairman's Overview**

I am pleased to present to our esteemed shareholders the Annual Report & Audited Accounts of SriLankan Airlines Limited for the financial year 2010/11, on behalf of the Board of Directors.

### **Introduction**

The year under review witnessed SriLankan Airlines coming out of the global recession by transforming itself and investing heavily - to secure the future of the National Carrier and in supporting the nation's economic growth.

I am pleased to inform our shareholders that the Cabinet has approved the investment of a sum of USD 500 million for the development of SriLankan Airlines over the next five years, starting in 2012, in particular for the expansion of our fleet of aircraft.

This is in accordance with the Vision of His Excellency the President, Mahinda Rajapaksa, to establish Sri Lanka as a Hub for Aviation in the region, as articulated in the Mahinda Chinthana.

I take this opportunity to thank His Excellency and the Cabinet for their clear vote of confidence in our National Carrier. At the same time, I must emphasize the fact that this infusion of funds – the first utilization of public funds by SriLankan Airlines since 1993 – brings a tremendous responsibility on your Airline to deliver on the expectations of our nation.

### **State of Sri Lanka's Economy**

Sri Lanka continued its strong march towards prosperity, and continued to reap the rewards of the dawn of permanent peace to the country in May 2009.

Key features of the country's economic performance in the calendar year 2010 include:

- Acceleration of infrastructure development, in particular ports, airports, highways, power stations.
- Achieving an economic growth rate of 8.0% (source: Central Bank Annual Report 2010), a considerable increase from the 3.5% of the previous year, with strong performances in agriculture, industry and services.
- Stability of interest rates.
- Strength of the nation's currency.
- Build up of the country's foreign exchange reserves.
- Reductions in government taxes and tariffs to provide a more investor-friendly environment.
- Rapid return towards normalcy in the Northern Province and Eastern Province which are now making a significant contribution to the nation's economy.

### **State of Sri Lanka's Tourism Industry**

Sri Lanka's tourism industry recorded its finest ever performance in the year under review. A new record in tourist arrivals was created during the period April 1, 2010 to March 31st, 2011, with 709,191 visitors. This is an increase of an extraordinary 41 %, compared to the 501,597 arrivals in 2009/10 (Source: Sri Lanka Tourism Development Authority)

Growth is expected to continue at a similar pace in the current financial year, and it will not be long before Sri Lanka achieves the milestone of 1 million visitors.

A shortage of hotel rooms may become a somewhat significant constraint on the industry's mid-term growth, although a number of new hotel projects in the city and resort areas are providing exciting prospects for the long term.

### **State of the Global Air Transport Industry**

The International Air Transport Association (IATA) has slashed by half its earlier forecast of profits for the global air transport industry, a result of high oil prices, political unrest in the Middle East, and the tsunami in Japan.

In a forecast dated 6th June 2011, IATA predicted that the entire global industry would return a profit of just USD 4 billion, a 54% drop from the USD 8.6 billion it forecast three months earlier.

This compares with the USD 18 billion profit that the industry made in 2010.

**Fuel:** The cost of fuel is the main cause of reduced profitability. The average oil price for 2011 is now expected to be USD 110 per barrel (Brent), a 15% increase over the previous forecast of USD 96 per barrel.

**Demand:** Growth rates for both cargo and passenger markets have been revised downward because of higher fuel costs. Passenger demand is now expected to grow 4.4% over the year, a full 1.2 percentage points below the 5.6% previously forecast in March. Similarly, cargo demand is expected to increase 5.5% and not 6.1% as predicted earlier.

**Capacity:** Competition is forecast to continue increasing as overall capacity (combined passenger and cargo) is expected to expand by 5.8%, which is above the 4.7% anticipated increase in demand.

### **Another Award Winning Year**

SriLankan added a significant number of global and national awards to its long list of accolades during the year under review.

- Best Airline Operator from South Asia for the fifth consecutive year at the annual KLIA Awards 2009 in Kuala Lumpur.
- Top Airline by Growth in Passenger Carriage (South Asia) 2009 from Singapore's Changi Airport.
- Platinum Award from the International Air Transport Association (IATA) as one of the first airlines to introduce '2D Bar Coded Boarding Passes' (BCBP) in its worldwide network.
- Platinum Award from IATA for making BIA a BCBP enabled airport.
- Global runner-up in UK's Chartered Institute of Management Accountants (CIMA) for groundbreaking efforts in Business Intelligence.
- 'Airline of the Year' for the third consecutive year at the Sri Lanka Tourism Awards 2010.
- 'Hall of Fame' award at the Sri Lanka Tourism Awards 2010.
- 'Destination Loyal Partner / Foreign Tour Operator' at the Sri Lanka Tourism Awards 2010.
- 'Best Print Media Presentation in Travel & Tourism' at the Sri Lanka Tourism Awards 2010.
- Effie Award in the Travel & Tourism category for 'Hotseats' marketing campaign.
- Merit Award at the National Best Quality Software Awards 2010 (NBQSA), for innovations in Information Technology.

### **Supporting Our Nation**

Following the return of the entire shareholding of the Airline to our shores, SriLankan Airlines strengthened its role as the National Carrier and focused on supporting the nation's economy in the following areas:

- Enhancing Sri Lanka's image overseas through publicity campaigns in targeted markets and throughout the global travel industry.
- Strengthening operations in all major markets through services to new destinations and increased frequencies to existing destinations.
- Supporting the development of the country's aviation industry, notably through activities and investment at Bandaranaike International Airport (BIA).
- Support for Sri Lanka's import and export industries through cargo carriage.
- CSR programmes such as the construction of school buildings at Janadhipathi Prathamika Vidyalaya in the Hambantota District.

### **Performance During the Year 2010/11**

- The Group's Revenue for the year under review was Rs. 78,515 million, compared to Rs. 63,358 million in the previous year.
- Operating Expenditure was Rs. 81,570 million compared to last year's Rs. 69,284 million.
- The Loss Before Tax was reduced to Rs. 177 million, from the loss of Rs. 6,005 million during the previous year.
- The Net Loss After Tax was reduced to Rs. 202 million, compared to the net loss of Rs. 6,034 million in 2009/10.
- Total Passenger Revenue was increased by 25% or Rs. 12 billion during the year under review.
- Revenue Passenger Kilometres (RPK) totaled 9,584 RPK millions, compared to 8,358 RPK millions during the previous year.
- Overall Seat Factor during the year under review was 76.79% from the 77.93% of the previous year.
- The Airline carried 2.87 million passengers in 2010/11, an increase of 12% from the previous year's 2.56 million.

- Overall Capacity was increased to 1,755 million Available Tonne Kilometres (ATK), from 1,541 million.
- Passenger Capacity increased from 10,725 million Available Seat Kilometres (ASK) to 12,481 million.
- Unit Cost increased by 6%, registering Rs. 45.9 / tkm in comparison with Rs. 43.4 / tkm in the previous year.

### **Significant Events at SriLankan Airlines**

The Chief Executive Officer, in his review in this annual report, provides a detailed description of the wide range of activities that were carried out at SriLankan Airlines during the year under review.

The highlights include:

- Expansion of our global route network to 51 destinations in 32 countries, with new services to Shanghai, Guangzhou and Kochi.
- Commencement of code-share services with Mihin Air to Dhaka.
- Re-launch of our domestic service, SriLankan Air Taxi.
- Acquisition of one Airbus A330 wide-body aircraft, one Airbus A320 medium-range aircraft and one De Havilland Twin Otter Floatplane during the year under review.
- Addition of one A320 aircraft, one A340 wide-body aircraft and one De Havilland Twin Otter Floatplane in the first quarter of the current year.
- Commencing construction of an Airbus A320 Full Flight Simulator Centre at Bandaranaike International Airport in partnership with SIM Industries BV of the Netherlands.
- India's third largest airline IndiGo contracted SriLankan Engineering to carry out major maintenance on 20 aircraft in 2011.

### **Significant Change to the Shareholding of SriLankan Airlines**

The Government of Sri Lanka purchased the shareholding in SriLankan Airlines which was held by Emirates Airline, bringing the Government's stake in the National Carrier to 94.68%. The remaining 5.32% shareholding is held by present and past employees of the Airline who were gifted shares according to their length of service at the time of privatization in 1998.

### **Performance of Our Subsidiary**

The articles of association of SriLankan Catering (Pvt) Ltd. were changed during the year under review and the subsidiary was renamed SriLankan Catering Ltd.

SriLankan Catering strongly supported its parent Company with sterling performances in the following areas during the year under review:

- Expanding its number of customer airlines by adding several more which operate to BIA.
- Increasing business from existing customer airlines.
- Supporting SriLankan Airlines' expansion.
- Being appointed to manage the 24-roomed Serenediva Transit Hotel at BIA.
- Launch of the Aero Clean Industrial Laundry to capitalize on opportunities in the aviation industry and in companies located around Katunayake.

SriLankan Catering also added to the Group's growing reputation for excellence by winning the following prestigious awards:

- Two Mercury Awards from the International Travel Catering Association.
- National Energy Efficiency Award
- Winning 23 medals at Culinary Art 2010

The subsidiary also added the ISO 14001:2004 certification for Best Environmental Practices to its existing certifications of ISO 9001:2008 for Quality Management Systems, ISO 22000:2005 for Food Safety Management Systems, and HACCP-Codex Alimentarius for Food Safety & Hygiene.

## **Long Term Prospects of SriLankan Airlines**

Your Board of Directors is extremely confident of the National Carrier's success in the future.

- Proactive marketing strategies being adopted by the Company on a worldwide scale.
- Continued dividends from the dawn of permanent peace and the positioning of Sri Lanka as a destination of choice among global travelers.
- Support of all stakeholders including the Government of Sri Lanka, Sri Lanka Tourism, Airport & Aviation Services (Sri Lanka) Ltd, and the country's tourism industry.
- Productivity improvement and cost reduction strategies that are being implemented throughout the Company.
- Considerable investment to modernize and upgrade our products and services during the year under review which are continuing in the current year.

## **Dividends**

As I have explained above, the year under review was primarily one in which your Airline invested for the mid-term and long-term future.

While the performance of the SriLankan Airlines Group showed a significant improvement, the Board is of the opinion that we are unable to declare a dividend for the year 2010/11.

## **Changes to the Board of Directors**

Mr. Nihal Jayamanne PC, Mr. Kapila Chandrasena and Mr. Shameendra Rajapaksa continue as Members. They were joined during the year under review by Mr. Manilal Fernando and Dr. Chris Nonis, whom I have the pleasure of welcoming.

I also warmly welcome Mr. Susantha Ratnayake and Dr. Nalaka Godahewa as Independent Directors of SriLankan Catering Ltd.

## **Strengthening of the Senior Management Team**

A number of important changes were made to strengthen the Senior Management Team during the first quarter of the current year.

Mr. Kapila Chandrasena, a Member of the Board of SriLankan Airlines and Chief Executive Officer of Mihini Lanka (Pvt) Ltd, was appointed CEO of SriLankan Airlines Ltd with effect from 1st July 2011.

Mr. G.T. Jeyaseelan, who had earlier served as Head of Commercial, was appointed Chief Marketing Officer.

## **In Conclusion**

On behalf of the Board, I wish to express the Company's heartfelt gratitude to His Excellency the President, Mahinda Rajapaksa, for his high level of interest and full support in the National Carrier which imbues us with confidence.

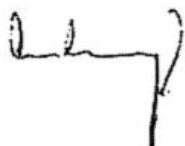
I also wish to thank the Minister of Economic Development, Hon. Basil Rajapaksa, MP, and the Minister of Civil Aviation, Hon. Piyankara Jayaratne, MP.

My colleagues on the Board deserve a very special mention for their continuous guidance in all matters of the Company.

My thanks to Mr. Manoj Gunawardena, who served as CEO during the year under review, and the Senior Management Team of the Airline.

To the employees of SriLankan Airlines serving around the world, I say 'Well done' for their performance. Great things are expected of them to take our National Carrier into the future.

Finally, I wish to thank our shareholders, the Government of Sri Lanka and our employees past and present, for their unwavering support.



**Nishantha Wickremasinghe**

Chairman  
12 August 2011



## Chief Executive Officer's Review

SriLankan Airlines is currently writing an exciting new chapter in its 32-year history. As our nation changes and progresses along the path of economic development, so too is our Airline transforming itself to play the integral role that is expected of it.

### Overall Strategy in the Year Ahead

The overall objectives in the year ahead will be to increase the quantum of revenue through high yielding business activities and bring SriLankan Airlines' financial performance to a level of profitability.

At the same time, the Airline will serve as a leading partner to our nation's economic growth as espoused in the vision of the Mahinda Chinthana Idiri Dekma.

As our Chairman has stated in his Overview, the decision by the Cabinet to invest a considerable sum for the development of our National Carrier is one for which we are extremely grateful to His Excellency the President, Mahinda Rajapaksa, and the Cabinet. The responsibility that accompanies this will be taken very seriously indeed by my management team.

SriLankan will focus on each of its diverse areas of business, with particular emphasis on transforming our air transport operations to the point of profitability once again.

Our strategies will be based on the Business Plan that is now in place, but with constant revision to capitalize on opportunities and respond rapidly to challenges - both globally and nationally.

The Airline's ancillary businesses will serve to both complement our air transport operations and provide additional revenue streams to strengthen the revenue and profitability of the National Carrier.

### Year in Review

The Chairman has in his Report provided details of the Company's key financial results during the year under review.

During the financial year 2010/11, the Company carried out a series of strategies in its core and ancillary business areas that were aimed at bringing it closer to achieving profitability in the future.

### Modernization of Fleet

SriLankan Airlines significantly expanded and modernized its fleet during the year under review. At the time of this report, our fleet consists of the following 19 aircraft and is now the largest ever in the Airline's history.

- |                           |            |
|---------------------------|------------|
| • Airbus A320-200         | 6 aircraft |
| • Airbus A330-200         | 5 aircraft |
| • Airbus A340-300         | 6 aircraft |
| • De Havilland Twin Otter | 2 aircraft |

It is significant that SriLankan acquired its first brand new aircraft since the year 2000 – an A320 that arrived in the first quarter of the current year.

I must also note that favorable terms were obtained from leading global lessors for the Airline's new aircraft leases.

### Core Businesses

#### Expansion of Global Route Network and Capacity

After several years of consolidation of existing operations during the worldwide recession, SriLankan moved to capitalize on market opportunities as the global economy began to rebound, in particular the air transport and travel industries.

- The primary strategy was to expand capacity to our existing destinations by increasing the number of frequencies and by assigning aircraft with larger seating capacities. They included the following destinations – London, Paris,

Frankfurt, Milan, Rome, Mumbai, Chennai, Bangalore, Male, Karachi, Singapore, Kuala Lumpur, Bangkok, Bahrain, Muscat, and Doha.

- In addition, SriLankan launched services to three destinations in China and India – Shanghai, Guangzhou and Kochi – two countries that have been identified by the global air transport industry as being among the leading prospects for growth opportunities in the medium and long term.
- Our global route network was also expanded through the strengthening of the code-share partnership with Mihin Lanka, which enabled SriLankan to add Dhaka (Bangladesh) to its network.

### **SriLankan Cargo**

SriLankan Cargo strongly supported the Airline's financial and operational objectives by achieving total revenue of USD 86 million in the financial year under review, which was a 39% growth from the USD 62 million in the previous year. Cargo Yield also increased by 16%. This growth was achieved on the strength of the proactiveness of the global cargo marketing team, increased capacity and efficiency of our Cargo Centre at BIA, increased cargo capacity, the beginning of Sri Lanka's own economic boom, and the worldwide economic recovery.

SriLankan Cargo also took the initial steps in commissioning a countrywide network of offices to take our services to the doorstep of customers.

### **Ancillary Businesses**

#### **Re-launch of Domestic Service**

The National Carrier once again filled the need for a quality domestic air service by re-launching SriLankan Air Taxi in December 2010. Air Taxi operations had been suspended several years ago due to security concerns during the war.

The Airline took the opportunity to upgrade and re-position the domestic service by transforming it into an operation that utilizes larger aircraft operating only on water-dromes – the country's lakes, rivers and lagoons. With new water-dromes being added at a rapid rate, Air Taxi now flies to nearly a dozen destinations including Colombo (Kelani River), Kandy (Polgolla & Victoria), Nuwara Eliya, Bentota, Hambantota, Ampara, Koggala, Castlereagh and Tangalle.

We provide a wide variety of products including daily scheduled service between major towns, charters, specially designed Scenic Flights around the most beautiful sights of the island and event based special flights such as during Cricket World Cup matches.

The service currently uses two De Havilland Twin Otter aircraft that are safe, fast, comfortable and convenient, and also provide the most breathtaking view of the island's panorama.

### **Exclusive Franchise for Airport Services at BIA**

During the year under review, Airport & Aviation Services (Sri Lanka) Limited awarded SriLankan Airlines' and SriLankan Catering a long term exclusive franchise for ground handling and catering services for all international airlines operating to Bandaranaike International Airport (BIA) for a period of ten years.

Further, SriLankan Catering will continue to be the provider of food and beverage products for 10 years at BIA's many restaurants and passenger lounges. SriLankan Catering already manages BIA's 24-roomed Serenediva Transit Hotel.

This agreement comes at a time when the Government of Sri Lanka has embarked upon a series of projects to further transform BIA and position it as a regional hub for aviation under the vision of His Excellency the President. The exclusive franchise underlines the importance of the National Carrier towards this goal.

The modernization will include the construction of a Second International Terminal for both arrivals and departures to increase capacity to 13 million passengers per year from the present 6 million; a new Domestic Terminal; re-laying of the entire runway and taxiway; and the extension of the railway up to the Cargo Centre to allow containers to be shipped to the airport by rail. The Airport Expressway from Colombo is also nearing completion.

The number of passengers passing through BIA grew by 24% in 2010 to a total of 5.3 million. The average number of aircraft movements increased correspondingly to 108 per day from 72 per day in the previous year. The number of airlines operating scheduled services to BIA also increased by 10 up to a total of 32 within 2010. This resulted in 41,000 aircraft movements during the year, including an increase of 20% in international movements.

### **SriLankan Engineering Expands Other Airline Work**

SriLankan Engineering recorded a significant increase in aircraft maintenance programmes for customer airlines during the year under review, which included:

- Largest contract from IndiGo of India for C-checks on 20 aircraft in 2011.
- C-checks for several aircraft of the Indian carrier GoAir.
- C-check on one aircraft of Mihin Lanka.

In addition, SriLankan Engineering achieved several milestones in advancing its levels of expertise such as Landing Gear Changes on SriLankan's A340 fleet for the first time and performing twelve-year major maintenance checks on SriLankan's entire A330 fleet.

### **Transforming BIA into a Regional Centre for Aviation & Learning**

SriLankan Airlines actively worked towards positioning BIA as a regional hub for Aviation and Learning, in support of the five-pronged vision of the Mahinda Chinthana.

#### **Construction of Full Flight Simulator**

SriLankan will shortly commission an Airbus A320 Full Flight Simulator Centre at Bandaranaike International Airport in partnership with SIM Industries BV of the Netherlands, a project which is expected to make BIA a regional hub for pilot training.

This simulator will reduce the cost and time of our own pilot training by negating the necessity to send pilots overseas, and is also expected to serve as a significant stream of revenue for the Airline by being marketed for training of pilots throughout the region.

#### **International Aviation Academy**

The International Aviation Academy increased its external training programmes to provide opportunities for large numbers of young men and women to embark on rewarding careers in the air transport industry, firmly positioning it as the country's preferred training institution in the field of aviation.

Many of the programmes are certified by the International Air Transport Association (IATA) and United Federation of Travel Agents' Associations (UFTAA).

#### **SriLankan Technical Training**

SriLankan Technical Training expanded its operations and is currently training 160 students to become Aircraft Technicians. They include overseas students from the Maldives and Oman.

This is intended to serve the increasing requirements for skilled manpower at SriLankan Engineering. SriLankan Technical Training is one of the few aircraft engineering training institutions in Asia to possess the EASA 147 certification from the European Aviation Safety Agency, and is also recognized by the aviation authorities of several nations, including Sri Lanka, the Maldives, and Pakistan.

#### **Enhanced Interaction with Customers and Partners**

A wide range of programmes were carried out to increase interaction with potential and existing customers with a view to building and enhancing business opportunities. They included:

- Carrying out intensive promotions at international trade events.
- Launching of a Global Contact Centre based in Colombo.
- Revamping of our Corporate Website [www.srilankan.aero](http://www.srilankan.aero)
- Supporting the growth of Sri Lanka's economy and tourism industry by sponsoring and participating in numerous promotional events.
- Promoting Sri Lankan culture on board through Sinhala and Tamil movies, foreign movies starring Sri Lankan born actors, new Boarding Music with a Sri Lankan flavour, and marketing items from the Dalada Maligawa in our Serendib Treasures On-Board Duty Free Collection.
- Supporting the country's travel trade with awareness training for travel agents throughout Sri Lanka.
- Working closely with Sri Lanka Tourism, the Board of Investment, Export Development Board, etc.

### **Driving the Business with the Latest Technology**

The National Carrier invested judiciously to gain a competitive advantage through the implementation of the latest technology.

Some of these projects included:

- Implementation of state of the art technology in BIA's Serendib Lounge for information and entertainment of passengers.
- Providing portable entertainment systems on A320 regional flights.
- Hand Held Baggage Scanners at the Arrivals Terminal of BIA to reduce pilfering of baggage.

These programmes, many of which were carried out in-house by our own IT staff, resulted in the Airline gaining a reputation for cutting edge technology and winning several prestigious awards that have been mentioned in the Chairman's Overview.

Significantly, SriLankan became one of just a handful of airlines in the world to be awarded the ISO 27001 certification for Information Security Management Systems.

### **Flight Operations**

The Flight Operations staff heightened their focus in the key areas of Safety, Flight Punctuality, and Fuel Efficiency.

- Safety - Emergency Response Exercises were carried out to prepare for possible aircraft emergencies in co-operation with Airport & Aviation (Sri Lanka) Ltd and other partners at BIA. Building evacuation training was carried out for staff in Katunayake, and a new Companywide Safety Management System was implemented.
- Fuel Savings – A significant increase was recorded in the efficiency of aviation fuel usage which brought about cost savings.
- Emissions Monitoring - SriLankan Airlines became one of the first airlines in the world to have its Aircraft Emissions Monitoring System certified and accepted by the European Union (EU). This satisfies a key environmental requirement of the EU and will exempt SriLankan from up to Rs. 1.8 billion (USD 16 million) in possible penalties in 2012. Significantly, this approval was given following EU approval of the benchmarking of aircraft emissions data collected by a system developed completely through in-house expertise.

### **Recruitment & Training**

The year under review witnessed a greatly increased level of recruitment, as the Airline expanded its operations and prepared for further growth in the near future.

### **Employee Participation & Welfare**

Domestic harmony was strengthened with the signing of Collective Agreements with the Sri Lanka Nidahas Sevaka Sangamaya, SriLankan Airlines Aircraft Technicians Association, Flight Attendants Union, and Association of Licensed Aircraft Engineers; and a Memorandum of Understanding with the Airline Pilots Guild of Sri Lanka.

Programs were carried out during the year to enhance staff communication. Other staff welfare measures included granting of Scholarships to children of staff, providing enhanced financial assistance for medical requirements and the commissioning of a staff holiday bungalow.

## **Corporate Social Responsibility**

The National Carrier continued its wide ranging community upliftment programmes through its CSR arm “SriLankan Cares Trust” and through various departmental / staff initiatives. Key projects that were carried out in the year under review include:

- Completion of Phase III of the construction of buildings at Janadhipathi Vidyalaya in the Hambantota District.
- Construction of an orphanage in Trincomalee by SriLankan Cabin Crew.
- Construction of a house in Divulapitiya for a poverty-ridden family by staff of Airport Service Support.

## **Restructuring of the Company**

Several important steps were taken during the year under review and in the first quarter of the current year, to transform the Company into a more efficient, dynamic and productive organization that is more capable of rising to the challenges of the global air transport industry and capitalizing on market opportunities.

- A new Marketing Division was created under the purview of a Chief Marketing Officer, amalgamating the Worldwide Sales Division, Corporate Affairs Division and Service Delivery Division.
- New appointments were made to the posts of Head of Flight Operations, Head of Engineering, Head of Service Delivery and Head of Human Resources.

## **Prospects for the Future**

My Senior Management Team and I have full confidence in the long-term success of our National Carrier, on the strength of our newly formulated business strategies and the opportunities that are constantly arising.

Key elements of our strategy will include:

- Expansion of our global route network and enhance revenue
  - a. Launch of services to new destinations
  - b. Increased capacity to existing destinations
  - c. Addition of new code-share partners
  - d. Capitalizing on our enhanced products and services by increasing yields
- Transformation of the fleet with the acquisition of three more brand new Airbus A320 aircraft and the modernization of the long-haul A330 and A340 fleets, which include the addition of flat bed seating and sophisticated Audio Video On Demand (AVOD) entertainment systems.
- Buildup of customer loyalty through continuous enhancement of the complete passenger experience at customer touch points on board and on the ground.
- Expansion of our domestic service across Sri Lanka’s far-flung regions to provide a truly alternative mode of transport for domestic travelers and seamless connections to our international network.
- Expansion and enhancement of SriLankan Cargo’s global network and hub operation to its full potential.
- Development of SriLankan Ground Handling facilities at BIA to capitalize on increased business opportunities from other airlines.
- Development of SriLankan Engineering’s facilities to fully capitalize on aircraft maintenance and repair opportunities at other airlines.
- Expansion of our training facilities to capitalize on the high demand from external students to enter the air transport industry.

## **Thank You**

I take this opportunity to express my gratitude to all those who supported and guided the airline during the past year.

Very special thanks are due to His Excellency the President, Mahinda Rajapaksa, for his clear vision of the importance of our National Carrier.

My gratitude to our Chairman, Mr. Nishantha Wickremasinghe, and the Members of the Board of Directors, whose guidance is invaluable. Also to my predecessor Manoj Gunawardena and the Senior Management Team, for their leadership during the year under review.

The staff of SriLankan Airlines is truly our most important asset, consisting of over 5,000 persons from dozens of nationalities based around the world. Their hard work and loyalty have brought this Airline through many turbulent times, and I am certain we can rely on their support in the future. A significant contribution was also made by our five employee unions.

The stakeholders of this Airline are many and varied – our financiers, both in Sri Lanka and overseas, whose confidence is a vital element to our success; our business partners who stand with us at all times; and of course our customers, whose patronage is the most important aspect of our business.



Kapila Chandrasena  
Director / Chief Executive Officer  
12 August 2011

## **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 2011.

### **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 and operation of domestic Air Taxi services for passenger transport constitute other main activities of the Company. Providing third party maintenance, provision of flight operation services 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 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 Head of Finance and the Directors and the Auditors Report thereon for the year ended 31 March 2011 are attached to this Report.

### **ACCOUNTING POLICIES**

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 24 to 33.

### **GROUP TURNOVER**

The turnover of the Group amounted to Rs. 78,515.24 million (2009/10: Rs. 63,358.45 million). A detailed analysis of Group Turnover is given in Note 17 to the Financial Statements.

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

### **RESULTS**

Group results before taxation amounted to a deficit of Rs. 176.74 million (2009/10: Group deficit Rs. 6,004.61 million). After adjusting Rs. 25.58 million (2009/10: Rs. 29.66 million) for taxation, the Group result for the year was a deficit of Rs. 202.32 million (2009/10: Group deficit of Rs. 6,034.27 million).

The consolidated Income Statement for the year is given on page 21.

### **GROUP INVESTMENT**

Group capital expenditure during the year on property, plant and equipment amounted to Rs. 2,102.61 million (2009/10: Rs. 11,744.34 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. 4,647.69 million (2009/10: Rs. 17,205.32 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 (2009/10: Rs 5,146.35 million).

## RESERVES

Total Group Reserves as at 31 March 2011 amount to Rs. 1,156.20 million (2009/10: Rs. 1,686.81 million). This consists of accumulated losses of Rs. 683.85 million (2009/10: accumulated profits of Rs. 518.47 million), Capital Reserves of Rs 1,785.98 million (2009/10: Rs. 1,114.27 million), Revenue Reserves of Rs. 0.63 million (2009/10: Rs. 0.63 million), and General Reserves of Rs. 53.44 million (2009/10: 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 has been exempted from all taxes in respect of all its business activities up to 31 March 2021 under the provisions of the Inland Revenue (Amendment) Act No. 22 of 2011.

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, SriLankan Catering Limited the income derived from the Flight Kitchen and Transit Restaurant is exempted from taxation with effect from 1 June 2006 to 31 May 2021, in terms of its agreement with the Board of Investment of Sri Lanka.

The income derived from the Public Restaurant, Vanilla Pod sales outlet and the local laundry sales is liable at the prevailing tax rate.

## SHARE INFORMATION

Share information as at 31 March 2011 is as follows:

Share Ownership	No.of Shares	% of Holding
Government of Sri Lanka	26,275,436	51.05%
Bank of Ceylon	12,115,570	23.54%
People's Bank	4,236,135	8.23%
National Savings Bank	4,236,135	8.23%
Employees Provident Fund	1,863,676	3.62%
Others	2,736,511	5.32%

## CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Contingent Liabilities as at 31 March 2011 and Commitments made on Capital Expenditure as at that date are given in Note 24 to the Financial Statements.

## EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No circumstances have arisen since the Balance Sheet date that would require adjustment or disclosure, other than those disclosed in Note 26 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 5,659 (2009/10: 5,192).

## 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 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 Report of the Board Audit Committee forms part of this Annual Report.

The Board Remuneration Committee held 03 meetings during this Financial Year.

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 - CURRENT**

The current Directorate of the Company is set out below.

Mr Nishantha Wickramasinghe	-	Chairman
Mr Nihal Jayamanne PC	-	Director
Mr Kapila Chandrasena	-	Director / Chief Executive Officer
Mr Shameendra Rajapakse	-	Director
Mr Manilal Fernando	-	Director
Dr Chris Nonis	-	Director

The Board of Directors as at 01 April 2010 was as follows.

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

Messrs Sunil Wijesinha and Sanath Ukwatte resigned from the Board on 10 May and 11 May 2010 respectively and Messrs Manilal Fernando and Dr Chris Nonis were appointed as Directors on 17 May 2010.

Mr Kapila Chandrasena has also been appointed as Chief Executive Officer of the Company with effect from 01 August 2011.

## **DIRECTORATE – SRILANKAN CATERING**

The current Directorate of SriLankan Catering is as follows:-

Mr Nishantha Wickremasinghe	-	Chairman
Mr Nihal Jayamanne PC	-	Director
Mr Shameendra Rajapakse	-	Director
Mr Kapila Chandrasena	-	Director
Dr Chris Nonis	-	Director
* Dr Nalaka Godahewa	-	Director
* Mr Susantha Ratnayake	-	Director

\* Independent Directors

The SriLankan Catering Board as at 01 April 2010 was as follows.

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

The role of Messrs Sunil Wijesinha and Sanath Ukwatte as Directors of SriLankan Catering ceased when they resigned from the Board of SriLankan Airlines in May 2010. Accordingly Mr Kapila Chandrasena and Dr Chris Nonis were appointed Directors of SriLankan Catering with effect from 14 June 2010 and 31 August 2010 respectively.

SriLankan Catering (Private) Limited the wholly owned subsidiary of SriLankan Airlines was converted into Public Limited Company and accordingly is currently known as SriLankan Catering Limited.

Dr Nalaka Godahewa and Mr Susantha Ratnayake were appointed to the Board of SriLankan Catering with effect from 07 March 2011 as Independent Directors.

### **DIRECTORS' REMUNERATION**

The Directors have not received any emoluments and/or any other payment that constitutes a payment for participation/attendance at Board Meetings during the year ended 31 March 2011. The Directors, their spouses and dependent children were entitled to free of charge (FOC) Business Class travel on SriLankan Airlines online services during their term of office.

### **DIRECTORS' SHAREHOLDINGS**

By virtue of office two of the Government of Sri Lanka (GOSL) Nominee Directors including Chairman are holders of 03 Ordinary Shares of the Company.

### **DIRECTORS' INTERESTS IN CONTRACTS**

Directors' interests in contracts of the Company are disclosed in Note 27 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 27 September 2011.

### **AUDITORS**

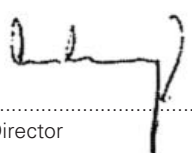
In accordance with the Companies Act No.07 of 2007, a resolution proposing the re-appointment of Messrs. Ernst & Young, Chartered Accountants, as Auditors of the Company will be submitted at the Annual General Meeting.

Details of audit fees are set out in Note 20 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

  
.....  
Director

12 August 2011

  
.....  
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 19.

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 2011 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  
12 August 2011

## **Report of the Board Audit Committee**

### **Members**

The Board Audit Committee (BAC) of SriLankan Airlines during the year comprised of three members. The Audit Committee is chaired by a non-executive director Mr. Nihal Jayamanne PC, and includes one non-executive director Dr. Chris Nonis and one independent observer Mr. Lalith Withana, Chartered Accountant.

A separate BAC was set-up for SriLankan Catering Ltd. (SLC/AC) in March 2011 comprising of three non- executive directors. Mr. Nihal Jayamanne PC was appointed as the Chairman of the SLC/AC. Independent Directors, Messrs Susantha Ratnayake and Dr Nalaka Godahewa were appointed as members.

### **The Role and Responsibilities**

The BAC's primary role is to assist the Board of Directors in fulfilling its oversight responsibilities for the system of internal control, the financial reporting process, the risk management process, the governance, the audit process and the company's process for monitoring compliance with laws and regulations and the code of conduct.

The Board Audit Committee responsibilities include;

- review the functions and processes of internal controls including IS/IT controls
- review the financial reporting system, in order to provide accurate, appropriate and timely information to the management, regulatory authorities and shareholders
- review the management of business risks and monitor risk management process
- review and monitor the Group's compliance with key statutory and regulatory requirements, company policies and industry best practices
- review the management of Internal Audit function
- review the independence of External Audit

### **Meetings**

The Board Audit Committee held 3 meetings during the financial year ended 31 March 2011. The members of the management participated in the above meetings upon invitation to brief the Board Audit Committee on specific issues.

### **Group Internal Audit**

The Audit Committee is strongly supported by the Internal Audit Department. The Group Internal Auditor (GIA) directly reports to the Audit Committee. The GIA reports the key strategic and control issues noted by internal audit to the Audit Committee. The BAC is also updated on matters reported under the Company's whistle blowing policy.

The BAC has reviewed the progress of the audit engagements performed by the Internal Audit Division and made recommendations as and when required to strengthen the internal control system.

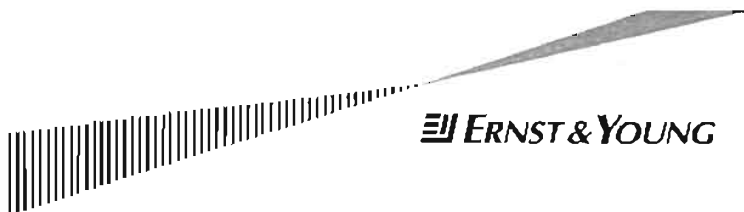
During the year under review, the BAC approved the proposal made by GIA to set up a separate internal audit/IS audit unit at SriLankan Catering Ltd.

### **External Audit**

During the year, the BAC met with the External Auditor's to discuss the report of the Auditors and the Management Letter issued by them. The Committee recommended to the Board of Directors the approval of these Audited Financial Statements for the year ended 31st March 2011.



Nihal Jayamanne PC  
Chairman - Board Audit Committee  
12 August 2011



Chartered Accountants  
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Sri Lanka  
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Fax Gen : (0) 11 2697369  
Tax : (0) 11 5578180  
eysl@lk.ey.com

GSM/MJN

## 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 Limited ("Company"), the consolidated financial statements of the Company and its subsidiary, which comprise the balance sheets as at 31 March 2011, 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 2011 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2011 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 2011 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

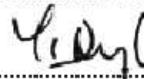
12 August 2011

Colombo

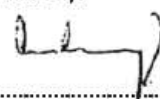
Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva ACA Ms. Y A de Silva ACA W R H Fernando FCA FCMA  
W K B S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA Mr. N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

	Note	Group 2011 Rs. M	Group 2010 Rs. M	Company 2011 Rs. M	Company 2010 Rs. M
<b>ASSETS</b>					
<b>Non-current Assets</b>					
Property, Plant and Equipment	3	4,647.69	17,205.32	2,558.82	15,522.79
Major Overhauls and Upgrade of A/C Engines	4	6,080.36	5,956.08	6,080.36	5,956.08
Aircraft Maintenance Reserve	5	8,849.84	5,408.24	8,849.84	5,408.24
Aircraft and Spare Engine Deposits		2,156.38	1,414.13	2,156.38	1,414.13
Intangible Asset	6	111.69	168.60	110.07	166.55
Investments	7	65.36	23.92	107.40	65.96
		21,911.32	30,174.29	19,862.87	28,631.75
<b>Current Assets</b>					
Inventories	8	4,490.19	3,921.32	4,259.99	3,708.02
Trade and Other Receivables	9	10,553.71	8,270.06	10,055.27	7,796.96
Aircraft Maintenance Reserve	5	2,506.16	2,597.45	2,506.16	2,597.45
Cash and Bank Balances	10	1,767.24	1,868.67	1,456.17	1,652.01
		19,307.30	16,647.50	18,278.59	15,755.44
<b>Total Assets</b>		<b>41,218.62</b>	<b>46,821.79</b>	<b>38,139.46</b>	<b>44,287.19</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and Reserves</b>					
Stated Capital	11	5,148.35	5,148.35	5,148.35	5,148.35
Reserves	12	1,840.05	1,168.34	1,168.34	1,168.34
Accumulated Profit / (Loss)		(683.85)	518.47	(3,097.87)	(2,716.26)
<b>Total Equity</b>		<b>6,302.55</b>	<b>6,833.16</b>	<b>3,218.82</b>	<b>3,598.43</b>
<b>Non-current Liabilities</b>					
Preference Shares	13	1,000.00	-	-	-
Interest Bearing Liabilities	14	1,824.63	9,492.38	2,914.21	8,792.48
Other Deferred Liabilities	15	4,211.97	3,828.67	3,990.48	3,651.74
		7,036.60	13,321.06	6,904.67	12,444.22
<b>Current Liabilities</b>					
Trade and Other Payables	16	21,006.09	18,734.41	21,482.97	20,913.33
Income Tax Payable		204.98	263.20	175.45	175.45
Interest Bearing Liabilities	14	6,666.40	7,669.97	6,359.56	7,156.76
		27,879.47	26,667.58	28,017.97	28,244.54
<b>Total Equity and Liabilities</b>		<b>41,218.62</b>	<b>46,821.79</b>	<b>38,139.46</b>	<b>44,287.19</b>

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

  
.....  
Head of Finance

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

  
.....  
Director

  
.....  
Director

The accounting policies and notes on pages 24 through 48 form an integral part of these financial statements.

Colombo  
12 August 2011

	Note	Group 2011 Rs. M	Group 2010 Rs. M	Company 2011 Rs. M	Company 2010 Rs. M
<b>Revenue</b>	17	78,515.24	63,358.45	77,125.45	62,363.58
Cost of Sales		(71,995.59)	(61,016.36)	(73,187.54)	(62,044.06)
Gross Profit		6,519.65	2,342.09	3,937.91	319.52
Other Income and Gains	18	3,661.84	491.37	4,489.25	4,516.99
Sales and Marketing Cost		(6,329.48)	(5,204.39)	(6,329.48)	(5,204.39)
Administrative Expenses		(3,244.48)	(3,063.09)	(1,817.32)	(1,778.29)
Finance Cost	19.1	(831.89)	(596.00)	(671.48)	(545.71)
Finance Income	19.2	47.62	25.41	13.37	17.97
<b>Loss Before Tax</b>	20	(176.74)	(6,004.61)	(377.75)	(2,673.91)
Income Tax Expense	21	(25.58)	(29.66)	(3.86)	(24.29)
<b>Loss for the Year</b>		(202.32)	(6,034.27)	(381.61)	(2,698.20)
Basic Earnings Per Share (Rs.)	22	(3.93)	(117.25)		

The accounting policies and notes on pages 24 through 48 form an integral part of these financial statements.

Colombo  
12 August 2011

<b>GROUP</b>	<b>Stated Capital Rs. M</b>	<b>Capital Reserve Rs. M</b>	<b>Revenue Reserve Rs. M</b>	<b>General Reserve Rs. M</b>	<b>Accumulated Profit/(Loss) Rs. M</b>	<b>Total Rs. M</b>
<b>Balance as at 31 March 2009</b>	5,146.35	1,047.70	0.63	53.44	6,552.74	12,800.86
Surplus on Revaluation of Land & Building	-	66.57	-	-	-	66.57
Loss for the year	-	-	-	-	(6,034.27)	(6,034.27)
<b>Balance as at 31 March 2010</b>	5,146.35	1,114.27	0.63	53.44	518.47	6,833.16
Surplus on Revaluation on Property, Plant & Equip.	-	671.71	-	-	-	671.71
Issue of Preference Shares - 10 year Convertible	-	-	-	-	(1,000.00)	(1,000.00)
Loss for the year	-	-	-	-	(202.32)	(202.32)
<b>Balance as at 31 March 2011</b>	<u>5,146.35</u>	<u>1,785.98</u>	<u>0.63</u>	<u>53.44</u>	<u>(683.85)</u>	<u>6,302.55</u>

The accounting policies and notes on pages 24 through 48 form an integral part of these financial statements.

Colombo  
12 August 2011

<b>COMPANY</b>	<b>Stated Capital Rs. M</b>	<b>Capital Reserve Rs. M</b>	<b>Revenue Reserve Rs. M</b>	<b>General Reserve Rs. M</b>	<b>Accumulated Profit/(Loss) Rs. M</b>	<b>Total Rs. M</b>
<b>Balance as at 31 March 2009</b>	5,146.35	1,047.70	0.63	53.44	(18.06)	6,230.06
Surplus on Revaluation of Land & Building	-	66.57	-	-	-	66.57
Loss for the year	-	-	-	-	(2,698.20)	(2,698.20)
<b>Balance as at 31 March 2010</b>	5,146.35	1,114.27	0.63	53.44	(2,716.26)	3,598.43
Loss for the year	-	-	-	-	(381.61)	(381.61)
<b>Balance as at 31 March 2011</b>	<u>5,146.35</u>	<u>1,114.27</u>	<u>0.63</u>	<u>53.44</u>	<u>(3,097.87)</u>	<u>3,216.82</u>

The accounting policies and notes on pages 24 through 48 form an integral part of these financial statements.

Colombo  
12 August 2011



## CASH FLOW STATEMENT

Year ended 31 March 2011

	Note	Group 2011 Rs. M	Group 2010 Rs. M	Company 2011 Rs. M	Company 2010 Rs. M
<b>Cash Flows From/(Used in) Operating Activities</b>					
Loss before Income Tax Expense		(176.74)	(6,004.61)	(377.75)	(2,673.91)
Adjustments for					
Depreciation / Amortisation		4,312.88	5,543.45	3,968.63	5,158.24
Finance Cost	19.1	831.89	596.00	671.48	545.71
Amortisation of Pre-delivery Payments		-	59.95	-	59.95
Profit on disposal of Property, Plant and Equipment	18	(2,181.15)	(4.90)	(2,178.19)	(4.79)
Finance Income	19.2	(47.62)	(25.41)	(13.37)	(17.97)
Gain on Sale of Preference Shares		(1,000.00)	-	(1,000.00)	-
Dividend Expense/ (Income)		-	-	(695.34)	-
Provision for Bad & Doubtful Debts		(18.81)	81.28	-	81.52
Provision for Slow Moving Inventory		94.91	334.30	94.91	332.92
Provision for Doubtful Recoveries of Maintenance Reserve		402.24	315.45	402.24	315.45
Effect on Unrealized Exchange Loss		417.29	43.71	405.72	43.71
Gain on Investment bought back by subsidiary	18	-	-	-	(3,971.84)
Write Back of Sales in Advance of Carriage		(4,326.37)	(1,383.93)	(4,326.37)	(1,383.93)
Provision for Gratuity	15.1	407.21	572.40	351.81	533.95
Operating Profit / (Loss) before Working Capital Changes		(1,284.27)	127.69	(2,696.23)	(980.99)
Increase in Inventories		(663.78)	(15.54)	(645.87)	(12.69)
Increase in Trade and Other Receivables		(2,300.64)	(915.35)	(2,294.11)	(975.91)
Increase in Trade and Other Payables		6,160.86	2,829.61	6,807.31	3,328.40
Cash Generated from/ (used in) Operations		1,912.17	2,026.41	1,171.09	1,358.81
Finance Cost Paid		(746.70)	(365.44)	(661.19)	(315.15)
Gratuity Paid	15.1	(117.75)	(110.65)	(104.02)	(102.82)
Net Cash flows From/ (Used in) Operating Activities		<b>1,036.06</b>	<b>1,543.55</b>	<b>405.88</b>	<b>940.84</b>
Interest Received		44.70	22.14	10.45	14.70
Investment in Equity Securities		(41.44)	(0.40)	(41.44)	(0.20)
Proceeds from Sale of Preference Shares		1,000.00	-	1,000.00	-
Payments for Aircraft Deposits		(1,138.39)	(81.71)	(1,138.39)	(81.71)
Recoveries of Aircraft Deposits		330.50	495.16	330.50	495.16
Payments for Maintenance Reserve	5.1	(4,328.45)	(3,305.28)	(4,328.45)	(3,305.28)
Recoveries of Maintenance Reserve	5.1	229.71	798.53	229.71	798.53
Acquisition of Property, Plant and Equipment		(968.39)	(828.23)	(894.13)	(811.47)
Payments made on Engine Overhauls		(2,171.42)	(3,165.46)	(2,171.42)	(3,165.46)
Acquisition of Intangible Assets		(6.95)	(34.29)	(5.51)	(34.24)
Proceeds from Disposal of Property, Plant and Equipment		14,529.97	4.90	14,526.56	4.79
Net Cash from / (used in) Investing Activities		<b>7,479.84</b>	<b>(6,094.64)</b>	<b>7,517.88</b>	<b>(6,085.18)</b>
Repayment of Interest Bearing Liabilities	14	(14,947.09)	(1,035.99)	(14,438.80)	(506.94)
Proceeds from Interest Bearing Loans and Borrowings		3,029.21	2,579.54	3,017.65	2,579.54
Net Cash from/ (used in) Financing Activities		<b>(11,917.88)</b>	<b>1,543.55</b>	<b>(11,421.15)</b>	<b>2,072.60</b>
Effect on Unrealized Exchange (Gain) / Loss					
<b>Net Decrease in Cash and Cash Equivalents</b>		<b>(3,401.98)</b>	<b>(3,007.54)</b>	<b>(3,497.38)</b>	<b>(3,071.74)</b>
<b>Cash and Cash Equivalents at the beginning of the year</b>	10	<b>(451.15)</b>	<b>2,556.40</b>	<b>(657.81)</b>	<b>2,413.94</b>
<b>Cash and Cash Equivalents at the end of the year</b>	10	<b>(3,853.12)</b>	<b>(451.15)</b>	<b>(4,155.19)</b>	<b>(657.81)</b>

The accounting policies and notes on pages 24 through 48 form an integral part of these financial statements.

Colombo

12 August 2011

## 1. CORPORATE INFORMATION

### 1.1 General Company

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.

### Subsidiary

During the year SriLankan Catering re-registered as a "Limited Liability" Company.

### 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 and operation of domestic Air Taxi services for passenger transport constitute other main activities. Providing third party maintenance, flight operation services and conducting aviation related training programs constitute ancillary activities of the Company.

### Subsidiary – SriLankan Catering Limited

The principal activity of the Subsidiary is to provide in-flight catering services to airlines operating through Bandaranaike International Airport. Other ancillary activities consist of operating public and transit restaurants, provision of laundry services and managing the transit hotel at the Bandaranaike International Airport.

### 1.3 Date of Authorisation for Issue

The financial statements for the year ended 31 March 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 12 August 2011.

## 2. GENERAL ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The financial statements have been prepared on an accrual basis and under the historical cost convention unless stated otherwise. 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 stated otherwise.

#### 2.1.1 Statement of Compliance

The balance sheet, statement of income, statement of changes in equity and the cash flow statement, together with the accounting policies and notes (the "financial statements") have been prepared in compliance with the Sri Lanka Accounting Standards (SLAS) issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 7 of 2007.

#### 2.1.2 Going Concern

During the current year the Company recorded a loss of Rs. 381.61 million (2010 - Rs. 2,698.20 million). Further, the Company has recorded an accumulated loss of Rs. 3,097.87 million (2010 - Rs. 2,716.26 million) and Company's current liabilities exceeded its current assets by Rs. 9,741.38 million (2010 - Rs. 12,489.10 million) and the total equity of the Company as of balance sheet date has declined to Rs. 3,216.82 million from Rs. 3,598.43 million in 2010. Even though the losses have reduced substantially over the past two years, these factors raise doubts that the Company will be able to continue as a going concern.

The Government of Sri Lanka (GOSL) has identified aviation as a key sector of growth and envisages the creation of an Aviation Hub in Sri Lanka. One of the main criteria for creating an Aviation Hub is the presence of a strong home based airline.

The Company which was adversely impacted by the internal conflict which ended in May 2009 has since embarked on a restructuring program to cater to the growth in air travel. A five year Business Plan was developed by the Company (validated by International Aviation Consultants) with a view to supporting GOSL's strategy through planned growth of the airline and its ancillary services whilst maintaining a financially viable operation.

The business plan identifies the fleet expansion/ modernisation program as a key requirement for the airline to maintain a competitive advantage in the market. As part of the re-fleeting exercise four brand new narrow body aircraft were procured on operating lease terms and the first such aircraft was delivered in May 2011. All capital requirements and expansion programs to date have been funded through internally generated cash. In order to continue with the re-fleeting/ expansion programs, the GOSL has agreed in principal to recapitalize the Company by infusing new equity as well as the provision of guarantees to secure required funding.

Further, measures adopted to mitigate losses and improve the cash position during the preceding years have yielded positive results which are evidenced by the substantial improvement in financial results.

The Directors have assessed and are confident of the Company's ability to continue in operation as a going concern for the foreseeable future in view of the planned recapitalisation of the airline and consideration of measures undertaken by the Company which includes initiatives to increase revenue, expand the fleet, routes, frequencies and ensuring effective cost control initiatives are followed.

Other developments include the following:

- Signing of a 10 year Memorandum of Understanding with Airport and Aviation Services Ltd for exclusive rights for ground handling of flights providing international air transportation and the provision of catering services through the Subsidiary SriLankan Catering Limited.
- Refurbishment of the Business class cabins of six wide body aircrafts by installing lie flat seats and upgrading the In-flight Entertainment systems.
- Setting up a flight simulator training center to train the Company's in house technical crew as well as to provide simulator training services to other airlines.

### 2.1.3 Comparative Information

The accounting policies and estimates adopted are consistent with those of previous financial year except for the change in Accounting Estimate as disclosed under Note 23. The previous year's figures and phrases have been re-arranged wherever necessary to conform to the current year's presentation.

## 2.2 Basis of Consolidation

The consolidated financial statements comprise of the financial statements of SriLankan Airlines Limited and its wholly owned subsidiary SriLankan Catering 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 stated otherwise.

All significant intra-group balances, transactions, income and expenses and gains and losses, dividends 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

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense and disclosures at the reporting date. The key judgments, 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 key judgments, estimates and assumptions addresses amongst others that require subjective and complex judgment.

(a) Judgment

(i) Contingent liabilities - Litigations

Company has several pending litigations with various parties as at the current financial year end. The Board of Directors, after due consultation with the Company's solicitors, assess the merits of each case and make necessary provisions when it is determined that there would be a likely possibility of an outflow of resources in the future.

(ii) Operating Leases

Company has entered into commercial lease arrangements in relation to the aircraft and engines. Based on such agreed terms and conditions, where it is established that the Company does not retain all significant risks and rewards incidental to ownership of such assets are recognised as operating leases.

(b) 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 and the economic lives of these assets. Subsequent changes in circumstances such as technological advances or utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Management reviews annually the residual values and useful lives of major items of property, plant and equipment.

(ii) Amortisation of Major Overhaul of Aircraft Engines

Company is required to carry out heavy maintenance checks on engines and landing gears in line with the agreed lease agreement terms. Company capitalises such cost, on completion of the checks and when ready for use. The cost to be capitalised is based on the best estimate in the absence of vendor invoices and takes into account agreed credit notes and pre-funds for such checks. Any differences between the amounts incurred and the amounts capitalised are effected prospectively in the event such differences are deemed not significant. Thereafter, such cost is amortised over the shorter of the estimated flying hours/cycles between such heavy maintenance checks and the underlying period of lease.

(iii) Unutilised Passenger tickets

Passenger and cargo sales are recognised as operating revenue when the transportation is provided. The value of unused tickets and airway bills is included in current liabilities as sales in advance of carriage. The value of unused tickets and airway bills is recognised as revenue if unused after a predetermined period of time. During the current financial year, Management has revised such period to 2 years from the previous estimate of 3 years. Several factors including terms and conditions, historical trends, changes in travel patterns, economic environment have been considered by Management in determining the relevant cut-off period. Effect of change in the said estimate is disclosed in Note 23 to these financial statements.

(iv) Determining fair value and deferment of revenue for award credits under 'FlySmiLes' 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 is estimated based on the network average of sector yields and historical award credit redemption pattern. At the point of award the revenue is deferred for all miles awarded based on historical trends of redemption and estimated future expiry. These estimates are reviewed annually

and the liability is adjusted accordingly.

(v) Maintenance Reserve

Company makes payments to lessors on account of several aircraft and engines which are under operating leases based on agreed terms towards maintenance. Periodically management evaluates the recoverability of such payments based on best estimates of the amounts recoverable. Provisions are made when recoverability is doubtful.

(vi) Inventories

Company reviews the existence and usability of inventories based on a perpetual inventory count. Provisions are made when Management determines obsolete stock and/or assesses a reduction in recoverable value.

(vii) Allowance for Doubtful Debts

Company reviews at each balance sheet date all receivables to assess whether an allowance should be recorded in the income statement. Management uses judgment in estimating such allowance considering the duration of outstanding and any other factors management is aware of that indicates uncertainty in recoverability.

(c) Assumptions

(i) Defined Benefit Plan

The cost of the retirement benefit plan of staff based in Sri Lanka 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.

(ii) Revaluation of Property, Plant and Equipment

Property, Plant and Equipment is measured at revalued amounts using the services of an independent qualified valuer. Such valuer uses assumptions and valuation techniques to determine the fair value

## 2.4 Summary of Significant Accounting Policies

### 2.4.1 Foreign Currency Translation

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

### 2.4.2 Taxation

(i) Current Income Tax

*Company*

(a) *Local Taxation*

The Company was granted flagship status in August 1994 by the Board of Investment of Sri Lanka, which extended the then existing 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. In February 2011, under the provisions of the Inland Revenue (Amendment) Act No. 22 of 2011, the Company received a tax exemption period of 10 years for all its business activities effective from 1 April 2011 to 31 March 2021.

(b) *Overseas Taxation*

The Company is liable for tax on its overseas operations in countries where there are no double tax treaties at present. However, there is no liability in the current year due to the carry forward tax losses available to the Company.

### *Subsidiary - SriLankan Catering Limited*

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Income from Flight Kitchen and Transit Restaurant is exempted from income tax up to 31 May 2021 as per the agreement with Board of Investment (BOI). The Public Restaurant, Vanilla Pod sales outlet and the local laundry sales are 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 – SriLankan Catering Limited**

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

The principal temporary differences arise from depreciation on property, plant and equipment, tax losses carried forward and provisions for defined benefit obligations.

Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **2.4.3 Borrowing Costs**

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

### **2.4.4 Intangible Assets**

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

The cost of acquisition or development of computer software that is separable from an item of related hardware is capitalised separately and amortised over a period not exceeding 5 years on a straight line basis. The carrying value of this asset is reviewed periodically for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

### **2.4.5 Major Overhaul of Aircraft Engines**

Cost of major engine overhauls and landing gear that provides future economic benefits for more than one period are capitalised net of prefunds and warranty claims and amortised over the shorter of flown hours between major overhaul and lease period.

#### 2.4.6 Inventories

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

#### 2.4.7 Trade and Other Receivables

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

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

#### 2.4.8 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

##### (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. Where items of property, plant and equipment are subsequently revalued such revalued property, plant and equipment are carried at revalued amounts less any subsequent depreciation thereon. All other property, plant and equipment are stated at historical cost less depreciation.

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

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

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

##### (ii) *Capital Work-in-Progress*

Capital work-in-progress is stated at cost which include all costs incurred from the date of acquisition to the date on which it is commissioned. When commissioned, capital work-in-progress is 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 by equal installments.

Used Aircraft	-	over the estimated remaining useful life, which is currently estimated to be 6 years after making a 10% allowance for residual value
Aircraft Rotable Spares	-	over shorter of 8 years or lease period
Plant & Equipment	-	over periods ranging from 1 to 10 years based on the type of equipment
Buildings	-	over the expected useful life subject to a maximum of 20 years

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

## (c) Derecognition

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

**2.4.10 Aircraft Maintenance Reserve**

Aircraft maintenance reserve consists of payments made to lessors on a monthly basis for the future overhaul of engines, airframes and aircraft components in terms of operating lease agreements. Such payments are recorded as receivables net of provision for doubtful receivables in the balance sheet. Company recovers the cost incurred on overhauls of engines, airframes and aircraft components from lessors against such reserve 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 leased term are treated as operating leases. Payments made under operating leases are recognised in the Income Statement when it falls due.

Cost of re-configuration are capitalized and amortised over the shorter of the useful life and the lease period.

(b) *Finance Leases*

Leases where the risks and benefits incidental to ownership of the leased items effectively transfer to the Company are capitalised at the inception of the lease at the fair value of the leased property or if lower, at the present value of the minimum lease payments. Capitalised leased assets are disclosed as property, plant and equipment and depreciated over the period the Company is expected to benefit from the use of the leased assets. Refer accounting policy 2.4.9.

The corresponding principle amount payable to the lessor is shown as a liability. The interest on the lease liability is accrued at the time when the lease rentals fall due.

(c) *Sale and Leaseback*

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



**(d) Deferred Engine Upgrade Cost**

The present value of deferred engine upgrade cost in line with the return conditions of the related operating lease agreements is included as part of Non-Current Assets and amortised over the shorter of useful life of the asset and 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 recognise a decline other than temporary, determined for each investment individually.

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

**2.4.13 Impairment of Non-financial Assets**

The Company 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 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 recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of the provision to be re-imbursed, the re-imbursalment is recognised 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 any change in the provision resulting from the unwinding effect is dealt in the Income Statement.

**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 year using the Projected Unit Credit method.

The key assumptions used by the actuary include the following:

		<b>2011</b>	<b>2010</b>
i) Rate of interest		10%	10%
ii) Rate of Salary Increase	- LKR	10%	10%
	- USD	2%	2%
iii) Retirement Age	- Years	60	60
iv) The Company will continue as a going concern			

The gratuity liability is not externally funded. This item is grouped under "Other Deferred Liabilities" in the Balance Sheet. Overseas-based employees are covered under social security schemes applicable in their home countries.

**Subsidiary - SriLankan Catering Limited**

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 using the Projected Unit Credit method. Based on the assumptions made in the preceding year the present value of the gratuity liability has been valued. The liability is not externally funded.

The key assumptions used by the actuary include the following:

	<b>2010</b>
i) Rate of interest	12%
ii) Rate of Salary Increase	
- Executive	10%
- Non-Executive	17%

Assumptions regarding future mortality are based on published statistics and mortality tables.

**(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 whilst the Subsidiary contributes 12% and 3% respectively.

**2.4.16 Frequent Flyer Program**

The Company operates a frequent flyer program called ‘FlySmiLes’ that provides travel awards to program 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 net of estimated expiry is deferred as a liability, within sales in advance of carriage, until the miles are utilised or expired.

As and when members redeem miles for an award, revenue is brought to account within the Income Statement. Revenue is recognised at point of redemption where non-flight rewards are awarded. Revenue in relation to flight awards is recognised 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 miles paid by the partner at the contracted rate is dealt in the Income Statement.

The value attributed to miles that are expected to expire is recognised as revenue when the miles expire.

During the year, Company revised its assumptions in relation to expected redemption of miles accrued from 100% to 60%.

**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, domestic air taxi operations, air charters and related activities. Revenue for the Group excludes inter-company transactions.

- (i) Passenger and cargo sales are recognised 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 recognised as revenue if remains unutilised after two years.
- (iii) Revenue from the provision of airport terminal services is recognised upon rendering of services.
- (iv) Revenue from provision of third party maintenance services is recognised upon completion of such event.
- (v) Revenue from the provision of flight operation services is recognised upon rendering of services.

- (b) Dividend income  
Dividend income is accounted for when the shareholders right to receive the payment is established.
- (c) Rental income  
Rental income is recognised on an accrual basis.
- (d) Interest income  
Interest income is recognised on an accrual basis.
- (e) Other income  
Other income is recognised on an accrual basis.

***Subsidiary – SriLankan Catering Limited***

**Sale of Goods**

Revenue is recognised 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 recognised 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 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 catering services through its subsidiary.

**2.5 Effect of Sri Lanka Accounting Standards issued but not yet effective**

- a) The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka.
  - Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44)
  - Sri Lanka Accounting Standard 45 Financial Instruments; Recognition and Measurement (SLAS 45)
  - Sri Lanka Accounting Standard 39 Share Based Payments (SLAS 39)

The effective date of SLAS 44, 45 and 39 was changed during the year to be effective for financial periods beginning on or after 01 January 2012. These three standards have been amended and forms a part of the new set of financial reporting standards mentioned under note (b) below.

- b) Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards, the Council of the Institute of Chartered Accountants of Sri Lanka has adopted a new set of financial reporting standards that would apply for financial periods beginning on or after 01 January 2012. The application of these financial reporting standards is substantially different to the prevailing standards.

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

	Land and Buildings	Plant & Improvements Equip. to Aircraft / Engines on Operating Leases	Aircraft Related Equip.	Aircraft under Finance Lease	Capital Work-in- Progress	Total	
	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	
<b>Cost/Revaluation</b>	3,234.92	5,379.31	560.96	5,154.57	15,663.35	2.32	<b>29,995.43</b>
Balance as at 01 April 2010	30.51	232.65	-	398.64	51.25	1,389.56	<b>2,102.61</b>
Acquisitions/Modifications	(329.11)	(833.98)	-	(9.84)	-	(1,194.08)	<b>(2,367.01)</b>
Transfers/Adjustments/Revaluations	-	(29.91)	-	(73.38)	(15,714.60)	-	<b>(15,817.89)</b>
Disposals							
<b>Balance as at 31 March 2011</b>	<b><u>2,936.32</u></b>	<b><u>4,748.07</u></b>	<b><u>560.96</u></b>	<b><u>5,469.99</u></b>	<b><u>-</u></b>	<b><u>197.80</u></b>	<b><u>13,913.14</u></b>
<b>Accumulated Depreciation</b>							
Balance as at 01 April 2010	867.45	4,725.93	500.86	4,281.08	2,414.79	-	<b>12,790.11</b>
Charge for the Year	143.15	405.27	15.58	217.91	998.26	-	<b>1,780.17</b>
Transfers/Adjustments	(348.49)	(1,488.19)	-	0.92	-	-	<b>(1,835.76)</b>
Disposals	-	(29.24)	-	(26.78)	(3,413.05)	-	<b>(3,469.07)</b>
<b>Balance as at 31 March 2011</b>	<b><u>662.11</u></b>	<b><u>3,613.77</u></b>	<b><u>516.44</u></b>	<b><u>4,473.13</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>9,265.45</u></b>
<b>Net Book Value as at 31 March 2011</b>	<b><u>2,274.21</u></b>	<b><u>1,134.30</u></b>	<b><u>44.52</u></b>	<b><u>996.86</u></b>	<b><u>-</u></b>	<b><u>197.80</u></b>	<b><u>4,647.69</u></b>
<b>Net Book Value as at 31 March 2010</b>	<b><u>2,367.47</u></b>	<b><u>653.38</u></b>	<b><u>60.10</u></b>	<b><u>873.49</u></b>	<b><u>13,248.56</u></b>	<b><u>2.32</u></b>	<b><u>17,205.32</u></b>

- 3.2 (a) During the year, the Subsidiary's property, plant and equipment were revalued by Mr. P.B. Kalugalagedara, a Corporate Valuer. The results of such revaluation are incorporated in these financial statements from its effective date. The surplus arising from the revaluation was transferred to the revaluation reserve (Note 12.1)
- (b) During the year, the Group acquired property, plant and equipment to the aggregate value of Rs. 908.53 million (2009/10 - Rs. 11,744.34 million). Cash payments amounting to Rs. 968.39 million (2009/10 - Rs. 790.52 million) were made during the year to acquire property, plant and equipment.
- (c) Group Property, plant and equipment includes fully depreciated assets having a gross carrying amount of Rs. 8,308.68 million (2009/10- Rs. 8,329.69 million).

## 3 PROPERTY, PLANT AND EQUIPMENT (Contd.)

## 3.3 COMPANY

	Land and Buildings	Plant & Improvements Equip. to Aircraft / Engines on Operating Leases	Aircraft Related Equip.	Aircraft under Finance Lease	Capital Work-in- Progress	Total	
	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	
<b>Cost/Revaluation</b>							
Balance as at 01 April 2010	1,670.46	3,716.17	560.96	5,154.57	15,663.35	2.32	26,767.83
Acquisitions/Modifications	17.66	170.96	-	398.64	51.25	1,389.56	2,028.07
Transfers/Adjustments	-	(5.46)	-	(9.84)	-	(1,194.08)	(1,209.38)
Disposals	-	(29.47)	-	(73.38)	(15,714.60)	-	(15,817.45)
<b>Balance as at 31 March 2011</b>	<b>1,688.12</b>	<b>3,852.20</b>	<b>560.96</b>	<b>5,469.99</b>	<b>-</b>	<b>197.80</b>	<b>11,769.07</b>
<b>Accumulated Depreciation</b>							
Balance as at 01 April 2010	577.82	3,470.49	500.86	4,281.08	2,414.79	-	11,245.04
Charge for the Year	77.74	128.30	15.58	217.91	998.26	-	1,437.79
Transfers/Adjustments	-	(4.43)	-	0.92	-	-	(3.51)
Disposals	-	(29.24)	-	(26.78)	(3,413.05)	-	(3,469.07)
<b>Balance as at 31 March 2011</b>	<b>655.56</b>	<b>3,565.12</b>	<b>516.44</b>	<b>4,473.13</b>	<b>-</b>	<b>-</b>	<b>9,210.25</b>
<b>Net Book Value as at 31 March 2011</b>	<b>1,032.56</b>	<b>287.08</b>	<b>44.52</b>	<b>996.86</b>	<b>-</b>	<b>197.80</b>	<b>2,558.82</b>
<b>Net Book Value as at 31 March 2010</b>	<b>1,092.64</b>	<b>245.68</b>	<b>60.10</b>	<b>873.49</b>	<b>13,248.56</b>	<b>2.32</b>	<b>15,522.79</b>

3.4 (a) During the year, the Company acquired property, plant and equipment to the aggregate value of Rs. 833.99 million. (2009/10 - Rs. 11,727.58 million). Cash payments amounting to Rs. 894.13 million (2009/10 - Rs. 472.60 million) were made during the year to acquire property, plant and equipment.

(b) Property, plant and equipment of the Company includes fully depreciated assets having a gross carrying amount of Rs. 8,308.68 million (2009/10 - Rs. 8,329.69 million).

**4. MAJOR OVERHAULS AND UPGRADE OF AIRCRAFT ENGINES**

Group / Company

	2011 Rs. M	2010 Rs. M
<b>Cost</b>		
Balance as at 01 April	9,415.87	15,656.56
Incurred during the year (Net)	2,593.13	2,287.33
Transfers to Aircraft under Finance Lease	-	(3,902.10)
Derecognised during the year	(270.30)	(4,625.92)
<b>Balance as at 31 March</b>	<b>11,738.70</b>	<b>9,415.87</b>
<b>Accumulated Amortisation</b>		
Balance as at 01 April	3,459.79	5,667.95
Amortisation for the Year	2,468.85	3,993.08
Transfers to Aircraft under Finance Lease	-	(1,575.32)
Derecognised during the year	(270.30)	(4,625.92)
<b>Balance as at 31 March</b>	<b>5,658.34</b>	<b>3,459.79</b>
<b>Net Book Value as at 31 March</b>	<b>6,080.36</b>	<b>5,956.08</b>

**5 AIRCRAFT MAINTENANCE RESERVE**

Group / Company

	2011			2010		
	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)	2,506.16	8,849.84	11,356.00	2,597.45	5,406.24	8,003.69

	Balance as at 01 April 2010 Rs. M	Payments Rs. M	Interest Accrued Rs. M	Recoveries Rs. M	Balance as at 31 March 2011 Rs. M
5.1 Aircraft Maintenance Reserve	8,319.14	4,328.45	2.92	(229.71)	12,420.80
Less: Provision for doubtful Recoveries					(717.69)
Unrealised Exchange Loss					(347.11)
<b>Net Recoverable</b>					<b>11,356.00</b>

**6 INTANGIBLE ASSET**

Computer Software

	Group Rs. M	Company Rs. M
<b>Cost</b>		
Balance as at 01 April 2010	724.06	697.66
Acquisitions/Modifications	6.95	5.51
Disposals	(49.14)	(49.14)
<b>Balance as at 31 March 2011</b>	<b>681.87</b>	<b>654.03</b>
<b>Accumulated Amortisation</b>		
Balance as at 01 April 2010	555.46	531.11
Charge for the Year	63.86	61.99
Disposals	(49.14)	(49.14)
<b>Balance as at 31 March 2011</b>	<b>570.18</b>	<b>543.96</b>
<b>Net Book Value as at 31 March 2011</b>	<b>111.69</b>	<b>110.07</b>
<b>Net Book Value as at 31 March 2010</b>	<b>168.60</b>	<b>166.55</b>

**7 INVESTMENTS****7.1 GROUP**

	Country of Incorporation	2011 Holding %	2011 Cost Rs. M	2010 Cost Rs. M
<b>Non-Current</b>				
Investments in Equity Securities				
- SITA INC Foundation	Netherlands		64.96	23.52
- Air Lanka (Private) Limited (40,000 Shares)	Sri Lanka	100%	0.40	0.40
			<u>65.36</u>	<u>23.92</u>

**7.2 COMPANY**

<b>Non-Current</b>				
Investments in Equity Securities				
- SriLankan Catering Limited (Directors' Valuation based on Net Asset Value Rs. 2.18 bn (2010 - Rs. 3.28 bn))	Sri Lanka	100%	42.24	42.24
- SITA INC Foundation	Netherlands		64.96	23.52
- Air Lanka (Private) Limited (20,000 Shares)	Sri Lanka	50%	0.20	0.20
			<u>107.40</u>	<u>65.96</u>

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

During the year, the Company received Preference Shares and Ordinary shares of its Subsidiary to the value of Rs. 2,000 million and Rs. 900 million respectively as distributions.

**8 INVENTORIES**

	Group 2011 Rs. M	Group 2010 Rs. M	Company 2011 Rs. M	Company 2010 Rs. M
Consumables and Spares	5,135.18	4,494.47	5,059.83	4,425.01
Raw Materials	159.33	147.32	-	-
Duty Free Merchandise	68.02	56.96	68.02	56.96
Less: Provision for Slow moving stock	(872.34)	(777.43)	(867.86)	(772.95)
	<u>4,490.19</u>	<u>3,921.32</u>	<u>4,259.99</u>	<u>3,709.02</u>

**9 TRADE AND OTHER RECEIVABLES**

	Group 2011 Rs. M	Group 2010 Rs. M	Company 2011 Rs. M	Company 2010 Rs. M
Trade Receivables	8,500.45	6,213.34	8,248.65	6,000.29
Less: Provision for doubtful debts	(334.11)	(312.22)	(309.44)	(309.44)
	<u>8,166.34</u>	<u>5,901.12</u>	<u>7,939.21</u>	<u>5,690.85</u>
Other Debtors	1,143.65	1,461.87	980.39	1,287.53
Deposits, Advances and Prepayments	1,196.52	869.35	1,093.95	785.05
	<u>10,506.51</u>	<u>8,232.34</u>	<u>10,013.55</u>	<u>7,763.43</u>
Loans and Advances to Company Officers (Note 9.1)	47.20	37.72	41.72	33.53
	<u>10,553.71</u>	<u>8,270.06</u>	<u>10,055.27</u>	<u>7,796.96</u>

**9.1 LOANS TO COMPANY OFFICERS:**

	Group 2011 Rs. M	Group 2010 Rs. M	Company 2011 Rs. M	Company 2010 Rs. M
Given below are particulars of loans granted to Company officers in excess of Rs. 20,000 only;				
Balance as at 01 April	12.90	8.98	2.52	1.32
Loans granted during the year	9.52	7.52	2.74	3.21
Repayments	(4.11)	(3.60)	(2.65)	(2.01)
	<u>18.30</u>	<u>12.90</u>	<u>2.60</u>	<u>2.52</u>

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

Components of Cash and Cash Equivalents	Group 2011 Rs. M	Group 2010 Rs. M	Company 2011 Rs. M	Company 2010 Rs. M
<b>10.1 Favourable Cash and Cash Equivalent Balances</b>				
Cash and Bank Balances	1,660.96	1,534.49	1,358.89	1,327.83
Short Term Deposits	96.28	324.18	96.28	324.18
	<u>1,757.24</u>	<u>1,858.67</u>	<u>1,455.17</u>	<u>1,652.01</u>
<b>10.2 Unfavourable Cash and Cash Equivalent Balances</b>				
Bank Overdrafts (Note 14)	(5,610.36)	(2,309.82)	(5,610.36)	(2,309.82)
<b>Total Cash and Cash Equivalents for the purpose of Cash Flow Statement</b>	<u>(3,853.12)</u>	<u>(451.15)</u>	<u>(4,155.19)</u>	<u>(657.81)</u>

**11 STATED CAPITAL**

Group / Company

	2011 Rs. M	2010 Rs. M
<b>Issued and Fully Paid</b>		
51,463,463 Ordinary Shares	5,146.35	5,146.35
	<u>5,146.35</u>	<u>5,146.35</u>

**12 RESERVES**

	Group 2011 Rs. M	Group 2010 Rs. M	Company 2011 Rs. M	Company 2010 Rs. M
Capital Reserves (Note 12.1)	1,785.98	1,114.27	1,114.27	1,114.27
Revenue Reserves	0.63	0.63	0.63	0.63
General Reserves (Note 12.2)	53.44	53.44	53.44	53.44
	<u>1,840.05</u>	<u>1,168.34</u>	<u>1,168.34</u>	<u>1,168.34</u>

**12.1 Capital Reserves**

(a) Movement in Capital Reserve

Balance as at 01 April	1,114.27	1,047.70	1,114.27	1,047.70
Surplus on revaluation of property, plant and equipment	671.71	66.57	-	66.57
Balance as at 31 March	<u>1,785.98</u>	<u>1,114.27</u>	<u>1,114.27</u>	<u>1,114.27</u>

(b) Capital Reserves of the Company/ Group comprise of surplus arising from the revaluation of property, plant and equipment.

**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.

**13 PREFERENCE SHARES**

During the year, the Subsidiary issued the following Preference Shares amounting to Rs. 2,000 million as distribution to SriLankan Airlines Limited. The consolidated Balance Sheet reflects the investment held by Government controlled entity.

15% Non Voting Redeemable Cumulative Convertible Ten Year	10,000,000 Shares
15% Non Voting Redeemable Cumulative Five Year	10,000,000 Shares



**14 INTEREST BEARING LIABILITIES**

	Group 2011 Rs. M	Group 2010 Rs. M	Company 2011 Rs. M	Company 2010 Rs. M
<b>Current Liabilities</b>				
Finance Leases (Note 14.2(b))	-	2,031.49	-	2,031.49
Long-term Loans (Note 14.1(b))	870.19	518.62	561.34	4.41
Short Term Loan	187.85	2,810.04	187.85	2,810.04
Bank Overdraft	5,610.36	2,309.82	5,610.36	2,309.82
	<u>6,668.40</u>	<u>7,669.97</u>	<u>6,359.55</u>	<u>7,155.76</u>
<b>Non-current Liabilities</b>				
Finance Leases (Note 14.2(b))	-	8,792.48	-	8,792.48
Long-term Loans (Note 14.1(b))	1,824.63	699.90	2,914.21	-
	<u>1,824.63</u>	<u>9,492.38</u>	<u>2,914.21</u>	<u>8,792.48</u>

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

Balance as at 01 April	1,218.52	1,764.65	4.41	21.49
Additions/transfers during the year	1,989.00	-	3,475.55	-
Payments during the year	(512.70)	(546.13)	(4.41)	(17.08)
Balance as at 31 March	<u>2,694.82</u>	<u>1,218.52</u>	<u>3,475.55</u>	<u>4.41</u>

During the year, an amount equivalent to USD 13.45 million was transferred from the SriLankan Catering Limited current account as a long term loan. The loan is subject to an agreed rate of interest and is repayable over a period of 5 years.

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

Group	2011 Rs. M	2010 Rs. M	2011 USD M	2010 USD M
Payable within one year	870.19	518.62	7.88	4.54
After one year but not more than five years	<u>1,824.63</u>	<u>699.90</u>	<u>16.51</u>	<u>6.12</u>

The interest rate applicable to the loan of the Subsidiary is LIBOR plus mark up, subject to a floor rate per annum applicable from 15 November 2009.

Company	Rs. M	Rs. M	USD M	USD M
Payable within one year included under Current Liabilities	561.34	4.41	5.08	0.04
After one year but not more than five years	<u>2,914.21</u>	<u>-</u>	<u>26.37</u>	<u>-</u>

**14.2 (a) Finance Lease Liabilities  
Group / Company**

	2011 Rs. M	2010 Rs. M
Balance as at 01 April		10,823.97
Additions during the year		-
Payments during the year		(10,823.97)
Restatements		-
Balance as at 31 March		<u>10,823.97</u>

**14.2 (b) Finance Lease Liabilities  
Group / Company**

	2011 Rs. M	2010 Rs. M	2011 USD M	2010 USD M
Payable within one year included under Current Liabilities	-	2,031.49	-	17.78
After one year but not more than five years included under Non-current liabilities	-	8,792.48	-	76.94

<b>15 OTHER DEFERRED LIABILITIES</b>	<b>Group 2011 Rs. M</b>	<b>Group 2010 Rs. M</b>	<b>Company 2011 Rs. M</b>	<b>Company 2010 Rs. M</b>
Retirement Benefit Obligation (Note 15.1)	2,434.17	2,144.70	2,215.57	1,967.77
Deferred Engine Upgrade Cost (Note 15.2)	1,774.89	1,683.97	1,774.89	1,683.97
Deferred Tax Liability	2.91	-	-	-
	<u>4,211.97</u>	<u>3,828.67</u>	<u>3,990.46</u>	<u>3,651.74</u>

**15.1 Retirement Benefit Obligation - Gratuity**

Balance as at 01 April	2,144.70	1,682.95	1,967.77	1,536.64
Current year service cost and interest cost	369.39	343.20	313.99	305.94
Actuarial Loss	37.83	229.20	37.83	228.01
Payments during the year	(117.75)	(110.65)	(104.02)	(102.82)
Balance as at 31 March	<u>2,434.17</u>	<u>2,144.70</u>	<u>2,215.57</u>	<u>1,967.77</u>

15.2 Deferred Engine Upgrade cost is recognised in line with Accounting Policy No. 2.4.11 (d). 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.

**16 TRADE AND OTHER PAYABLES**

	<b>Group 2011 Rs. M</b>	<b>Group 2010 Rs. M</b>	<b>Company 2011 Rs. M</b>	<b>Company 2010 Rs. M</b>
Trade & Other Payables	9,102.40	6,918.31	9,654.18	9,097.23
Sales in Advance of Carriage	11,828.79	11,816.10	11,828.79	11,816.10
Dividend Payable	74.90	-	-	-
	<u>21,006.09</u>	<u>18,734.41</u>	<u>21,482.97</u>	<u>20,913.33</u>

**17 REVENUE AND SEGMENT INFORMATION****17.1 Revenue**

	<b>Group 2011 Rs. M</b>	<b>Group 2010 Rs. M</b>	<b>Company 2011 Rs. M</b>	<b>Company 2010 Rs. M</b>
Scheduled services - Passenger	60,518.40	48,360.66	60,518.40	48,360.66
- Cargo	9,791.34	7,106.06	9,810.68	7,145.20
- Excess Baggage	695.26	633.97	695.26	633.97
- Mail	159.08	158.80	159.08	158.80
	<u>71,164.08</u>	<u>56,259.49</u>	<u>71,183.42</u>	<u>56,298.63</u>
Air Terminal and Other Services	5,093.34	5,110.18	5,105.71	5,162.45
Duty Free	635.80	713.51	635.80	713.51
Non-Scheduled Services	200.52	188.99	200.52	188.99
Flight Catering	1,421.50	1,086.28	-	-
Total	<u>78,515.24</u>	<u>63,358.45</u>	<u>77,125.45</u>	<u>62,363.58</u>

## 17.2 Segment Information

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

Revenue	Asia	Europe & Africa	Middle East	North & South America	South West Pacific	Total 2011 Rs. M
Scheduled services - Passenger	30,604.32	17,618.53	9,437.51	2,167.20	690.84	60,518.40
- Cargo	8,229.27	996.62	514.44	40.06	10.95	9,791.34
- Excess Baggage	442.16	25.32	224.93	2.43	0.42	695.26
- Mail	82.40	72.09	0.18	0.03	4.38	159.08
	<u>39,358.15</u>	<u>18,712.56</u>	<u>10,177.06</u>	<u>2,209.72</u>	<u>706.59</u>	<u>71,164.08</u>
Air Terminal and Other Services	5,093.34	-	-	-	-	5,093.34
Duty Free	162.70	213.31	172.30	-	87.49	635.80
Non-Scheduled Services	200.52	-	-	-	-	200.52
Flight Catering	1,421.50	-	-	-	-	1,421.50
	<u>46,236.21</u>	<u>18,925.87</u>	<u>10,349.36</u>	<u>2,209.72</u>	<u>794.08</u>	<u>78,515.24</u>

Revenue	Asia	Europe & Africa	Middle East	North & South America	South West Pacific	Total 2010 Rs. M
Scheduled services - Passenger	23,082.21	14,353.86	9,239.00	1,467.95	217.64	48,360.66
- Cargo	6,049.14	630.00	346.36	73.86	6.70	7,106.06
- Excess Baggage	392.32	28.25	211.63	1.59	0.18	633.97
- Mail	56.58	96.10	0.27	0.04	5.81	158.80
	<u>29,580.25</u>	<u>15,108.21</u>	<u>9,797.26</u>	<u>1,543.44</u>	<u>230.33</u>	<u>56,259.49</u>
Air Terminal and Other Services	5,110.18	-	-	-	-	5,110.18
Duty Free	182.59	239.38	193.36	-	98.18	713.51
Non-Scheduled Services	188.99	-	-	-	-	188.99
Flight Catering	1,086.28	-	-	-	-	1,086.28
	<u>36,148.29</u>	<u>15,347.59</u>	<u>9,990.62</u>	<u>1,543.44</u>	<u>328.51</u>	<u>63,358.45</u>

(b) Secondary Reporting by Business Segment	Business Segment		Group	Business Segment		Group
	Airline	Flight Catering		Airline	Flight Catering	
Revenue	2011 Rs. M	2011 Rs. M	2011 Rs. M	2010 Rs. M	2010 Rs. M	2010 Rs. M
Sales to external customers	77,093.74	1,421.50		62,272.15	1,086.28	
Inter-segment Sales	31.71	1,987.75		91.43	1,627.40	
<b>Total Revenue</b>	<u>77,125.45</u>	<u>3,409.25</u>	<u>78,515.24</u>	<u>62,363.58</u>	<u>2,713.68</u>	<u>63,358.45</u>
<b>Results</b>						
Profit / (Loss) After Tax	(381.61)	779.29	(202.32)	(2,698.20)	635.74	(6,034.27)

## Other Segment Information

Assets	38,139.46	5,490.86	41,218.62	44,287.19	4,958.26	46,821.79
Liabilities	34,922.64	3,362.99	34,916.07	40,688.76	1,681.39	39,988.63
Acquisition of Property, Plant and Equipment	833.99	74.54	908.53	11,727.58	16.76	11,744.34
Cost incurred on Major Overhauls	2,593.13	-	2,593.13	2,287.33	-	2,287.33
Acquisition of Intangible Assets	5.51	1.44	6.95	23.41	0.05	23.46
Depreciation and Amortisation	3,968.63	344.24	4,312.87	5,158.24	385.21	5,543.45
Operating Expenses	77,365.71	1,816.35	77,256.68	63,868.50	1,590.73	63,740.39

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

<b>18 OTHER INCOME AND GAINS</b>	<b>Group 2011 Rs. M</b>	<b>Group 2010 Rs. M</b>	<b>Company 2011 Rs. M</b>	<b>Company 2010 Rs. M</b>
Profit on Disposal of Property, Plant and Equipment (Note 18.1)	2,181.15	4.90	2,178.19	4.79
Exchange Gain	-	395.97	141.26	452.63
Miscellaneous (Note 18.2)	480.25	90.26	474.02	87.49
Rental	0.44	0.24	0.44	0.24
Dividend	-	-	695.34	-
Gain on Investment bought back by Subsidiary	-	-	-	3,971.84
Income from Sale of Preference Shares	1,000.00	-	1,000.00	-
	<b>3,661.84</b>	<b>491.37</b>	<b>4,489.25</b>	<b>4,516.99</b>

18.1 Profit on disposal of property, plant and equipment includes the gain on the sale and leaseback of three A330 aircraft amounting to Rs. 2,174.49 million.

18.2 Miscellaneous Income includes receipts from redelivery of aircraft and insurance claims.

<b>19.1 FINANCE COST</b>	<b>Group 2011 Rs. M</b>	<b>Group 2010 Rs. M</b>	<b>Company 2011 Rs. M</b>	<b>Company 2010 Rs. M</b>
Interest Cost on Borrowings and Bank Overdrafts	299.08	164.13	257.42	113.84
Finance Charges on Deferred Engine Upgrade	148.12	139.66	148.12	139.66
Finance Charges on Lease Liabilities	265.94	292.21	265.94	292.21
Preference Share Dividend	118.75	-	-	-
	<b>831.89</b>	<b>596.00</b>	<b>671.48</b>	<b>545.71</b>

#### 19.2 FINANCE INCOME

Interest Income	47.62	25.41	13.37	17.97
	<b>47.62</b>	<b>25.41</b>	<b>13.37</b>	<b>17.97</b>

<b>20 LOSS FROM OPERATING ACTIVITIES stated after charging/(crediting):</b>	<b>Group 2011 Rs. M</b>	<b>Group 2010 Rs. M</b>	<b>Company 2011 Rs. M</b>	<b>Company 2010 Rs. M</b>
<b>Included in Cost of Sales:</b>				
Staff Costs	7,413.78	6,505.08	7,413.78	6,505.08
Defined Benefit Plan Costs - Gratuity	277.22	423.13	277.22	423.13
Defined Contribution Plan Costs - EPF & ETF	709.21	610.56	709.21	610.56
Operating Lease Rentals	7,898.76	8,053.29	7,898.76	8,053.29
Depreciation / Amortisation	3,821.52	4,997.06	3,819.65	4,992.33
Amortisation of A330 Pre-delivery Payments	-	59.95	-	59.95
Provision for Slow Moving Inventory	99.39	334.30	94.91	332.91
Loss on Fuel Risk Management Program	-	352.69	-	352.69
Franchise Fees	186.93	243.86	157.75	139.68
<b>Included in Administrative Expenses:</b>				
Staff Costs	1,205.21	1,109.51	759.34	754.33
Defined Benefit Plan Costs - Gratuity	119.23	133.09	63.83	94.64
Defined Contribution Plan Costs - EPF & ETF	142.68	119.86	103.76	92.50
Provision for/(Reversal) of Doubtful Debts	(18.72)	81.32	-	81.52
Depreciation / Amortisation	477.47	528.26	135.10	147.78
Loss on Exchange	94.08	-	-	-
Auditors' Remuneration	5.38	5.24	4.22	4.22
Provision / Write-off of Maintenance Reserve	-	524.28	-	524.28
<b>Included in Sales &amp; Marketing Costs:</b>				
Advertising Costs	296.83	287.98	296.83	287.98
Staff Costs	1,100.09	1,134.64	1,100.09	1,134.64
Defined Benefit Plan Costs - Gratuity	10.77	16.18	10.77	16.18
Defined Contribution Plan Costs - EPF & ETF	78.43	70.68	78.43	70.68
Depreciation / Amortisation	13.89	18.13	13.89	18.13
Marketing Fees Charge / (Reversal) FlySmiLes	274.96	(135.82)	274.96	(135.82)

<b>21 TAXATION</b>	<b>Group 2011 Rs. M</b>	<b>Group 2010 Rs. M</b>	<b>Company 2011 Rs. M</b>	<b>Company 2010 Rs. M</b>
<b>Tax Expense</b>				
The major components of income tax expense are as follows:				
<b>Current income tax</b>				
Current Tax Expense on Ordinary Activities for the Year (Note 21.1)	36.66	29.08	18.14	24.31
Under/(Over) Provision of current taxes in respect of prior years	(11.08)	0.58	(14.28)	(0.02)
	<u>25.58</u>	<u>29.66</u>	<u>3.86</u>	<u>24.29</u>

**21.1 Reconciliation between Current Tax Expense/ (Income) and the product of Accounting Loss.**

Accounting Loss before Tax	(176.74)	(6,004.61)	(377.75)	(2,673.91)
Aggregate Disallowed Items	-	1.99	-	-
Income not subject to Tax	284.55	6,128.59	456.30	2,779.18
Statutory Income under Normal Tax Rate of 35%	146.18	125.97	78.55	105.27
Utilisation of brought forward tax loss	(48.48)	(44.09)	(27.49)	(36.84)
Taxable Profit	97.70	81.88	51.06	68.43
Statutory Tax Charge at Normal Rate of Tax 35%	36.12	28.65	17.87	23.95
Social Responsibility Levy @ 1.5%	0.54	0.43	0.27	0.36
Current Income Tax Expense	<u>36.66</u>	<u>29.08</u>	<u>18.14</u>	<u>24.31</u>

**22 EARNINGS PER SHARE**

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

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

	<b>Group 2011</b>	<b>Group 2010</b>
Loss attributable to Ordinary Shareholders for Basic Earnings Per Share (Rs. Million)	(202.32)	(6,034.27)
Weighted average number of Ordinary Shares in issue	51,463,463	51,463,463
Basic Earnings Per Share Rs.	<u>(3.93)</u>	<u>(117.25)</u>

**23 EFFECT OF CHANGE IN ACCOUNTING ESTIMATES**

As stated in Accounting Policy 2.3(b)(iii) and 2.4.16 the Company has changed its accounting estimates for recognising unutilised passenger tickets and airway bills and the deferred revenue liability in respect of accrued miles respectively. The effect of changes in the accounting estimate is outlined below.

	<b>Effect for Year ended 31 March 2011 Rs. M</b>
<b>Income Statement</b>	
Increase in Revenue	
- write back of sales in advance of carriage	957.97
- frequent flyer program	663.04
Decrease in Loss	<u>1,621.01</u>
<b>Balance Sheet</b>	
Decrease in	
- sales in advance of carriage	957.97
- deferred revenue liability	663.04
Decrease in Current Liabilities	<u>1,621.01</u>

**24 COMMITMENTS AND CONTINGENCIES****24.1 Capital Expenditure Commitments**

The Group and Company's commitment for acquisition of property, plant and equipment incidental to the ordinary course of business

	2011 Rs. M	2010 Rs. M
Contracted but not provided for		
Tangible	189.54	21.89
Intangible	-	10.99
Engine Overhaul	677.71	411.93
Cabin Retrofit	1,155.75	-
	<u>2,023.00</u>	<u>444.81</u>
Authorised by the Board, but not contracted for		
Tangible	108.70	36.29
Intangible	17.61	205.75
	<u>126.31</u>	<u>242.04</u>
	<u>2,149.31</u>	<u>686.85</u>

**24.2 Financial Commitments**

- (a) Company's total future minimum lease commitment under non-cancellable operating leases as at 31 March were as follows:

	Company	
	2011 Rs. M	2010 Rs. M
Within one year	7,411.28	5,298.41
After one year but not more than five years	24,187.00	20,096.86
Later than five years	1,894.18	-
	<u>33,492.46</u>	<u>25,395.27</u>

- (b) The remaining lease rental commitment for the land in Katunayake, leased by the Company and Subsidiary for a period of 17 and 23 years respectively is as follows:

	Group 2011 Rs. M	Group 2010 Rs. M	Company 2011 Rs. M	Company 2010 Rs. M
<b>Installment payable:</b>				
Within one year	320.75	300.43	310.30	289.98
After one year but not more than five years	1,437.05	1,370.16	1,375.01	1,325.22
Later than five years	4,338.40	4,691.97	3,774.76	4,102.52

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

**24.3 Commitment on Guarantee of Loan**

The Company has guaranteed the loan of USD 6.12 million obtained by its Subsidiary SriLankan Catering Limited for the construction for the new flight kitchen.

#### 24.4 Contingencies

##### Company

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. 2,760.79 million as at 31 March 2011 (2010: Rs. 2,844.55 million).

##### Subsidiary

There are several cases pending before the Labour Tribunal against the Company as at 31 March 2011. No provision has been made in the financial statements as the amount of the obligation cannot be measured with sufficient reliability and the Directors consider that such liability will not materially affect these financial statements.

#### 25 ASSETS PLEDGED

##### Company

Company pledged the following share investment against the long term loan obtained. Please refer Note 14.

Pledged to	Share Certificate of	No. of shares
Bank of Ceylon	SriLankan Catering Limited	59,999,999

As per the share mortgage agreement, in the event of any increase of registered capital, conversion to a public limited company, share split, share substitution, share dividend or replacement of shares, the shares which will accrue or be declared in respect of the above mortgaged shares (along with the relevant certificates) shall also be mortgaged to Bank of Ceylon.

##### Subsidiary

The Subsidiary pledged machinery to the value of USD 0.2 million as security against facilities obtained from Commercial Bank of Ceylon.

#### 26 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The Company took delivery of three aircraft under operating lease agreements with lease terms spanning 4-12 years.

**27 RELATED PARTY DISCLOSURES****27.1 GROUP****27.1.1 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 of Directors, Chief Executive Officer and other Senior Management Executives of the Group who meet the criteria described above.

	Group 2011 Rs. M	Group 2010 Rs. M	Company 2011 Rs. M	Company 2010 Rs. M
Short Term benefits	54.22	51.14	54.22	51.14
Post Employment Benefits	49.38	32.37	49.38	32.37

**27.2 COMPANY**

27.2.1 SriLankan Catering 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 27.3.1 for details of transactions carried out with the Subsidiary.

27.2.2 Emirates held 43.63% of the Stated Capital of the Company until June 2010. 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. Transactions between the Company and Emirates until June 2010 are summarised as follows:

	2011 USD Receipts/ (Payments)	2011 Rs. Receipts/ (Payments)	2010 USD Receipts/ (Payments)	2010 Rs. Receipts/ (Payments)
(a) Information systems and related services	(566,670)	(64,748,952)	(1,644,460)	(189,255,270)
(b) Purchase of other goods and services	(8,872)	(1,011,458)	(3,955)	(454,924)
(c) Net receipt on transactions relating to international air transport, settled through IATA Clearing House	1,767,171	201,826,442	4,149,275	478,214,032
(d) Galileo segment commission	-	-	196,193	22,507,322
(e) Frequent flyer programme (net)	-	-	477,371	54,885,784
(f) Net Sales	705,937	80,588,195	1,912,320	220,695,409
(g) Net Payment on Ground Handling Services	(661,180)	(75,497,683)	(3,078,911)	(354,531,169)
Total	<u>1,236,386</u>	<u>141,156,544</u>	<u>2,007,833</u>	<u>232,061,184</u>



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

	2011 Rs. Receipts/ (Payments)	2010 Rs. Receipts/ (Payments)
Sales	672,596,748	505,419,092
Others	-	636,963,891
Loans - Receipt	2,038,917,500	4,011,592,500
- Repayment including Interest	(2,915,918,004)	(1,266,365,726)
Purchase of Goods and Services	<u>(17,873,880,498)</u>	<u>(13,806,596,859)</u>
	<u>(18,078,284,254)</u>	<u>(9,918,987,103)</u>

During the year the Company obtained the following facilities:

Long term loan amounting to USD 18 million to repay within a period of 6 years with a grace period of 1 year

Overdraft facilities amounting to USD 31 million fully utilised

Bank guarantee facilities amounting to Rs. 164 million against operational costs

	2011 Rs. Receivable/ (Payable)	2010 Rs. Receivable/ (Payable)
Net Balance Outstanding as at 31 March	<u>(2,073,176,532)</u>	<u>(2,652,597,888)</u>

Government controlled entities comprise of the following entities:

Airport and Aviation Services Ltd	Board of Investment of Sri Lanka	Sri Lanka Telecom
Ceylon Electricity Board	Ceylon Tourist Board	Bank of Ceylon
Ceylon Petroleum Corporation	Sri Lanka Police	Sri Lanka Insurance Corporation
Department of Inland Revenue	Mihin Lanka Ltd	Atomic Energy Authority
Ministry of Re-settlement & Disaster Recovery Services	Ministry of Higher Education	Ministry of External Affairs
State Pharmaceutical Corporation	Ministry of Finance and Planning	Ministry of Tourism and Civil Aviation
Ministry of Foreign Affairs	Sri Lanka Postal Authority	Sri Lanka Navy
Sri Lanka Airforce	Sri Lanka Tourism Promotion Bureau	Sri Lanka Customs
Civil Aviation Authority	Presidential Secretariat	
Sri Lanka Army	Sri Lanka Convention Bureau	

Further transactions relating to contributions for employment retirement benefits are made in line with the respective statutes and regulations to Employees Provident Fund (EPF) and Employees Trust Fund (ETF).

27.2.4 Transactions, arrangements and agreements involving entities which are controlled, and / or significantly influenced by the KMP's include the following.

<u>Organisation</u>	<u>Nature of transaction</u>	2011 Rs.	2010 Rs.
Mount Lavinia Hotel Limited	Hotel charges for conferences	-	160,967
Dankotuwa Porcelain PLC	Inflight purchases	230,720	2,953,321
Holcim Lanka Ltd	Construction related purchases	272,377	-

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

**27.3 SUBSIDIARY****27.3.1 Transactions with Related Parties**

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

	2011 Rs. Revenue/ (Expenses)	2010 Rs. Revenue/ (Expenses)
SriLankan Airlines Limited	1,987,752,782	1,627,398,529
Emirates	-	498,761,282
Mihin Lanka Ltd	78,106,396	66,677,023
Airport & Aviation Services Ltd	(227,554,817)	(132,888,835)
Employer's Provident Fund	(118,750,849)	-
	<u>1,719,553,512</u>	<u>2,059,947,999</u>

	2011 Rs. Receivable/ (Payable)	2010 Rs. Receivable/ (Payable)
SriLankan Airlines Limited	2,369,506,851	2,381,477,660
Emirates	-	82,842,293
Mihin Lanka Ltd	56,192,013	49,769,906
Airport & Aviation Services Ltd	(29,178,068)	(30,017,081)
	<u>2,396,520,796</u>	<u>2,484,072,777</u>

Following transactions (excluding sales) with the Parent Company have been carried out in the ordinary course of business.

Organisation	Relationship	Nature of transaction	2011 Rs. Payments	2010 Rs. Payments
SriLankan Airlines Limited	Parent Company	Freight Services	19,335,381	39,158,497
		Other Services	12,374,329	52,276,426
		Interim Dividend -Ordinary	600,000,000	-
		Dividend -Preference	95,342,463	-
		Ordinary share distribution	900,000,000	-
		Preference Shares	2,000,000,000	-
		Share buy-back	-	4,000,000,000
		Transfer to Long term loan	1,501,964,627	-

## TEN YEAR REVIEW - COMPANY

		2002	2003	2004
<b>INCOME STATEMENT</b>				
Revenue	Rs. Million	29,352.91	36,235.04	45,397.54
Operating expenditure	Rs. Million	31,307.87	33,440.83	39,441.82
Net profit/(loss)	Rs. Million	(2,048.95)	3,347.23	7,424.48
<b>BALANCE SHEET</b>				
Share Capital / Stated Capital	Rs. Million	5,146.35	5,146.35	5,146.35
Non Current assets	Rs. Million	12,826.78	12,229.44	13,072.68
Current assets	Rs. Million	12,061.52	18,713.33	24,954.44
Total assets	Rs. Million	24,958.70	31,038.66	38,123.01
Current liabilities	Rs. Million	11,578.40	16,641.12	20,612.84
<b>YIELD/UNIT COST</b>				
Overall yield	Rs. tkm	38.6	43.0	47.3
Unit cost	Rs. tkm	27.5	31.5	34.8
Breakeven load factor	%	71.3	73.3	68.7
Revenue per RPK	Rs./RPK	3.8	4.3	4.9
<b>PRODUCTION</b>				
Passenger capacity	ASK Millions	8,556.92	8,422.77	9,692.08
Overall capacity	ATK Millions	1,148.73	1,121.89	1,289.94
<b>TRAFFIC</b>				
Passengers carried	Nos. Thousands	1,615	1,806	2,065
Passengers carried	RPK Millions	5,862.09	6,408.38	7,276.35
Passenger load factor	%	68.51	76.08	75.08
Cargo carried	Tonnes	46,067	47,650	54,943
Cargo load carried	RTK Millions	186.47	200.45	240.90
Overall load carried	RTK Millions	711.72	785.11	896.59
Cargo load factor	%	44.19	46.22	52.08
Overall load factor	%	61.96	69.98	69.51
<b>STAFF</b>				
Average strength	Nos.	4,049	4,182	4,714
Revenue per employee	Rs.	7,249,422	8,664,524	9,630,365
Capacity per employee	Tonne-km	283,706	268,266	273,640
Load carried per employee	Tonne-km	175,777	187,735	190,197
<b>FLEET</b>				
A320-200	Nos.	1	2	3
A330-200	Nos.	4	4	4
A340-300	Nos.	3	3	5
Turbo Otter	Nos.	-	-	-
Aircraft in service at year end	Nos.	8	9	12

## TEN YEAR REVIEW - COMPANY

2005	2006	2007	2008	2009	2010	2011
53,808.85	61,160.14	67,963.76	79,128.56	73,307.77	62,363.58	77,125.45
54,145.20	60,720.29	69,406.68	82,154.01	84,794.86	69,026.74	81,334.34
479.87	476.53	568.04	4,428.23	(9,305.94)	(2,698.20)	(381.61)
5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35
10,908.79	16,136.77	16,568.73	15,730.43	19,333.18	28,531.75	19,862.87
22,303.26	21,866.73	21,347.46	32,209.67	15,008.38	15,910.82	18,276.59
33,307.94	38,003.50	37,916.19	47,940.10	34,341.56	44,442.57	38,139.46
22,381.67	25,485.05	25,006.65	29,134.89	25,012.31	28,399.92	28,017.97
48.1	52.2	55.7	61.0	64.8	54.9	60.3
36.2	37.6	40.3	46.5	50.7	43.4	45.9
74.9	72.0	72.3	76.2	78.2	78.9	76.1
5.1	5.3	5.6	6.5	6.8	5.8	6.3
11,326.54	11,934.86	12,375.62	12,599.58	11,731.56	10,724.83	12,481.41
1,484.02	1,590.55	1,695.91	1,741.10	1,635.62	1,541.03	1,755.23
2,423	3,005	3,176	3,196	2,735	2,558	2,867
8,142.54	9,050.44	9,535.79	9,793.05	8,546.44	8,357.89	9,584.02
71.89	75.83	77.05	77.73	72.85	77.93	76.79
66,977	82,142	88,833	93,161	73,106	72,058	86,053
296.68	300.73	325.97	350.35	302.36	283.83	332.98
1,039.34	1,102.77	1,150.84	1,232.62	1,065.15	1,028.11	1,184.13
56.95	56.11	58.44	61.60	53.17	56.42	56.80
70.04	69.33	67.86	70.80	65.12	66.72	67.46
5,163	5,395	5,272	5,113	4,837	4,614	4,998
10,422,012	11,336,449	12,891,457	15,475,955	15,155,627	13,516,164	15,431,263
287,433	294,820	321,683	340,523	338,148	333,991	351,186
201,305	204,406	218,293	241,077	220,210	222,825	236,922
5	5	5	5	3	3	4
4	4	4	4	4	4	5
5	5	5	5	5	5	5
2	2	2	-	-	-	2
16	16	16	14	12	12	16

## **Glossary**

### **Available Seat Kilometres (ASK)**

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

### **Available Tonne Kilometres (ATK)**

This is the measure of transport production.

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

### **Revenue Passenger Kilometres (RPK)**

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

### **Revenue Tonne Kilometres (RTK)**

The product of passenger and cargo carried in tonnes and the distance over which they are carried.

### **Load Factor**

The percentage relationship of revenue load to capacity provided.

The passenger load factor relates RPK to ASK while the overall load factor relates RTK to ATK.

### **Revenue per RPK**

The revenue per RPK relates the passenger revenue to RPK.

### **Unit Cost**

The unit cost relates the total operating cost to ATK.

### **Overall Yield**

Overall Yield relates the net traffic revenue to RTK.

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

### **Break-even Load Factor**

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



## **NOTICE OF MEETING**

Notice is hereby given that the Thirty Third Annual General Meeting of the Shareholders of SriLankan Airlines Limited will be held at the **"Cat'seye Ballroom" of the Ceylon Continental Hotel, No.48 Janadhipathi Mawatha, Colombo 1 on Tuesday 27 September 2011 at 3.00 p.m** for the following purposes.

### Agenda

1. To receive and consider the Annual Report of the Board of Directors and the Financial Statements for the year ended 31st March 2011 with the Report of the Auditors thereon.
2. To re-appoint M/s Ernst & Young as Auditors and authorize the Directors to fix their remuneration.

By Order of the Board

Company Secretary  
Mildred Peries

12 August 2010  
Katunayake

### **Note:**

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



**PROXY**

**SRILANKAN AIRLINES LIMITED**

I, ..... of  
.....

Being a member/s of SriLankan Airlines Limited hereby appoint:  
..... of  
.....or failing  
..... of  
.....

as my/our proxy to represent me/us and on my/our behalf at the Thirty Third Annual General Meeting of the Shareholders of SriLankan Airlines Limited to be held on **Tuesday – 27 September 2011 at 3.00 p.m** and at any adjournment thereof.

Signed this ..... day of..... Two Thousand and Eleven.

.....  
Signature

**NOTE:**

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



**INSTRUCTIONS AS TO COMPLETION:**

1. Perfect the Form of Proxy after filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.
2. In the case of Resident/Non-Resident shareholders, the stamping will be attended to on return of the completed Form of Proxy to the Company.
3. The completed Form of Proxy should be deposited at the Registered Office of the Company at the under noted address not less than 48 hours before the time appointed for the holding of the meeting.

By Order of the Board

Company Secretary  
SriLankan Airlines Limited  
Airline Centre  
Bandaranaike International Airport  
Katunayake