



Annual Report 2011-12

CONTENTS

| | |
|---|----|
| Corporate Information | 01 |
| Vision and Mission | 02 |
| Highlights | 03 |
| Chairman's Overview | 04 |
| Chief Executive Officer's Review | 07 |
| Directors' Profile | 11 |
| Annual Report of the Board of Directors | 12 |
| Statement of Directors' Responsibilities | 16 |
| Report of the Board Audit Committee | 17 |
| Independent Auditors' Report | 18 |
| Balance Sheet | 19 |
| Income Statement | 20 |
| Statement of Changes in Equity | 21 |
| Cash Flow Statement | 22 |
| Accounting Policies & Notes to the Financial Statements | 23 |
| Ten Year Review | 51 |
| Glossary | 53 |
| Notice of Meeting | 54 |
| Proxy | 55 |
| Instructions as to Completion | 56 |

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 Rajapaksa

Manilal Fernando

Lakshmi Sangakkara

Sanath Ukwatte

Susantha Ratnayake

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

Our Vision

To be the most preferred airline in Asia

Our Mission

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

HIGHLIGHTS

| | | Group 2012 | Group 2011 | Company 2012 | Company 2011 |
|-----------------------|-------------|---------------|---------------|-----------------|-----------------|
| Financial | | | | | |
| Revenue | Rs. Million | 92,257.04 | 78,515.24 | 90,544.22 | 77,125.45 |
| Operating Expenditure | Rs. Million | 109,177.00 | 81,569.55 | 109,376.82 | 81,334.34 |
| Loss Before Tax | Rs. Million | (17,161.04) | (176.74) | (19,675.42) | (377.75) |
| Net Loss for the Year | Rs. Million | (17,171.99) | (202.32) | (19,678.71) | (381.61) |
| Total Assets | Rs. Million | 69,763.23 | 41,218.62 | 66,571.05 | 38,139.46 |
| Shareholders' Funds | Rs. Million | 4,153.55 | 6,302.55 | (1,438.90) | 3,216.82 |

Traffic

| | | | | | |
|-----------------------|--------------|--|--|-----------|-----------|
| Passenger capacity | ASK Millions | | | 14,248.94 | 12,481.41 |
| Overall capacity | ATK Millions | | | 1,978.33 | 1,755.23 |
| Passengers carried | RPK Millions | | | 11,270.23 | 9,584.02 |
| Overall load carried | RTK Millions | | | 1,338.30 | 1,184.13 |
| Passenger load factor | % | | | 79.10 | 76.79 |
| Overall load factor | % | | | 67.65 | 67.46 |
| Breakeven load factor | % | | | 86.53 | 76.19 |

Staff Productivity

| | | | | | |
|--------------------------|-------------|--------|-------|--------|-------|
| Staff Strength | Nos. | 6,367 | 5,659 | 5,594 | 4,998 |
| Revenue per employee | Rs. Million | 14.49 | 13.87 | 16.19 | 15.43 |
| Value added per employee | Rs. Million | (0.66) | 1.82 | (1.36) | 1.89 |

Aircraft Fleet as at 31 March 2012

| | | | | | |
|---------------------------------|------|--|--|----|----|
| A320-200 | Nos. | | | 7 | 4 |
| A330-200 | Nos. | | | 7 | 5 |
| A340-300 | Nos. | | | 6 | 5 |
| Twin Otter | Nos. | | | 2 | 2 |
| Aircraft in service at year end | Nos. | | | 22 | 16 |

Chairman's Overview

Welcome to the 34th Annual General Meeting of SriLankan Airlines. It is with pleasure that I present the Annual Report and Audited Financial Statements of SriLankan Airlines Limited for the financial year 2011/12.

The year 2011/12 was named the 'Year of Resurgence' at SriLankan Airlines. This has indeed been the case, with a high level of resurgence both for your Airline and for our nation's aviation related industries. Our efforts during this financial year, achieved a significant result in the first quarter of 2012/13 when the prestigious airline alliance oneworld invited SriLankan to become a member elect of this prestigious airline alliance.

Sri Lanka's Economy

Sri Lanka's economy continued its impressive post-war performance, despite the global economic downturn that is being fueled by a serious financial meltdown in Europe, a slow recovery in the United States, and slow growth in China and India.

The long-term focus of the Government of Sri Lanka saw significant advancement in infrastructure projects, including power stations, highways, ports and airports in keeping with the Mahinda Chinthanaya.

Sri Lanka Tourism

Sri Lanka's tourism industry achieved another milestone in the financial year 2011/12 with a record of 901,375 tourist arrivals, an increase of 27% over the 709,191 in 2010/11.

The economic recession in Europe is likely to hamper the desire of European tourists to travel long-haul. But, the diversification of Sri Lanka's tourism industry across the Middle East, South Asia, the Far East, Australia and North America is expected to be substantial.

Global Air Transport Industry

The total estimated profit of the global air transport industry in the calendar year 2011 was USD 7.9 billion. However, worsening global economic conditions have cast a pall of gloom. The industry was affected through 2011/12 by high oil prices. The International Air Transport Agency (IATA) expects the industry's profitability to reduce to USD 3 billion in 2012.

Supporting Our Nation

SriLankan took numerous initiatives in its role as a catalyst for economic growth, including:

- Supporting the planning and designing of infrastructure for the Country's second international airport at Mattala
- Supporting continued expansion of Bandaranaike International Airport (BIA)
- Facilitating and initiating global publicity for Sri Lanka in key target markets overseas
- Supporting international events in tourism, sports and MICE (meetings, incentives, conventions, exhibitions)

Awards

SriLankan continued its long tradition of winning accolades during the year under review, including:

- Silver award in the Government-Owned Business category at the National HRM Awards 2012
- International Aviation Academy named as one of the 'Top Ten' Training Centres in South Asia by IATA
- ISO 9001:2008 certification for Quality Management Systems in Software Development
- ISO/IEC 27001:2005 certification for its Information Security Management Systems
- Best Airline Operator from South Asia at Kuala Lumpur International Airport
- Sri Lanka Tourism Awards 2010: "Hall of Fame", Airline of the year, Inbound Tourism Promotion and Best Print Media Presentation "Serendib Magazine"

The Year 2011/12

- The Group's Revenue for the year 2011/12 was Rs. 92,257.04 million, compared to Rs. 78,515.24 million in 2010/11, an increase of 18%.
- Operating Expenditure was Rs.109,177 million, compared to the previous year's Rs. 81,569.55 million, an increase of 34%.
- The Loss Before Tax increased to Rs. 17,161.04 million, from the loss of Rs. 176.74 million during 2010/11.
- The Net Loss After Tax was Rs. 17,171.99 million, compared to the net loss of Rs. 202.32 million in 2010/11.
- Total Passenger Revenue increased by 20% to Rs. 72,620.39 million.
- Revenue Passenger Kilometres (RPK) totaled 11,270.23 RPK millions, compared to 9,584.02 RPK millions during the previous year.

- Overall Seat Factor during 2011/12 was 79.10% from the 76.79% of the previous year.
- The Airline carried 3.46 million passengers in 2011/12, which was an increase of 21% from 2.87 million in the previous year.
- Overall Capacity increased to 1,978.33 million Available Tonne Kilometres (ATK), from 1,755.23 million in the previous year.
- Passenger Capacity increased to 14,248.94 million Available Seat Kilometres (ASK) from 12,481.41 million in the previous year.
- Unit Cost increased by 22%, to Rs. 56.03 / tkm from Rs. 45.92 / tkm in 2010/11.

The Company's losses increased due to the following:

- The average price paid for a gallon of fuel was 36% higher than last year.
- Less than satisfactory yield due to recession in Europe and competition from other airlines. The benefit of the cabin upgrade programme is yet to be achieved.
- Significant investments in acquiring additional capacity and enhancement of supporting services were made, the total benefit of which will be derived over the years.

Steps taken to address the issues:

- Optimising fuel efficiency. The induction of new aircraft in 2011/12 has resulted in a more fuel efficient fleet. The average price of jet fuel is also forecast to be lower in 2012/13 than in the previous year.
- Rationalising of frequencies on loss-making sectors and deployment of such capacity on more profitable routes.
- Improving passenger yield through a variety of measures including aggressive marketing of the new Business Class product.
- The Airline's diversified operations are expected to enhance revenue contributions. These include Engineering, Duty Free Sales, Ground Handling, SriLankan Flight Academy, International Aviation Academy, and SriLankan Catering Limited.
- The Company's liquidity position is expected to improve due to the increase in borrowing capacity resulting from the capital infusion by the Government of Sri Lanka.

SriLankan Catering Limited

SriLankan Catering recorded another successful year, and admirably supported the on-board catering requirements of SriLankan's expansion. It diversified its activities with the launch of the 'Semondu' signature restaurant at the Old Dutch Hospital Arcade, in addition to its core business of airline catering, managing a transit hotel, and providing industrial laundry facilities.

SriLankan Catering received the following awards during the year under review:

- Etihad Airlines' Best Regional Caterer for Middle East-Africa-South Asia-Indian Subcontinent
- 'Green Jobs' Award from the Ministry of Environment
- Gold Award in Waste Management at National Green Awards
- Gold Award for National Energy Efficiency

The Future

SriLankan Airlines has now positioned to meet the challenges of the future, based on the five-year business plan which focuses on maximising market opportunities with our enhanced product.

The Airline's financial position was strengthened during the year under review through a capital infusion by the Government of Sri Lanka of Rs. 14.3 billion in the form of a treasury bond. It was the first capital infusion since 1998.

The Company was further strengthened in the first quarter of 2012/13 by a 4-year borrowing facility from a consortium of banks based in the UAE. Further capital infusion planned by the Government over the next 4 years will strengthen the capital base of the Company ensuring sustainable growth.

During 2012/13, SriLankan expects to strengthen its operations with the following key projects:

- Align our systems and processes to those of the **oneworld** alliance
- Complete upgrading of passenger cabins on our long-haul fleet
- Launch services to Seoul in South Korea
- Negotiate code-share agreements with other airlines, including members of **oneworld**
- Construct a dedicated hangar at BIA for maintenance of Airbus A320 aircraft
- Launch a second Flight simulator for pilot training for A330 aircraft pilots

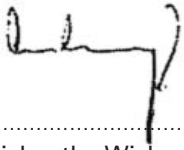
Dividends

Due to the loss made during 2011/12, resulting from high operational costs and emphasis on strategic investments for the future, the Board is unable to recommend a dividend to our shareholders.

Conclusion

I wish to express my gratitude for the commitment of the President of Sri Lanka, His Excellency Mahinda Rajapaksa, who has placed great focus on the aviation and tourism industries of Sri Lanka. My appreciation also for the support extended by Hon. Basil Rajapaksa, MP, Minister of Economic Development of Sri Lanka; and Hon. Priyankara Jayaratna, MP, Minister of Civil Aviation of Sri Lanka.

Special thanks to the Members of the Board, the Chief Executive Officer, Management Team, and staff of the Company for their unstinted hard work and dedication. I also take this opportunity to thank our shareholders, including the Government of Sri Lanka, for their long-term confidence and support towards our Airline.



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Nishantha Wickremasinghe

Chairman

17 August 2012

Chief Executive Officer's Review

I am pleased to present the Review of Operations for the Financial Year 2011/12, and a synopsis of the way forward for the Company.

Year in Review

Last year, my report commenced with the words "SriLankan Airlines is currently writing an exciting new chapter in its 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."

The year 2011/12 was indeed a challenging one for us.

The global industry downturn had its effect on the Airline too. We expanded our operations and business units despite the difficult financial situation in line with our Business plan. We continued to implement several business initiatives which definitely added value to our business and product as is outlined hereafter.

Membership in oneworld

We have been successful in gaining entry as a member elect of the world renowned 'oneworld' airline alliance. This would undoubtedly enable the Company to expand its global presence by being linked to 824 new destinations worldwide, flying alongside some of the biggest and best brands in the airline business to support the Airline's growth strategy.

Expansion of Aircraft Fleet

The year under review saw the Airline acquire more aircraft than in any previous year in its 33-year history. The induction programme included five A320 (one of which was in the first quarter of 2012/13), two A330, and one A340 Aircrafts. One older A320 was retired from the fleet.

At the end of the 2011/12 financial year, the Airline's fleet comprised of:

- Seven A320 Aircrafts
- Seven A330 Aircrafts
- Six A340 Aircrafts
- Two De Havilland Twin Otters (Air Taxis)

Expansion of Global Route Network and Capacity

The year in review also witnessed the growth of our route network to cover 60 cities in 32 countries. Key features in this expansion were the launch of services to Moscow, and the re-launch of services to Zurich.

Eight cities in Canada and two cities in India were also added to our global network through code-share agreements with Air Canada and Mihin Lanka respectively. Capacity was also increased to a large number of destinations, with the most notable being an increase in frequencies to destinations in the major markets of India and China.

The location of several of our overseas offices was changed to provide more convenience for customers, and a Passenger Services Agents' office was opened in Jaffna.

Transformation of our Passenger Cabins

During the year under review, the Airline embarked upon an important programme to reposition its product by installing many luxuries on our long-haul fleet. These include Flat Bed Seating and audio-video-on-demand (AVOD) entertainment systems in Business Class.

This programme, which had been differed for some time due to the high cost of refurbishment, has given the Airline a product on par with the finest in Business Class in the region. These aircraft are already serving some of our European routes, and will ultimately be deployed across all of our long haul sectors when the programme is completed in 2012/13.

Service Delivery

All areas of Service Delivery underwent significant expansion and enhancement, in conjunction with the expansion and transformation of our fleet and route network.

A notable development is that SriLankan's own Business Class passengers now have the luxury of checking-in through the special 'Silk Route' service offered by Airport & Aviation Services (Sri Lanka) Ltd. at no extra charge, a facility that

complements our Business Class experience above that of other airlines, that serve Bandaranaike International Airport.

Customer Feedback and Interaction

With the Airline undergoing such significant transformations, it becomes especially important to obtain the opinion of our customers as to the success of our investment. In addition to the existing methods of obtaining complaints and compliments, the Airline carried out continuous passenger surveys to obtain customer feedback on all aspects of our product and service.

Services at SriLankan's Global Contact Centre were also enhanced to provide a more complete and seamless customer experience.

SriLankan Cargo

SriLankan Cargo extended its reach throughout the island by opening Cargo Sales Agents' offices in Hambantota, Kandy, and Trincomalee.

The Company's worldwide cargo operations were brought under the centralised control of the BIA Cargo Centre for greater strength of co-ordination. The BIA Cargo Centre continued its process of value-addition to customers and enhancement of productivity, and added many new facilities including CCTV security, bar codes and scanners, automated weighing of consignments, and a 6-tier racking system.

SriLankan Cargo is currently making preparations for the handling of the cargo centre at HIA.

SriLankan Engineering

SriLankan Engineering recorded its most successful year in terms of routine maintenance and major engineering programmes on aircraft of SriLankan's own fleet, as well as those of customer airlines.

The most ambitious project was the upgrading of cabins on our long-haul fleet, which I have referred to in detail above.

SriLankan Engineering also received a significant boost to its efforts to become a major MRO (Maintenance, Repair, Overhaul) facility in the region when India's largest low-fare carrier IndiGo contracted it for a fourth successive year to carry out major maintenance C-checks on its Airbus A320 fleet. Just as importantly, IndiGo chose to increase the number of aircraft sent to SriLankan Engineering up to 27 this year, from the previous year's 20.

The Airline is going ahead with a significant investment in enhancing the facilities of SriLankan Engineering at BIA, by modernizing and converting an obsolete hangar into a dedicated hangar for A320 aircraft. This is expected to provide an immediate return on investment since the A320 is one of the most-used aircraft in this region today.

SriLankan Engineering is also expected to play an important role in the Government's vision of turning Sri Lanka into a regional MRO centre, and will be setting up facilities at HIA.

SriLankan Air Taxi

SriLankan Air Taxi witnessed considerable development to its infrastructure and route network during the year under review.

Most significant was the commissioning of the main water-drome at Dandugam Oya. This provides relatively seamless connectivity for international travelers, since it is located just 15 minutes from BIA.

We also saw the expansion of SriLankan Air Taxi's services to reach Dambulla, Trincomalee, Iranamadu, and Batticaloa, and SriLankan Air Taxi can now boast of a network that truly covers almost the entire country.

FlySmiLes Frequent Flyer Programme

Expansion of FlySmiLes – launch of YoungSmiLes, and entering into partnerships with leading global and local brands.

Together with the increase in members worldwide, during the year under review FlySmiLes launched a new sub-programme 'YoungSmiLes', which is especially designed to cater to children under the age of 18.

SriLankan Technical Training

SriLankan Technical Training is one of the few institutions in Asia that has EASA 147 approval from the European Aviation Safety Agency to conduct training in both Avionics and Mechanical streams and Type Training for aircraft of the

Airbus family consisting of A320, A330 and the A340. Programs offered at SriLankan Technical Training are accredited by the civil aviation authorities of several countries in the region, including Pakistan, the Maldives and Sri Lanka.

SriLankan Flight Academy

The commissioning of the SriLankan Flight Academy on 20 October 2011 by His Excellency the President of Sri Lanka, was an important development for the Airline and towards making Sri Lanka the airline training hub of the region.

The project is the result of a 10-year joint venture agreement between SriLankan Airlines and SIM Industries BV of the Netherlands, a Lockheed Martin company. The Flight Simulator will be marketed in the region by both SriLankan and SIM Industries for the training of pilots in the operation of Airbus A320 aircraft.

Technology

Significant strides were made in the area of technology with many improvements in back-end systems, the corporate website, internet booking engine, global contact centre, etc. Our Information Technology division received two different ISO certifications during the year under review, as mentioned elsewhere in this report.

People Learning & Culture

The Human Resource Management Development and the effective engagement was given a new face with the realignment of Human Resource activities to support the business objectives. HR activities assumed a business partnering role with focus on productivity retention and employee participation in the Company's progress. Few cases in point that merit highlighting are,

- Re-structuring the Human Resources Development Division with specific business partnering roles assigned for each division.
- Launching listening campaigns with the participation of the CEO and the Senior Management Team where employee suggestions and ideas were received first hand and also the Company future plans were shared with the employees to avoid misunderstanding and misconceptions and to garner support.
- Establishment of Joint day and productivity councils (JDPC) to obtain bottom up communication of employee suggestions for revenue enhancement cost optimization and waste elimination
- The sports council and engagement in competitive sports was revived after a lapse of few years to revitalize people and instill a sense of competitiveness in them
- A monthly HR open day was launched where any level of staff was afforded the opportunity to meet the management and air their grievances and voice their opinions on matters of relevance

The Training arm of the Airline the IAA conducts focused on the job skill enhancement and development oriented learning and coaching programs to all the staff of the Airline on identified training and development needs.

International Aviation Academy

The International Aviation Academy (IAA) cemented its position as the premier training institution in Sri Lanka by being named by IATA as one of the 'Top Ten' Training Centres in South Asia.

The IAA also became the first institute in South Asia to be recognized by IATA as a Regional Training Facility to conduct international aviation programs, and IATA's Exclusive Training Partner in the Maldives. The IAA is scheduled to commission its first overseas franchise branch in the Maldives in 2012.

Corporate Social Responsibility

SriLankan Airlines and our subsidiary SriLankan Catering continued its long tradition of corporate social responsibility with a wide range of projects that were carried out both at the corporate level and by individual departments which included;

- Provided support for 'The Trail', a nationwide project that is raising USD 2 million to construct a Pediatric Cancer Hospital in the Northern Province.
- Donated of intra-ocular lenses to elderly persons in the Kurunegala district.
- Our subsidiary SriLankan Catering built a Rs. 7.5 million school building for the 300 students of Baudha Prathamika Vidyalaya in Andiambalama.

Overall Strategy in the Year Ahead

We intend to pursue the following strategies to optimize opportunities to create more avenues of revenue generation and diversification of business units and thereby reduce losses.

- Increase frequencies and capacity on profit-making routes in the Middle East, Indian Subcontinent and Far East, while rationalising capacity in Europe where operating costs are significantly higher. This is especially prudent in the context of the economic crisis that is sweeping Europe at present and is likely to lead to a slowdown in tourism from Europe.
- Focus on increasing yield through selective increases in fare structures and strengthening of revenue management.
- Leverage on our upgraded Business Class product when upgrading is completed on sufficient aircraft to serve long-haul routes, and optimise on Business Class sales.
- Launch a new service to Seoul, South Korea.
- Strengthen our code-share relationships with other airlines, and expand our global route network through code-share agreements with more airlines in regions we do not operate to.
- Expand our partnerships with Sri Lanka Tourism and the country's hospitality and entertainment industries in order to draw more travelers to Sri Lanka, especially from niche markets.
- Invest in a dedicated A320 aircraft hangar at BIA by renovating an unutilized hangar.
- Expand SriLankan Engineering's third party aircraft maintenance projects for other airlines.
- Effect changes to our SriLankan Air Taxi operation to transform the current loss-making operation.
- Invest in ground and cargo handling equipment and facilities to cater to the expansion of airline business at BIA and for deployment at Hambantota International Airport.
- Invest in a second Full Flight Simulator for A330 aircraft which would enable the marketing of a more complete product for pilot training, and also reduce our own costs of training.
- Increase external training programmes provided by the International Aviation Academy.
- Optimise duty free sales on board our flights.
- Strengthen synergies of our partnership with Mihin Lanka to optimise on revenue.
- Invest in technology to keep the Airline's systems on par with trends in the global air transport industry.

Prospects for the Future

The capital infusion by the Government of Sri Lanka (GOSL) which amounted to a four-fold increase in the Stated Capital during the year under review, and the planned infusion of capital over the next four year period by the GOSL indicates the commitment of the GOSL to support and sustain our growth.

Thank You

The Year of Resurgence has not been an easy one for SriLankan Airlines, and I am grateful to the many persons and institutions that have made it all possible.

His Excellency the President and the Government of Sri Lanka, for their continued support and assistance.

My gratitude to our Chairman, my colleagues on the Board, and the Senior Management Team for their guidance and support.

I also take this opportunity to sincerely thank all employees and employee unions, who are collectively known as the SriLankan Family for their continued dedication and hard work.

There were many institutions that stood by us – our financiers, both overseas and in Sri Lanka; Sri Lanka Tourism; Airport & Aviation Services and all the airlines that operate at BIA; our suppliers and business partners; and most of all our customers, whose patronage we value.



.....
Kapila Chandrasena

Director / Chief Executive Officer

17 August 2012

DIRECTORS' PROFILE

Nishantha Wickremasinghe

Appointed to the Board in January 2006. Appointed Executive Director in April 2008. He was appointed Acting Chairman in September 2008 and Chairman since June 2009. He is also the Chairman of SriLankan Catering Limited and Mihin Lanka (Private) Limited and Director of Udupussellawa Plantations PLC and Hapugastenne Plantations PLC.

Kapila Chandrasena

Appointed to the Board in December 2008. In addition appointed as Chief Executive Officer in August 2011. A marketer by profession he is currently a Director of SriLankan Catering Limited and CEO of Mihin Lanka (Private) Limited.

Nihal Jayamanne PC

Has been on the Board from 1994-1998 and thereafter re-appointed in September 2008. He is a senior President's Counsel with over 40 years at the Bar and is also the Chairman of the Law Commission of Sri Lanka and the Company Law Advisory Commission. He is a Director of SriLankan Catering Limited and Seylan Bank PLC.

Shameendra Rajapaksa

Appointed Director in August 2009. He is a Computer Engineering professional currently holding the position of Private Secretary to the Hon. Minister of Finance. He is also a Director of Sri Lanka Telecom PLC, SLT Hong Kong Limited, SLT Publications (Private) Limited and SriLankan Catering Limited.

Manilal Fernando

Appointed to the Board in May 2010. He is currently the Chairman of Holcim Lanka Limited. A lawyer by profession he also holds several other directorships amongst which are Aitken Spence & Co PLC, Ceylon Investment PLC and Shipping & Cargo Logistics (Private) Limited.

Lakshmi Sangakkara

Appointed to the Board in September 2011. She is also a Member of the Board Audit Committee. A Lawyer by profession she is also the Chairperson of People's Travels and Director of People's Bank as well.

Sanath Ukwatte

Has been on the Board from 2004 – 2008, 2008 -2010 and thereafter from September 2011 to date. A Hotelier by profession he is currently the Chairman of Mount Lavinia Hotel Group. He is a Member of the Board Audit Committee and a Director of SriLankan Catering Limited.

Susantha Ratnayake

Appointed to the Board in December 2011. He is the Board Audit Committee Chairman and Independent Director of SriLankan Catering Limited. He is the current Chairman and CEO of John Keells Holding PLC and several other listed and un-listed companies within the JKH Group.

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 2012.

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 2012 are attached to this Report.

ACCOUNTING POLICIES

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 23 to 34.

GROUP TURNOVER

The turnover of the Group amounted to Rs. 92,257 million (2010/11: Rs. 78,515 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. 17,161 million (2010/11: Group deficit Rs. 177 million). After adjusting Rs. 11 million (2010/11: Rs. 26 million) for taxation, the Group result for the year was a deficit of Rs. 17,172 million (2010/11: Group deficit of Rs. 202 million).

The consolidated Income Statement for the year is given on page 20.

GROUP INVESTMENT

Group capital expenditure during the year on Property, Plant and Equipment amounted to Rs. 2,692 million (2010/11: Rs. 909 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. 7,238 million (2010/11: Rs. 4,648 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 amounts to Rs.19,433 million (2010/11: Rs. 5,146 million).

During the year the Government of Sri Lanka invested Rs.14,286 million as Share Capital in the form of a Treasury Bond. The Board of Directors subject to shareholder approval has authorized the issue of Ordinary Shares by way of a Rights Issue. The Shareholders' approval for the issue of these shares will be sought at an Extraordinary General Meeting in the ensuing financial year.

RESERVES

Total Group Reserves as at 31 March 2012 amount to a negative Rs. 15,279 million (2010/11: Rs. 1,156 million). This consists of accumulated losses of Rs. 17,856 million (2010/11: Rs. 684 million), Capital Reserves of Rs. 2,523 million (2010/11: Rs. 1,786 million), Revenue Reserves of Rs. 0.63 million (2010/11: Rs. 0.63 million), and General Reserves of Rs. 53 million (2010/11: Rs. 53 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, in terms of its agreement with the Board of Investment of Sri Lanka.

The income derived from other sources are liable at the normal rate.

SHARE INFORMATION

Share information as at 31 March 2012 is as follows:

| Share Ownership | No. of Shares | % of Holding |
|--------------------------|---------------|--------------|
| Government of Sri Lanka | 26,275,436 | 51.06% |
| 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% |

The share information above is excluding the Rs. 14.3 billion Advance towards Share Capital made by the Government of Sri Lanka.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Contingent Liabilities as at 31 March 2012 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 6,367 (2010/11: 5,659).

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 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 |
| Mr Shameendra Rajapaksa | - | Director |
| Mr Manilal Fernando | - | Director |
| Mrs Lakshmi Sangakkara | - | Director |
| Mr Sanath Ukwatte | - | Director |
| Mr Susantha Ratnayake | - | Director |

Dr Chris Nonis who was a Director as at 01 April 2011 resigned from the Board on 29 September 2011 and the following Directors were nominated and appointed to the Board during the financial year by the GOSL as set out below,

| | | |
|------------------------|---|-------------------|
| Mrs Lakshmi Sangakkara | - | 01 September 2011 |
| Mr Sanath Ukwatte | - | 29 September 2011 |
| Ms W A Nalani | - | 14 October 2011 |
| Mr Susantha Ratnayake | - | 20 December 2011 |

Ms W A Nalani resigned from the Board with effect from 4 July 2012.

DIRECTORATE – SRILANKAN CATERING

The current Directorate of SriLankan Catering is as follows:-

| | | |
|-----------------------------|---|----------|
| Mr Nishantha Wickremasinghe | - | Chairman |
| Mr Nihal Jayamanne PC | - | Director |
| Mr Shameendra Rajapaksa | - | Director |
| Mr Kapila Chandrasena | - | Director |
| * Mr Susantha Ratnayake | - | Director |
| * Dr Nalaka Godahewa | - | Director |
| Mr Sanath Ukwatte | - | Director |

* Independent Directors

Dr Chris Nonis who was a Director as at 01 April 2011 resigned from the Board on 29 September 2011. Mr Sanath Ukwatte was appointed to the Board of SriLankan Catering on 28 November 2011.

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 2012. The Directors are entitled to receive a per diem, hotel and transport facilities if and when they are required to travel overseas on duty. The Directors, their spouses and dependent children are entitled to 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 the Chairman are holders of 03 Ordinary Shares of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

The Directors have no direct or indirect interest in any contracts or proposed contracts with the Company.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 24 September 2012.

AUDITORS

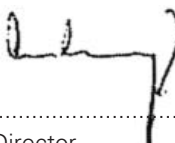
In accordance with the Companies Act No.07 of 2007, a resolution proposing the re-appointment of Messrs. Ernst & Young, Chartered Accountants, as Auditors of the Company will be submitted at the Annual General Meeting.

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
17 August 2012



.....
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 18.

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 judgments 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 2012 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 the best of their knowledge, all taxes, levies and financial obligations of the Company and its subsidiary as at the Balance Sheet date have been paid or adequately provided for in the financial statements.

By Order of the Board



.....
Mildred Peries
Company Secretary
17 August 2012

REPORT OF THE BOARD AUDIT COMMITTEE

MEMBERS

As at 01 April 2011, the members of the Board Audit Committee of SriLankan Airlines (BAC) comprised Nihal Jayamanne PC (Chairman), Dr. Chris Nonis and Mr. Lalith Withana, Chartered Accountant, functioned as an independent observer.

Effective 12 August 2011, Mr S.M.Chandrapala, representative of the Ministry of Aviation, functioned as the independent observer.

Due to the incumbent Chairman, Mr Nihal Jayamanne PC being on medical leave and the resignation of Dr Chris Nonis on 29 September 2011, the Board of Directors at its meeting held on 29 February 2012 approved the reconstitution of the BAC and appointed Mr Susantha Ratnayake, Mrs Lakshmi Sangakkara and Mr Sanath Ukwatte, all Non-Executive Directors, as members. Mr Susantha Ratnayake was appointed as the Chairman/Pro-tem of the BAC.

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 BAC held 2 meetings during the financial year ended 31 March 2012. The members of the management participated in the above meetings upon invitation to brief the Board Audit Committee on specific issues.

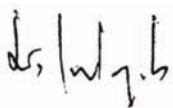
GROUP ASSURANCE AND ADVISORY SERVICES

The Audit Committee is strongly supported by the Group Assurance and Advisory Services Division (Previously known as Group Internal Audit Division). The Senior Manager Group Assurance and Advisory Services (SMGAAS) reports directly to the Audit Committee. The SMGAAS reports the key strategic and control issues noted by Assurance and Advisory Services to the BAC.

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

EXTERNAL AUDIT

During the year, the BAC met with the External Auditors to discuss the report of the Auditors and the Management Letter issued by them.



.....
Susantha Ratnayake

Chairman - Board Audit Committee

16 August 2012



Chartered Accountants

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

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

GSM/NJ

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 2012, 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 2012 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2012 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 2012 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

17 August 2012

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 N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

SriLankan Airlines Limited

BALANCE SHEET

As at 31 March 2012

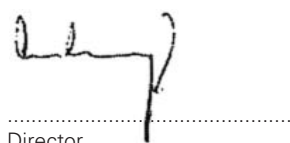
| | Note | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|---|------|------------------------|------------------------|--------------------------|--------------------------|
| ASSETS | | | | | |
| Non-current Assets | | | | | |
| Property, Plant and Equipment | 3 | 7,238.43 | 4,647.69 | 5,316.64 | 2,558.82 |
| Major Overhauls and Upgrade of Aircraft Engines | 4 | 6,684.88 | 6,080.36 | 6,684.88 | 6,080.36 |
| Aircraft Maintenance Reserve | 5 | 15,372.86 | 8,849.84 | 15,372.86 | 8,849.84 |
| Aircraft and Spare Engine Deposits | | 3,131.57 | 2,156.38 | 3,131.57 | 2,156.38 |
| Intangible Asset | 6 | 56.11 | 111.69 | 55.77 | 110.07 |
| Investments | 7 | 14,232.17 | 65.36 | 14,274.21 | 107.40 |
| | | <u>46,716.02</u> | <u>21,911.32</u> | <u>44,835.93</u> | <u>19,862.87</u> |
| Current Assets | | | | | |
| Inventories | 8 | 4,513.76 | 4,490.19 | 4,232.38 | 4,259.99 |
| Trade and Other Receivables | 9 | 13,897.30 | 10,553.71 | 13,160.92 | 10,055.27 |
| Aircraft Maintenance Reserve | 5 | 2,608.50 | 2,506.16 | 2,608.50 | 2,506.16 |
| Cash and Bank Balances | 10 | 2,027.65 | 1,757.24 | 1,733.32 | 1,455.17 |
| | | <u>23,047.21</u> | <u>19,307.30</u> | <u>21,735.12</u> | <u>18,276.59</u> |
| Total Assets | | <u>69,763.23</u> | <u>41,218.62</u> | <u>66,571.05</u> | <u>38,139.46</u> |
| EQUITY AND LIABILITIES | | | | | |
| Capital and Reserves | | | | | |
| Stated Capital | 11 | 19,432.67 | 5,146.35 | 19,432.67 | 5,146.35 |
| Reserves | 12 | 2,576.72 | 1,840.05 | 1,905.01 | 1,168.34 |
| Accumulated Loss | | (17,855.84) | (683.85) | (22,776.58) | (3,097.87) |
| Total Equity | | <u>4,153.55</u> | <u>6,302.55</u> | <u>(1,438.90)</u> | <u>3,216.82</u> |
| Non-current Liabilities | | | | | |
| Preference Shares | 13 | 1,000.00 | 1,000.00 | - | - |
| Interest Bearing Liabilities | 14 | 3,752.26 | 1,824.63 | 4,788.03 | 2,914.21 |
| Other Deferred Liabilities | 15 | 5,232.48 | 4,211.97 | 4,962.06 | 3,990.46 |
| | | <u>9,984.74</u> | <u>7,036.60</u> | <u>9,750.09</u> | <u>6,904.67</u> |
| Current Liabilities | | | | | |
| Trade and Other Payables | 16 | 46,211.85 | 21,006.09 | 48,667.33 | 21,482.97 |
| Income Tax Payable | | 211.03 | 204.98 | 175.45 | 175.45 |
| Interest Bearing Liabilities | 14 | 9,202.06 | 6,668.40 | 9,417.08 | 6,359.55 |
| | | <u>55,624.94</u> | <u>27,879.47</u> | <u>58,259.86</u> | <u>28,017.97</u> |
| Total Equity and Liabilities | | <u>69,763.23</u> | <u>41,218.62</u> | <u>66,571.05</u> | <u>38,139.46</u> |

These Financial Statements are in compliance with the requirements of the Companies Act No. 7 of 2007.

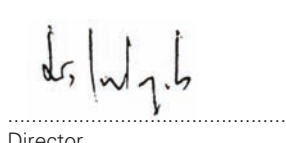


Head of Finance

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 23 through 50 form an integral part of these Financial Statements.

Colombo
17 August 2012

| | Note | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|--------------------------------|------|------------------------|------------------------|--------------------------|--------------------------|
| Revenue | 17 | 92,257.04 | 78,515.24 | 90,544.22 | 77,125.45 |
| Cost of Sales | | <u>(97,946.07)</u> | <u>(71,995.59)</u> | <u>(99,395.48)</u> | <u>(73,187.54)</u> |
| Gross (Loss)/Profit | | (5,689.03) | 6,519.65 | (8,851.26) | 3,937.91 |
| Other Income and Gains | 18 | 1,196.66 | 3,661.84 | 421.70 | 4,489.25 |
| Sales and Marketing Cost | | (7,479.93) | (6,329.48) | (7,479.93) | (6,329.48) |
| Administrative Expenses | | (3,751.00) | (3,244.48) | (2,501.41) | (1,817.32) |
| Finance Cost | 19.1 | (1,642.30) | (831.89) | (1,462.20) | (671.48) |
| Finance Income | 19.2 | <u>204.56</u> | <u>47.62</u> | <u>197.68</u> | <u>13.37</u> |
| Loss Before Tax | 20 | (17,161.04) | (176.74) | (19,675.42) | (377.75) |
| Income Tax Expense | 21 | <u>(10.95)</u> | <u>(25.58)</u> | <u>(3.29)</u> | <u>(3.86)</u> |
| Loss for the Year | | <u>(17,171.99)</u> | <u>(202.32)</u> | <u>(19,678.71)</u> | <u>(381.61)</u> |
| Basic Earnings Per Share (Rs.) | 22 | (333.67) | (3.93) | (382.38) | (7.42) |

The accounting policies and notes on pages 23 through 50 form an integral part of these Financial Statements.

Colombo

17 August 2012

SriLankan Airlines Limited

STATEMENT OF CHANGES IN EQUITY
Year ended 31 March 2012

| GROUP | Note | Stated Capital Rs. M | Capital Reserve Rs. M | Revenue Reserve Rs. M | General Reserve Rs. M | Accumulated Profit/(Loss) Rs. M | Total Rs. M |
|---|------|----------------------------|-----------------------------|-----------------------------|-----------------------------|---------------------------------------|-----------------|
| Balance as at 31 March 2010 | | 5,146.35 | 1,114.27 | 0.63 | 53.44 | 518.47 | 6,833.16 |
| Surplus on Revaluation on Property, Plant & Equipment | 12.1 | - | 671.71 | - | - | - | 671.71 |
| Issue of Preference Shares - 10 year Convertible | 13 | - | - | - | - | (1,000.00) | (1,000.00) |
| Loss for the year | | - | - | - | - | (202.32) | (202.32) |
| Balance as at 31 March 2011 | | 5,146.35 | 1,785.98 | 0.63 | 53.44 | (683.85) | 6,302.55 |
| Advance towards Share Capital | 11 | 14,286.32 | - | - | - | - | 14,286.32 |
| Surplus on Revaluation on Property, Plant & Equipment | 12.1 | - | 736.67 | - | - | - | 736.67 |
| Loss for the year | | - | - | - | - | (17,171.99) | (17,171.99) |
| Balance as at 31 March 2012 | | <u>19,432.67</u> | <u>2,522.65</u> | <u>0.63</u> | <u>53.44</u> | <u>(17,855.84)</u> | <u>4,153.55</u> |

| COMPANY | Note | Stated Capital Rs. M | Capital Reserve Rs. M | Revenue Reserve Rs. M | General Reserve Rs. M | Accumulated Profit/(Loss) Rs. M | Total Rs. M |
|---|------|----------------------------|-----------------------------|-----------------------------|-----------------------------|---------------------------------------|-------------------|
| Balance as at 31 March 2010 | | 5,146.35 | 1,114.27 | 0.63 | 53.44 | (2,716.26) | 3,598.43 |
| Loss for the year | | - | - | - | - | (381.61) | (381.61) |
| Balance as at 31 March 2011 | | 5,146.35 | 1,114.27 | 0.63 | 53.44 | (3,097.87) | 3,216.82 |
| Advance towards Share Capital | 11 | 14,286.32 | - | - | - | - | 14,286.32 |
| Surplus on Revaluation on Property, Plant & Equipment | 12.1 | - | 736.67 | - | - | - | 736.67 |
| Loss for the year | | - | - | - | - | (19,678.71) | (19,678.71) |
| Balance as at 31 March 2012 | | <u>19,432.67</u> | <u>1,850.94</u> | <u>0.63</u> | <u>53.44</u> | <u>(22,776.58)</u> | <u>(1,438.90)</u> |

The accounting policies and notes on pages 23 through 50 form an integral part of these Financial Statements.

Colombo
17 August 2012

CASH FLOW STATEMENT
Year ended 31 March 2012

| | Note | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|--|------|------------------------|------------------------|--------------------------|--------------------------|
| Cash Flows From/(Used in) Operating Activities | | | | | |
| Loss before Income Tax Expense | | (17,161.04) | (176.74) | (19,675.42) | (377.75) |
| Adjustments for | | | | | |
| Depreciation / Amortisation | | 3,689.90 | 4,312.88 | 3,434.06 | 3,968.63 |
| Finance Cost | 19.1 | 1,642.30 | 831.89 | 1,462.20 | 671.48 |
| (Profit) / Loss on disposal of Property, Plant and Equipment | 18 | 8.87 | (2,181.15) | 8.87 | (2,178.19) |
| Finance Income | 19.2 | (204.56) | (47.62) | (197.68) | (13.37) |
| Gain on Sale of Preference Shares | 18 | - | (1,000.00) | - | (1,000.00) |
| Dividend Income | 18 | - | - | (150.00) | (695.34) |
| Reversal of Provision for Bad & Doubtful Debts | | - | (18.81) | - | - |
| Provision for Slow Moving Inventory | 20 | 101.40 | 98.21 | 101.40 | 98.21 |
| Provision for Doubtful Recoveries of Maintenance Reserve-Net of Interest | | 148.69 | 402.24 | 148.69 | 402.24 |
| Effect on Unrealised Exchange (Gain) / Loss | | (1,065.21) | 417.29 | 49.02 | 405.72 |
| Write Back of Sales in Advance | | (3,775.09) | (4,326.37) | (3,775.09) | (4,326.37) |
| Provision for Gratuity | 15.1 | 639.35 | 407.21 | 570.29 | 351.81 |
| Operating Loss before Working Capital Changes | | (15,975.39) | (1,280.97) | (18,023.66) | (2,692.93) |
| Increase in Inventories | | (124.97) | (667.08) | (73.79) | (649.17) |
| Increase in Trade and Other Receivables | | (2,821.62) | (2,300.64) | (2,595.67) | (2,294.11) |
| Increase in Trade and Other Payables | | 27,632.24 | 6,160.86 | 28,830.23 | 6,807.32 |
| Increase in Maintenance Reserves | | (4,326.70) | (4,098.75) | (4,326.70) | (4,098.75) |
| Increase In Aircraft Security Deposits | | (552.97) | (807.89) | (552.97) | (807.89) |
| Cash Generated from/ (used in) Operations | | 3,830.59 | (2,994.47) | 3,257.44 | (3,735.53) |
| Finance Cost Paid | | (1,087.41) | (746.70) | (917.67) | (661.19) |
| Gratuity Paid | 15.1 | (112.22) | (117.75) | (92.08) | (104.02) |
| Income Tax Paid | | (13.60) | (11.65) | - | - |
| Net Cash flows From/ (Used in) Operating Activities | | 2,617.36 | (3,870.57) | 2,247.69 | (4,500.74) |
| Cash Flows From/(Used in) Investing Activities | | | | | |
| Interest Received | | 20.30 | 44.70 | 13.42 | 10.45 |
| Investment in Shares | | (0.87) | (41.44) | (0.87) | (41.44) |
| Proceeds from Sale of Preference Shares | | - | 1,000.00 | - | 1,000.00 |
| Acquisition of Property, Plant and Equipment | | (1,503.93) | (968.39) | (1,428.75) | (894.13) |
| Payments made on Engine Overhauls | | (3,199.40) | (2,171.42) | (3,199.40) | (2,171.42) |
| Acquisition of Intangible Assets | | (1.55) | (6.95) | (1.40) | (5.51) |
| Proceeds from Disposal of Property, Plant and Equipment | | 12.60 | 14,529.97 | 12.60 | 14,526.56 |
| Net Cash from / (used in) Investing Activities | | (4,672.85) | 12,386.47 | (4,604.40) | 12,424.51 |
| Cash Flows From/(Used in) Financing Activities | | | | | |
| Repayment of Interest Bearing Liabilities | 14 | (2,548.83) | (14,947.09) | (2,239.87) | (14,438.80) |
| Proceeds from Interest Bearing Loans and Borrowings | | 5,119.05 | 3,029.21 | 5,119.05 | 3,017.65 |
| Net Cash from/ (used in) Financing Activities | | 2,570.22 | (11,917.88) | 2,879.18 | (11,421.15) |
| Net Increase / (Decrease) in Cash and Cash Equivalents | | 514.73 | (3,401.98) | 522.47 | (3,497.38) |
| Cash and Cash Equivalents at the beginning of the year | 10 | (3,853.12) | (451.15) | (4,155.19) | (657.81) |
| Cash and Cash Equivalents at the end of the year | 10 | (3,338.39) | (3,853.12) | (3,632.72) | (4,155.19) |

The accounting policies and notes on pages 23 through 50 form an integral part of these Financial Statements.

Colombo

17 August 2012

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.

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 SriLankan Catering Limited ("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 2012 were authorised for issue in accordance with a resolution of the Board of Directors on 17 August 2012.

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. 19,678.71 million (2011 - Rs. 381.61 million). Further, the Company has recorded an accumulated loss of Rs. 22,776.58 million (2011 - Rs. 3,097.87 million) and Company's current liabilities exceeded its current assets by Rs. 36,524.74 million (2011 - Rs. 9,741.38 million) and the total equity of the Company as of balance sheet date has declined to a negative net worth of Rs. 1,438.90 million.

Several factors have contributed to the losses recorded by the Company, of which the main external factor is the overall decline in performance, in the recent past, in the global air transport industry. Significant increases in fuel prices, the recession in Europe, and the political unrest in the Middle East, can be cited as the main reasons for such decline. Further, the lack of adequate funding to expand and modernise the fleet to achieve operational efficiencies and to remain competitive was the key internal constraint.

The Government of Sri Lanka's (GOSL's) vision for the future prosperity of the Country marks the development of the tourism industry and the creation of a regional aviation hub in Sri Lanka. SriLankan Airlines as the national carrier is considered a vital partner in national policy and in strategic and economic endeavours. Accordingly the GOSL has shown its commitment to not only the continuity but also the expansion and sustenance of the Airline in achieving its national objectives.

The five year Business Plan which was developed by the Company (validated by International Aviation Consultants) and approved by the GOSL last year is being progressively implemented. The Business Plan identifies the fleet expansion/modernisation programme as a key requirement and accordingly the Company's fleet growth has been in line with this plan.

GOSL has taken several initiatives to support this Business Plan including the infusion of capital approved by the Cabinet in the last financial year amounting to USD 500 million. As part of this five year plan, the initial tranche amounting to Rs. 14,286.32 million was invested by the GOSL in the current financial year. Another initiative was the Cabinet approval for the provision of guarantees which strengthened the Company's overall balance sheet to secure the required funding. Accordingly, the Company was able to secure a financing facility of USD 175 million in May 2012.

Further, the measures taken by the Company in the past to increase revenue, expand the fleet, optimise the route network, frequencies and ensure effective cost control continue to be pursued as ongoing efforts to improve operational efficiencies.

Other significant developments include the Company having gained entry as a member elect of the world renowned "oneworld" airline alliance. This would enable the Company to expand its global presence by being linked to over 800 new destinations worldwide, flying alongside some of the biggest and best brands in the airline business to support the airline's growth strategy.

Based on the five year Business plan initiated and implemented by the Company which includes the above mentioned equity infusion, other funding and operational initiatives, the Directors have assessed and are confident that the Company would be in a position to enhance the profitability and strengthen the net assets of the Company and continue in operation as a going concern for the foreseeable future.

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 Company, using consistent accounting policies, unless stated otherwise.

All 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 financial statements of the Group require the management to make judgments, estimates and assumptions that may 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 are subjective and have significant effect on the amounts recognised in the financial statements.

(a) Judgment

(i) Contingent liabilities - Litigations

As disclosed in Note 24 the Group has several pending litigations with various parties as at the current financial year end. The Board of Directors, after due consultation with the Group'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

The 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 and do not form a part of property, plant and equipment of the Company.

(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. Management reviews the residual values, useful lives and depreciation method at each balance sheet date and ensures consistency with previous estimates and patterns of consumptions of the economic benefits that embodies the items in these assets. Changes in useful lives and residual values of these assets may result in revision of future depreciation charges.

(ii) Amortisation of Major Overhaul Cost 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. The Company capitalises such cost, on completion of such checks and when these assets are 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 remaining 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 once expired after a predetermined period of time. During the current financial year, Management has revised such period to 1 year from the previous estimate of 2 years. Several factors including enhanced system functionalities to extract coupon wise values, 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) Frequent Flyer Programme

Company operates a frequent flyer program 'FlySmiLes' that provides travel awards to members of the programme based on accumulated mileage. A portion of passenger revenue attributable to the award of frequent flyer benefits is deferred until they are utilised. The deferral of the revenue is estimated based on historical trends of redemption, which is then used to project the expected utilisation of these benefits. 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. These estimates are reviewed at each balance sheet date and the liability is adjusted accordingly. Effect of change in the said estimate is disclosed in Note 23 to these financial statements.

(v) Maintenance Reserve

The Company makes monthly payments to lessors on account of several aircraft and engines which are under operating leases based on agreed terms towards maintenance. These monthly payments are based on the number of hours flown. 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. The changes in the fair value are recognised in the statement of equity.

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 income from other sources 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 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 or construction. 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 and impairment. All other property, plant and equipment are stated at historical cost less depreciation and/or accumulated impairment losses, if any.

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.

Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Subsequent costs are included in the asset's carrying amount or recognised 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 rotatable 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.

| | |
|-------------------------|--|
| 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 residual values, useful lives and depreciation method are reviewed at each balance sheet date to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

(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.

2.4.4 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 (up to the amount already paid to the reserve) from lessors against such reserve on completion of the maintenance event. Periodically management evaluates the recoverability of such payments based on best estimates of the amounts recoverable. Provisions are made when recoverability is doubtful.

2.4.5 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 amortisation period and the amortisation method is reviewed at each balance sheet date. 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.

2.4.6 Major Overhaul of Aircraft Engines

Cost of major overhauls to engines and landing gears that provide future economic benefits for more than one period are capitalised net of pre-funds and warranty claims and amortised over the shorter of flying hours estimated until the next major overhaul and the remaining lease period.

2.4.7 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.

2.4.8 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.

2.4.9 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.

2.4.10 Leases

(a) Operating Leases

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

Cost of re-configuration are capitalised and amortised over the shorter of the useful life and the remaining 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 2.4.3.

The corresponding lease obligations are included under liabilities. Lease payments are treated as consisting of capital and interest elements. The interest element is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of liability.

(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.

2.4.11 Investments

(a) Investment in Treasury Bond

Investments in Treasury Bonds are recorded at cost less discount on a yield to maturity basis over the tenure of the Bond. Provision is made for the diminution in value only if they are expected to be permanent.

(b) Investment in Subsidiary

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.

(c) Other long-term investments

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

2.4.12 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.

2.4.13 Provisions

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

2.4.14 Carbon emissions

Under European Union Emission Trading Scheme ("EU ETS") regulations, effective 1 January 2012, airlines with flights originating or landing in the European Union member states must monitor their CO₂ emission, annually report them and are obliged every year to return an amount of emission allowance to the government that is equivalent to their CO₂

emission in that year. The Company is allocated an initial emission allowance free of charge under the scheme and has an obligation to return any excess emission over the free allowance through the purchase of additional allowances (credits). The Company will recognise the liability, once the actual emission exceeds the emission credits received and held. The unutilised credits at the Balance Sheet date amounts to 228,215 CO₂ tonnes.

2.4.15 Retirement Benefit Obligation

(a) Defined Benefit Plan-Gratuity

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:

| | The Company | | The Subsidiary | |
|---|-------------|------|----------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| i) Rate of interest | 11% | 10% | 10% | 12% |
| ii) Rate of Salary Increase | | | | |
| -LKR | 10% | 10% | | |
| -USD | 2% | 2% | | |
| -Executives | | | 10% | 10% |
| -Non Executives | | | 20% | 17% |
| iii) Retirement Age -Years | 60 | 60 | 55 | 55 |
| iv) The entity 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.

(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 Programme

The Company operates a frequent flyer programme called "FlySmiLes" that provides travel awards to programme members based on accumulated mileage. A portion of passenger revenue attributable to the award of frequent flyer benefits, estimated based on expected utilisation of these benefits, is deferred until they are utilised. These are included under deferred revenue on the balance sheet.

During the year, the Company revised its assumptions in relation to expected redemption of miles accrued from 60% to 50%.

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 and expired after one year.
 - (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 Expenditure Recognition

Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the income statement. For the purpose of presentation of the income statement, the "function of expenses" method has been adopted, on the basis that it presents fairly the elements of the Company and Group's performance.

2.4.19 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.

2.4.20 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 are 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 Sri Lanka Accounting Standards effective from 01 January 2012

The Group will be adopting the new Sri Lanka Accounting Standards (new SLAS) comprising LKAS and SLFRS applicable for financial periods commencing from 01 January 2012 as issued by the Institute of Chartered Accountants of Sri Lanka. The Group has commenced reviewing its accounting policies and financial reporting in readiness for the transition. As the Group has a 31 March year end, priority has been given to considering the preparation of an opening balance sheet in accordance with the new SLASs as at 01 April 2011. This will form the basis of accounting for the new SLASs in the future, and is required when the Group prepares its first new SLAS compliant financial statements for the year ending 31 March 2013. Set out below are the key areas where accounting policies will change and may have an impact on the financial statements of the Group. The Group is in the process of quantifying the impact on the financial statements arising from such changes in accounting policies.

- (a) SLFRS 1 – First Time Adoption of Sri Lanka Accounting Standards requires the Group to prepare and present opening new SLFRS financial statements at the date of transition to new SLAS. The Group shall use the same accounting policies in its opening new SLAS financial statements and throughout all comparable periods presented in its first new SLAS financial statements. LKAS 1 – Presentation of Financial Statements requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non owner changes in equity are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. This standard also requires the Group to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.
- (b) LKAS 16 – Property Plant and Equipment requires a company to initially measure an item of property plant and equipment at cost, using the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period, unless such interest is capitalised in accordance with LKAS 23 Borrowing Costs.

All site restoration costs including other environmental restoration and similar costs must be estimated and capitalised at initial recognition, in order that such costs can be depreciated over the useful life of the asset.

This standard requires depreciation of assets over their useful lives, where the residual value of assets is deducted to arrive at the depreciable value. It also requires that significant components of an asset be evaluated separately for depreciation.

- (c) LKAS 32 – Financial Instruments: Presentation, LKAS 39 – Financial Instruments: Recognition and Measurement and SLFRS 7 – Disclosures will result in changes to the current method of recognising financial assets, financial liabilities and equity instruments. These standards will require measurement of financial assets and financial liabilities at fair value at initial measurement.

The subsequent measurement of financial assets classified as fair value through profit and loss and available for sale will be at fair value, with the gains and losses routed through the statements of comprehensive income and other comprehensive income respectively.

Financial assets classified as held to maturity and loans and receivables will be measured subsequently at amortised cost. These assets will need to be assessed for any objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') coupled with a reliable estimate of the loss event (or events) impact on the estimated future cash flows of the financial asset or group of financial assets. As such the current method of assessing for impairment will have to be changed to meet the requirements of these new standards.

Financial liabilities will be either classified as fair value through profit or loss or at amortised cost. At present, the Group does not identify, categorise and measure financial assets and liabilities as per the requirements of the standard and also does not recognise certain derivative instruments on the balance sheet.

- (d) IFRIC 4 Determining whether an arrangement contains a lease deals with arrangements that do not take the legal form of leases but nevertheless convey the right to use a specific asset, such as an item of property, plant or equipment for an agreed period of time.

The evaluation of whether an arrangement conveys the right to use the asset should be based on the substance of the arrangement. A significant element of this evaluation is based on an analysis of future cash flows (economic benefits) that the arrangement will generate.

The Institute of Chartered Accountants of Sri Lanka has resolved an amendment to Sri Lanka Accounting Standard 10, whereby the provision contained in paragraphs 30 and 31 of SLAS 10 – Accounting Policies, Changes in Accounting Estimates and Errors, would not be applicable for financial statements prepared in respect of financial periods commencing before 1 January 2012 and hence the impact of this transition is not required to be disclosed in these financial statements.

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

| | Land and Buildings | Plant & Equipment | Improvements to Aircraft / Engines on Operating Leases | Aircraft Related Equipment | Leasehold Plant & Equipment | Capital Work-in- Progress | Total |
|---|-----------------------|----------------------|--|----------------------------------|-----------------------------------|---------------------------------|------------------|
| | Rs. M | Rs. M | Rs. M | Rs. M | Rs. M | Rs. M | Rs. M |
| Cost/Revaluation | | | | | | | |
| Balance as at 01 April 2011 | 2,936.32 | 4,748.07 | 560.96 | 5,469.99 | - | 197.80 | 13,913.14 |
| Acquisitions/Modifications/Revaluation | 552.11 | 271.89 | 415.25 | 388.61 | 1,208.03 | 882.04 | 3,717.93 |
| Transfers/Adjustments | 0.05 | (33.61) | - | - | - | (553.56) | (587.12) |
| Disposals/Retirements | (82.97) | (91.40) | - | (22.56) | - | - | (196.93) |
| Balance as at 31 March 2012 | 3,405.51 | 4,894.95 | 976.21 | 5,836.04 | 1,208.03 | 526.28 | 16,847.02 |
| Accumulated Depreciation | | | | | | | |
| Balance as at 01 April 2011 | 662.11 | 3,613.77 | 516.44 | 4,473.13 | - | - | 9,265.45 |
| Charge for the Year | 142.38 | 340.28 | 46.00 | 240.97 | 41.99 | - | 811.62 |
| Transfers/Adjustments | (264.63) | (27.46) | - | (0.93) | - | - | (293.02) |
| Disposals/Retirements | (79.50) | (91.40) | - | (4.56) | - | - | (175.46) |
| Balance as at 31 March 2012 | 460.36 | 3,835.19 | 562.44 | 4,708.61 | 41.99 | - | 9,608.59 |
| Net Book Value as at 31 March 2012 | 2,945.15 | 1,059.76 | 413.77 | 1,127.43 | 1,166.04 | 526.28 | 7,238.43 |
| Net Book Value as at 31 March 2011 | 2,274.21 | 1,134.30 | 44.52 | 996.86 | - | 197.80 | 4,647.69 |

3.2 (a) The fair value of the Company's Land and Buildings was determined by means of a revaluation during the financial year by Mr. Ranjan J. Samarakone an independent valuer based on depreciated replacement cost. The results of such revaluation were incorporated in these Financial Statements effective from February 2012. The surplus arising from the revaluation was transferred to a revaluation reserve.

The fair value of the Subsidiary's Property, Plant and Equipment was determined by means of a revaluation during the year ended 31 March 2011 by Mr. P.B. Kalugalagedara an independent valuer. Land and Buildings were valued on Net Income basis and remaining Plant and Equipment were valued on depreciated replacement cost basis. The results of such revaluation were incorporated in these Financial Statements from its effective date which is December 2010. The surplus arising from the revaluation was transferred to a revaluation reserve.

(b) During the year, the Group acquired Property, Plant and Equipment to the aggregate value of Rs. 2,692.37 million (2011 - Rs. 908.53 million). Cash payments amounting to Rs. 1,503.93 million (2011 - Rs. 968.39 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. 8,479.37 million (2011- Rs. 8,310.91 million).

3 PROPERTY, PLANT AND EQUIPMENT (CONTD.)**3.3 COMPANY**

| | Land and Buildings | Plant & Equipment | Improvements to Aircraft / Engines on Operating Leases | Aircraft Related Equipment | Leasehold Plant & Equipment | Capital Work-in- Progress | Total |
|---|-----------------------|----------------------|--|----------------------------------|-----------------------------------|---------------------------------|------------------|
| | Rs. M | Rs. M | Rs. M | Rs. M | Rs. M | Rs. M | Rs. M |
| Cost/Revaluation | | | | | | | |
| Balance as at 01 April 2011 | 1,688.12 | 3,852.20 | 560.96 | 5,469.99 | - | 197.80 | 11,769.07 |
| Acquisitions/Modifications/Revaluation | 552.11 | 184.57 | 415.25 | 388.61 | 1,208.03 | 882.04 | 3,630.61 |
| Transfers/Adjustments | 0.05 | (33.61) | - | - | - | (553.56) | (587.12) |
| Disposals/Retirements | (82.97) | (91.40) | - | (22.56) | - | - | (196.93) |
| Balance as at 31 March 2012 | 2,157.31 | 3,911.76 | 976.21 | 5,836.04 | 1,208.03 | 526.28 | 14,615.63 |
| Accumulated Depreciation | | | | | | | |
| Balance as at 01 April 2011 | 655.56 | 3,565.12 | 516.44 | 4,473.13 | - | - | 9,210.25 |
| Charge for the Year | 79.97 | 148.28 | 46.00 | 240.97 | 41.99 | - | 557.21 |
| Transfers/Adjustments | (264.62) | (27.46) | - | (0.93) | - | - | (293.01) |
| Disposals/Retirements | (79.50) | (91.40) | - | (4.56) | - | - | (175.46) |
| Balance as at 31 March 2012 | 391.41 | 3,594.54 | 562.44 | 4,708.61 | 41.99 | - | 9,298.99 |
| Net Book Value as at 31 March 2012 | 1,765.90 | 317.22 | 413.77 | 1,127.43 | 1,166.04 | 526.28 | 5,316.64 |
| Net Book Value as at 31 March 2011 | 1,032.56 | 287.08 | 44.52 | 996.86 | - | 197.80 | 2,558.82 |

3.4 (a) The fair value of the Company's Land and Buildings was determined by means of a revaluation during the financial year by Mr Ranjan J. Samarakone an independent valuer based on the depreciated replacement cost. The results of such revaluation were incorporated in these Financial Statements effective from February 2012. The surplus arising from the revaluation, was transferred to a revaluation reserve. The carrying amount of revalued assets that would have been included in the financial statements had the assets been carried at cost less depreciation is as follows:

| Class of Asset | Cost | Cumulative Depreciation if assets were carried at cost | Net Carrying Amount 2012 | Net Carrying Amount 2011 |
|--------------------|----------|---|--------------------------------|--------------------------------|
| | Rs. M | Rs. M | Rs. M | Rs. M |
| Land and Buildings | 1,176.97 | 278.15 | 898.82 | 870.58 |

(b) During the year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs. 2,605.05 million. (2011 - Rs. 833.99 million). Cash payments amounting to Rs. 1,428.75 million (2011 - Rs. 894.13 million) were made during the year to acquire property, plant and equipment.

(c) Property, Plant and Equipment of the Company includes fully depreciated assets having a gross carrying amount of Rs. 8,451.82 million (2011 - Rs. 8,308.68 million).

4. MAJOR OVERHAULS AND UPGRADE OF AIRCRAFT ENGINES

GROUP / COMPANY

| | 2012 Rs. M | 2011 Rs. M |
|--------------------------------------|------------------|------------------|
| Cost | | |
| Balance as at 01 April | 11,738.70 | 9,415.87 |
| Incurred during the year (Net) | 3,425.85 | 2,593.13 |
| Derecognised during the year | (1,078.64) | (270.30) |
| Balance as at 31 March | <u>14,085.91</u> | <u>11,738.70</u> |
| Accumulated Amortisation | | |
| Balance as at 01 April | 5,658.34 | 3,459.79 |
| Amortisation for the Year | 2,821.33 | 2,468.85 |
| Derecognised during the year | (1,078.64) | (270.30) |
| Balance as at 31 March | <u>7,401.03</u> | <u>5,658.34</u> |
| Net Book Value as at 31 March | <u>6,684.88</u> | <u>6,080.36</u> |

5 AIRCRAFT MAINTENANCE RESERVE

GROUP / COMPANY

| | 2012 | | | 2011 | | |
|---|--|---|------------------------------|--|---|----------------|
| | 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) | 2,608.50 | 15,372.86 | 17,981.36 | 2,506.16 | 8,849.84 | 11,356.00 |
| | Balance as at 01 April 2011 Rs. M | Payments Rs. M | Interest Accrued Rs. M | Recoveries Rs. M | Balance as at 31 March 2012 Rs. M | |
| 5.1 Aircraft Maintenance Reserve | 11,356.00 | 6,483.41 | 59.79 | (2,156.71) | 15,742.49 | |
| Less: Provision for Doubtful Recoveries | | | | | (208.48) | |
| Unrealised Exchange Gain | | | | | 2,447.35 | |
| Net Recoverable | | | | | <u>17,981.36</u> | |

6 INTANGIBLE ASSET

Computer Software

| | Group Rs. M | Company Rs. M |
|---|----------------|------------------|
| Cost | | |
| Balance as at 01 April 2011 | 681.87 | 654.03 |
| Acquisitions/Modifications | 1.55 | 1.40 |
| Transfers/Adjustments | 17.75 | 17.75 |
| Balance as at 31 March 2012 | <u>701.17</u> | <u>673.18</u> |
| Accumulated Amortisation | | |
| Balance as at 01 April 2011 | 570.18 | 543.96 |
| Charge for the Year | 56.95 | 55.52 |
| Transfers/Adjustments | 17.93 | 17.93 |
| Balance as at 31 March 2012 | <u>645.06</u> | <u>617.41</u> |
| Net Book Value as at 31 March 2012 | <u>56.11</u> | <u>55.77</u> |
| Net Book Value as at 31 March 2011 | <u>111.69</u> | <u>110.07</u> |

Intangible Assets of the Company includes fully amortised assets having a gross carrying amount of Rs. 419.44 million (2011- Rs. 401.22 million).

7 INVESTMENTS**7.1 GROUP**

| | | | 2012 Cost Rs. M | 2011 Cost Rs. M |
|---|-------------------------------------|-------------------------------|-----------------------|-----------------------|
| Non-Current | | | | |
| Investment in Treasury Bonds (Note 7.3) | | | 14,165.94 | - |
| | Country of Incorporation | 2012 Holding % | | |
| Investments in Equity Securities | | | | |
| - SITA INC Foundation (Note 7.4) | Netherlands | | 65.83 | 64.96 |
| - Air Lanka (Private) Limited (40,000 Shares) | Sri Lanka | 100% | 0.40 | 0.40 |
| | | | <u>66.23</u> | <u>65.36</u> |
| | | | <u>14,232.17</u> | <u>65.36</u> |

7.2 COMPANY

| | | | 2012 Cost Rs. M | 2011 Cost Rs. M |
|--|-------------------------------------|-------------------------------|-----------------------|-----------------------|
| Non-Current | | | | |
| Investment in Treasury Bonds (Note 7.3) | | | 14,165.94 | - |
| | Country of Incorporation | 2012 Holding % | | |
| Investments in Equity Securities | | | | |
| - SriLankan Catering Limited (Directors' Valuation based on Net Asset Value Rs. 4.63 bn (2011 - Rs. 2.18 bn)) | Sri Lanka | 100% | 42.24 | 42.24 |
| - SITA INC Foundation (Note 7.4) | Netherlands | | 65.83 | 64.96 |
| - Air Lanka (Private) Limited (20,000 Shares) | Sri Lanka | 50% | 0.20 | 0.20 |
| | | | <u>108.27</u> | <u>107.40</u> |
| | | | <u>14,274.21</u> | <u>107.40</u> |

7.3 During the year, the Government of Sri Lanka invested in the Company in the form of a Treasury Bond with a face value of Rs. 15.4 billion. The Bond with a coupon interest of 8% p.a. will mature on 1 January 2017. The Board of Directors, subject to shareholder approval has authorised the issue of Ordinary Shares by way of a Rights Issue. The shareholders' approval for the issue of these shares will be sought at an Extraordinary General Meeting in the ensuing financial year.

| | Rs. M |
|----------------------------|-------------------|
| Face Value | 15,423.08 |
| Less: Unamortised Discount | <u>(1,257.14)</u> |
| Investment Value | <u>14,165.94</u> |

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

8 INVENTORIES

| | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|--|------------------------|------------------------|--------------------------|--------------------------|
| Consumables and Spares | 4,853.46 | 5,135.18 | 4,757.39 | 5,059.83 |
| Raw Materials | 189.79 | 159.33 | - | - |
| Duty Free Merchandise | 54.79 | 68.02 | 54.79 | 68.02 |
| Less: Provision for Slow moving stock (Note 8.1) | <u>(584.28)</u> | <u>(872.34)</u> | <u>(579.80)</u> | <u>(867.86)</u> |
| | <u>4,513.76</u> | <u>4,490.19</u> | <u>4,232.38</u> | <u>4,259.99</u> |

8.1 Provision for Slow moving stock

| | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|--------------------------------|------------------------|------------------------|--------------------------|--------------------------|
| Balance as at 01 April | (872.34) | (777.43) | (867.86) | (772.95) |
| Provision made during the year | (156.65) | (207.16) | (156.65) | (207.16) |
| Write off during the year | 389.46 | 3.30 | 389.46 | 3.30 |
| Reversals during the year | 55.25 | 108.95 | 55.25 | 108.95 |
| Balance as at 31 March | <u>(584.28)</u> | <u>(872.34)</u> | <u>(579.80)</u> | <u>(867.86)</u> |

9 TRADE AND OTHER RECEIVABLES

| | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|---|-------------------------|-------------------------|--------------------------|--------------------------|
| Trade Receivables | 11,208.17 | 8,500.45 | 10,676.17 | 8,248.65 |
| Less: Provision for doubtful debts | (334.11) | (334.11) | (309.44) | (309.44) |
| | <u>10,874.06</u> | <u>8,166.34</u> | <u>10,366.73</u> | <u>7,939.21</u> |
| Other Debtors | 1,487.36 | 1,143.65 | 1,355.79 | 980.39 |
| Deposits, Advances and Prepayments | 1,472.51 | 1,196.52 | 1,387.66 | 1,093.95 |
| | <u>13,833.93</u> | <u>10,506.51</u> | <u>13,110.18</u> | <u>10,013.55</u> |
| Loans and Advances to Company Officers (Note 9.1) | 63.37 | 47.20 | 50.74 | 41.72 |
| | <u><u>13,897.30</u></u> | <u><u>10,553.71</u></u> | <u><u>13,160.92</u></u> | <u><u>10,055.27</u></u> |

9.1 Loans to Company Officers:

| | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|--|------------------------|------------------------|--------------------------|--------------------------|
| Given below are particulars of loans granted to Company officers in excess of Rs. 20,000 only; | | | | |
| Balance as at 01 April | 18.31 | 12.90 | 2.61 | 2.52 |
| Loans granted during the year | 12.71 | 9.52 | 2.69 | 2.74 |
| Repayments | (9.37) | (4.11) | (3.04) | (2.65) |
| | <u>21.65</u> | <u>18.31</u> | <u>2.26</u> | <u>2.61</u> |
| Balance as at 31 March | | | | |

10 CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

Components of Cash and Cash Equivalents

| | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| 10.1 Favourable Cash and Cash Equivalent Balances | | | | |
| Cash and Bank Balances | 1,749.57 | 1,660.96 | 1,455.24 | 1,358.89 |
| Short Term Deposits | 278.08 | 96.28 | 278.08 | 96.28 |
| | <u>2,027.65</u> | <u>1,757.24</u> | <u>1,733.32</u> | <u>1,455.17</u> |
| 10.2 Unfavourable Cash and Cash Equivalent Balances | | | | |
| Bank Overdrafts (Note 14) | (5,366.04) | (5,610.36) | (5,366.04) | (5,610.36) |
| Total Cash and Cash Equivalents for the purpose of Cash Flow Statement | <u><u>(3,338.39)</u></u> | <u><u>(3,853.12)</u></u> | <u><u>(3,632.72)</u></u> | <u><u>(4,155.19)</u></u> |

11 STATED CAPITAL

GROUP / COMPANY

| | 2012 Rs. M | 2011 Rs. M |
|--|-------------------------|------------------------|
| 51,463,463 Ordinary Shares-Issued and Fully Paid | 5,146.35 | 5,146.35 |
| Advance towards Share Capital (Note 7.3) | 14,286.32 | - |
| | <u><u>19,432.67</u></u> | <u><u>5,146.35</u></u> |

12 RESERVES

| | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|------------------------------|------------------------|------------------------|--------------------------|--------------------------|
| Capital Reserves (Note 12.1) | 2,522.65 | 1,785.98 | 1,850.94 | 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 |
| | 2,576.72 | 1,840.05 | 1,905.01 | 1,168.34 |

12.1 Capital Reserves

| (a) Movement in Capital Reserve | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|---|------------------------|------------------------|--------------------------|--------------------------|
| Balance as at 01 April | 1,785.98 | 1,114.27 | 1,114.27 | 1,114.27 |
| Surplus on revaluation of Property, Plant and Equipment | 736.67 | 671.71 | 736.67 | - |
| Balance as at 31 March | 2,522.65 | 1,785.98 | 1,850.94 | 1,114.27 |

(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

The Group Balance Sheet reflects 10 million 15% Non-Voting Redeemable Cumulative Convertible (10 year) Preference Shares. The investment is held by a Government controlled entity.

14 INTEREST BEARING LIABILITIES

| Current Liabilities | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|--------------------------------|------------------------|------------------------|--------------------------|--------------------------|
| Long-term Loans (Note 14.1) | 534.18 | 870.19 | 752.42 | 561.34 |
| Finance Leases (Note 14.2) | 83.14 | - | 79.92 | - |
| Short Term Loan | 3,218.70 | 187.85 | 3,218.70 | 187.85 |
| Bank Overdraft | 5,366.04 | 5,610.36 | 5,366.04 | 5,610.36 |
| | 9,202.06 | 6,668.40 | 9,417.08 | 6,359.55 |
| Non-current Liabilities | | | | |
| Long-term Loans (Note 14.1) | 2,754.36 | 1,824.63 | 3,798.25 | 2,914.21 |
| Finance Leases (Note 14.2) | 997.90 | - | 989.78 | - |
| | 3,752.26 | 1,824.63 | 4,788.03 | 2,914.21 |

SriLankan Airlines Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

| 14.1 Long-term Loans Group | 2012 | 2011 | 2012 | 2011 |
|--|-----------------|-----------------|-----------------|-----------------|
| | Rs. M | Rs. M | USD M | USD M |
| Payable within one year included under Current Liabilities | 534.18 | 870.19 | 4.17 | 7.88 |
| After one year but not more than five years | 2,754.36 | 1,824.63 | 21.52 | 16.51 |
| | 3,288.54 | 2,694.82 | 25.69 | 24.39 |
| Company | Rs. M | Rs. M | USD M | USD M |
| Payable within one year included under Current Liabilities | 752.42 | 561.34 | 5.88 | 5.08 |
| After one year but not more than five years | 3,798.25 | 2,914.21 | 29.67 | 26.37 |
| | 4,550.67 | 3,475.55 | 35.55 | 31.45 |
| Movement in Long-term Loans | Group | Group | Company | Company |
| | 2012 | 2011 | 2012 | 2011 |
| | Rs. M | Rs. M | Rs. M | Rs. M |
| Balance as at 01 April | 2,694.82 | 1,218.52 | 3,475.55 | 4.41 |
| Additions/transfers during the year | 1,032.39 | 1,989.00 | 1,032.39 | 3,475.55 |
| Payments during the year | (879.88) | (512.70) | (571.72) | (4.41) |
| Unrealised Exchange Loss | 441.21 | - | 614.45 | - |
| Balance as at 31 March | 3,288.54 | 2,694.82 | 4,550.67 | 3,475.55 |

14.2 Finance Leases

| Group | 2012 | 2011 | 2012 | 2011 |
|--|-----------------|--------------|--------------|--------------|
| | Rs. M | Rs. M | USD M | USD M |
| Payable within one year included under Current Liabilities | 83.14 | - | 0.65 | - |
| After one year but not more than five years included under Non-current liabilities | 386.66 | - | 3.02 | - |
| More than 5 Years included under Non-Current Liabilities | 611.24 | - | 4.78 | - |
| | 1,081.04 | - | 8.45 | - |
| Company | 2012 | 2011 | 2012 | 2011 |
| | Rs. M | Rs. M | USD M | USD M |
| Payable within one year included under Current Liabilities | 79.92 | - | 0.62 | - |
| After one year but not more than five years included under Non-current liabilities | 378.54 | - | 2.96 | - |
| More than 5 Years included under Non-Current Liabilities | 611.24 | - | 4.78 | - |
| | 1,069.70 | - | 8.36 | - |

14 INTEREST BEARING LIABILITIES (CONTD.)**Movement in Finance Lease Liabilities**

| Group | Gross Payable | Finance Charges for future periods | Net Payable 2012 | Net Payable 2011 |
|-------------------------------|-----------------|------------------------------------|------------------|------------------|
| | Rs. M | Rs. M | Rs. M | Rs. M |
| Balance as at 01 April | - | - | - | 10,823.97 |
| Additions during the year | 1,639.78 | (441.49) | 1,198.29 | - |
| Payments during the year | (260.55) | 32.29 | (228.26) | (10,823.97) |
| Unrealised Exchange Loss | 155.93 | (44.92) | 111.01 | - |
| Balance as at 31 March | 1,535.16 | (454.12) | 1,081.04 | - |
| Company | | | | |
| Balance as at 01 April | - | - | - | 10,823.97 |
| Additions during the year | 1,627.63 | (441.49) | 1,186.14 | - |
| Payments during the year | (259.74) | 32.29 | (227.45) | (10,823.97) |
| Unrealised Exchange Loss | 155.93 | (44.92) | 111.01 | - |
| Balance as at 31 March | 1,523.82 | (454.12) | 1,069.70 | - |

15 Other Deferred Liabilities

| | Group 2012 | Group 2011 | Company 2012 | Company 2011 |
|---|-----------------|-----------------|-----------------|-----------------|
| | Rs. M | Rs. M | Rs. M | Rs. M |
| Retirement Benefit Obligation (Note 15.1) | 2,961.30 | 2,434.17 | 2,693.79 | 2,215.57 |
| Deferred Engine Upgrade Cost (Note 15.2) | 2,268.27 | 1,774.89 | 2,268.27 | 1,774.89 |
| Deferred Tax Liability | 2.91 | 2.91 | - | - |
| | 5,232.48 | 4,211.97 | 4,962.06 | 3,990.46 |

15.1 Retirement Benefit Obligation - Gratuity

| | Group 2012 | Group 2011 | Company 2012 | Company 2011 |
|---|-----------------|-----------------|-----------------|-----------------|
| | Rs. M | Rs. M | Rs. M | Rs. M |
| Balance as at 01 April | 2,434.17 | 2,144.70 | 2,215.57 | 1,967.77 |
| Current year service cost and interest cost | 451.20 | 369.39 | 382.15 | 313.99 |
| Actuarial Gain | 188.15 | 37.83 | 188.15 | 37.83 |
| Payments during the year | (112.22) | (117.75) | (92.08) | (104.02) |
| Balance as at 31 March | 2,961.30 | 2,434.17 | 2,693.79 | 2,215.57 |

15.2 Deferred Engine Upgrade cost is recognised in line with Accounting Policy No. 2.4.10 (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

| | Group 2012 | Group 2011 | Company 2012 | Company 2011 |
|------------------------------|------------------|------------------|------------------|------------------|
| | Rs. M | Rs. M | Rs. M | Rs. M |
| Trade & Other Payables | 31,334.06 | 8,013.68 | 33,864.54 | 8,565.46 |
| Sales in Advance of Carriage | 14,802.79 | 12,917.51 | 14,802.79 | 12,917.51 |
| Dividend Payable | 75.00 | 74.90 | - | - |
| | 46,211.85 | 21,006.09 | 48,667.33 | 21,482.97 |

17 REVENUE AND SEGMENT INFORMATION

| | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|---------------------------------|-------------------------|-------------------------|--------------------------|--------------------------|
| 17.1 Revenue | | | | |
| Scheduled services - Passenger | 72,620.39 | 60,518.40 | 72,620.39 | 60,518.40 |
| - Cargo | 10,605.58 | 9,791.34 | 10,614.97 | 9,810.68 |
| - Excess Baggage | 407.85 | 695.26 | 407.85 | 695.26 |
| - Mail | 102.96 | 159.08 | 102.96 | 159.08 |
| | <u>83,736.78</u> | <u>71,164.08</u> | <u>83,746.17</u> | <u>71,183.42</u> |
| Air Terminal and Other Services | 5,842.85 | 5,093.34 | 5,860.88 | 5,105.71 |
| Duty Free | 721.11 | 635.80 | 721.11 | 635.80 |
| Non-Scheduled Services | 216.06 | 200.52 | 216.06 | 200.52 |
| Flight Catering | <u>1,740.24</u> | <u>1,421.50</u> | - | - |
| Total | <u>92,257.04</u> | <u>78,515.24</u> | <u>90,544.22</u> | <u>77,125.45</u> |

17.2 Segment Information - Group**(a) Primary Reporting by Geographical Segment - Revenue by Origin of Sale**

| Revenue | Asia Rs. M | Europe & Africa Rs. M | Middle East Rs. M | North &South America Rs. M | South West Pacific Rs. M | Total 2012 Rs. M |
|---------------------------------|-------------------------|-----------------------------|-------------------------|----------------------------------|--------------------------------|-------------------------|
| Scheduled services - Passenger | 40,171.74 | 18,036.53 | 11,557.75 | 2,147.22 | 707.15 | 72,620.39 |
| - Cargo | 8,406.78 | 1,431.74 | 712.53 | 38.17 | 16.36 | 10,605.58 |
| - Excess Baggage | 177.22 | 25.41 | 202.55 | 2.34 | 0.33 | 407.85 |
| - Mail | 77.59 | 25.28 | 0.07 | 0.02 | - | 102.96 |
| | <u>48,833.33</u> | <u>19,518.96</u> | <u>12,472.90</u> | <u>2,187.75</u> | <u>723.84</u> | <u>83,736.78</u> |
| Air Terminal and Other Services | 5,842.85 | - | - | - | - | 5,842.85 |
| Duty Free | 232.49 | 196.35 | 152.59 | - | 139.68 | 721.11 |
| Non-Scheduled Services | 216.06 | - | - | - | - | 216.06 |
| Flight Catering | <u>1,740.24</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,740.24</u> |
| Segment Revenue | <u>56,864.97</u> | <u>19,715.31</u> | <u>12,625.49</u> | <u>2,187.75</u> | <u>863.52</u> | <u>92,257.04</u> |

| Revenue | Asia Rs. M | Europe & Africa Rs. M | Middle East Rs. M | North &South America Rs. M | South West Pacific Rs. M | 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 | <u>1,421.50</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,421.50</u> |
| Segment Revenue | <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> |

17 REVENUE AND SEGMENT INFORMATION (CONTD.)

| (b) Secondary Reporting by Business Segment | Business Segment | | | Business Segment | | |
|--|------------------|--------------------|---------------|------------------|--------------------|---------------|
| | Airline | Flight Catering | Group | Airline | Flight Catering | Group |
| | 2012 Rs. M | 2012 Rs. M | 2012 Rs. M | 2011 Rs. M | 2011 Rs. M | 2011 Rs. M |
| Revenue | | | | | | |
| Sales to external customers | 90,516.80 | 1,740.24 | 92,257.04 | 77,093.74 | 1,421.50 | 78,515.24 |
| Inter-segment Sales | 27.42 | 2,366.00 | | 31.71 | 1,987.75 | |
| Total Revenue | 90,544.22 | 4,106.24 | | 77,125.45 | 3,409.25 | |
| Results | | | | | | |
| Profit / (Loss) After Tax | (19,678.71) | 2,506.72 | (17,171.99) | (381.61) | 779.29 | (202.32) |
| Other Segment Information | | | | | | |
| Assets | 66,571.05 | 7,598.49 | 69,763.23 | 38,139.46 | 5,490.86 | 41,218.62 |
| Liabilities | 68,009.95 | 2,963.90 | 65,609.68 | 34,922.64 | 3,362.99 | 34,916.07 |
| Acquisition of Property, Plant and Equipment | 2,605.05 | 87.32 | 2,692.37 | 833.89 | 74.54 | 908.43 |
| Cost incurred on Major Overhauls | 3,425.85 | - | 3,425.85 | 2,593.13 | - | 2,593.13 |
| Acquisition of Intangible Assets | 1.40 | 0.15 | 1.55 | 5.51 | 1.44 | 6.95 |
| Depreciation and Amortisation | 3,434.06 | 255.84 | 3,689.90 | 3,968.63 | 344.24 | 4,312.87 |
| Operating Expenses | 105,942.76 | 2,337.97 | 105,487.10 | 77,365.71 | 1,816.35 | 77,256.68 |

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

18 OTHER INCOME AND GAINS/(LOSSES)

| | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|--|------------------------|------------------------|--------------------------|--------------------------|
| (Loss)/Profit on Disposal of Property, Plant and Equipment | (8.87) | 2,181.15 | (8.87) | 2,178.19 |
| Exchange Gain | 916.88 | - | - | 141.26 |
| Miscellaneous (Note 18.1) | 288.65 | 480.69 | 280.57 | 474.46 |
| Dividend | - | - | 150.00 | 695.34 |
| Income from Sale of Preference Shares | - | 1,000.00 | - | 1,000.00 |
| | 1,196.66 | 3,661.84 | 421.70 | 4,489.25 |

18.1 Miscellaneous Income includes receipts from insurance claims and interest received on Aircraft Security Deposits and Maintenance Reserves.

19.1 FINANCE COST

| | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|--|------------------------|------------------------|--------------------------|--------------------------|
| Interest Cost on Borrowings, Bank Overdrafts and Overdue Supplier balances | 1,295.91 | 299.08 | 1,265.81 | 257.42 |
| Finance Charges on Deferred Engine Upgrade | 164.10 | 148.12 | 164.10 | 148.12 |
| Finance Charges on Lease Liabilities | 32.29 | 265.94 | 32.29 | 265.94 |
| Preference Share Dividend | 150.00 | 118.75 | - | - |
| | 1,642.30 | 831.89 | 1,462.20 | 671.48 |

19.2 FINANCE INCOME

| | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|----------------------------|------------------------|------------------------|--------------------------|--------------------------|
| Interest Income | 20.30 | 47.62 | 13.42 | 13.37 |
| Interest on Treasury Bonds | 184.26 | - | 184.26 | - |
| | 204.56 | 47.62 | 197.68 | 13.37 |

| 20 LOSS FROM OPERATING ACTIVITIES stated after charging/(crediting): | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|--|------------------------|------------------------|--------------------------|--------------------------|
| Included in Cost of Sales: | | | | |
| Staff Costs | 9,235.21 | 7,413.78 | 9,235.21 | 7,413.78 |
| Defined Benefit Plan Costs - Gratuity | 468.46 | 277.22 | 468.46 | 277.22 |
| Defined Contribution Plan Costs - EPF & ETF | 896.12 | 709.21 | 896.12 | 709.21 |
| Operating Lease Rentals | 10,207.72 | 7,898.76 | 10,207.72 | 7,898.76 |
| Depreciation / Amortisation | 3,287.48 | 3,821.52 | 3,286.06 | 3,819.65 |
| Provision for Slow Moving Inventory (Net) | 101.40 | 98.21 | 101.40 | 98.21 |
| Franchise Fees | 187.46 | 186.93 | 187.46 | 157.75 |
| Included in Administrative Expenses: | | | | |
| Staff Costs | 1,659.71 | 1,205.21 | 1,109.80 | 759.34 |
| Defined Benefit Plan Costs - Gratuity | 142.78 | 119.23 | 73.73 | 63.83 |
| Defined Contribution Plan Costs - EPF & ETF | 176.96 | 142.68 | 130.68 | 103.76 |
| Provision for/(Reversal) of Doubtful Debts | 0.07 | (18.72) | 0.07 | - |
| Depreciation / Amortisation | 384.29 | 477.47 | 129.88 | 135.10 |
| Loss on Exchange | - | 94.08 | 386.23 | - |
| Auditors' Remuneration | 6.09 | 5.77 | 4.89 | 4.61 |
| Included in Sales & Marketing Costs: | | | | |
| Advertising Costs | 429.53 | 296.83 | 429.53 | 296.83 |
| Staff Costs | 1,207.61 | 1,100.09 | 1,207.61 | 1,100.09 |
| Defined Benefit Plan Costs - Gratuity | 28.11 | 10.77 | 28.11 | 10.77 |
| Defined Contribution Plan Costs - EPF & ETF | 94.74 | 78.43 | 94.74 | 78.43 |
| Depreciation / Amortisation | 18.12 | 13.89 | 18.12 | 13.89 |
| Marketing Fees Charge FlySmiLes | 4.03 | 274.96 | 4.03 | 274.96 |

| 21 TAXATION | Group 2012 Rs. M | Group 2011 Rs. M | Company 2012 Rs. M | Company 2011 Rs. M |
|---|------------------------|------------------------|--------------------------|--------------------------|
| Tax Expense | | | | |
| The major components of income tax expense are as follows: | | | | |
| Current income tax | | | | |
| Current Tax Expense on Ordinary Activities for the Year (Note 21.1) | 10.65 | 36.66 | - | 18.14 |
| Under/(Over) Provision of current taxes in respect of prior years | 0.30 | (11.08) | 3.29 | (14.28) |
| | 10.95 | 25.58 | 3.29 | 3.86 |

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

| | | | | |
|--|--------------|--------------|-------------|--------------|
| Accounting Loss before Tax | (17,161.04) | (176.74) | (19,675.42) | (377.75) |
| Income not subject to Tax | 17,199.08 | 322.92 | 19,675.42 | 456.30 |
| Statutory Income applicable under Tax Rate of 28% (2011-35%) | 38.04 | 146.18 | - | 78.55 |
| Utilisation of brought forward tax loss | - | (48.48) | - | (27.49) |
| Taxable Profit | 38.04 | 97.70 | - | 51.06 |
| Statutory Tax Charge at Normal Tax Rate | 10.65 | 36.12 | - | 17.87 |
| Social Responsibility Levy @ 1.5% | - | 0.54 | - | 0.27 |
| Current Income Tax Expense | 10.65 | 36.66 | - | 18.14 |

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.

| | Group 2012 | Group 2011 | Company 2012 | Company 2011 |
|---|-----------------|---------------|-----------------|-----------------|
| Loss attributable to Ordinary Shareholders for Basic Earnings Per Share (Rs. Million) | (17,171.99) | (202.32) | (19,678.71) | (381.61) |
| Weighted average number of Ordinary Shares in issue | 51,463,463 | 51,463,463 | 51,463,463 | 51,463,463 |
| Basic Earnings Per Share (Rs.) | <u>(333.67)</u> | <u>(3.93)</u> | <u>(382.38)</u> | <u>(7.42)</u> |

23 EFFECTS 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 expired passenger tickets and airway bills and the deferred revenue liability in respect of accrued miles respectively. The effects of changes in the accounting estimates are outlined below.

| | Effect for Year ended 31 March 2012 Rs. M |
|--|--|
| Income Statement | |
| Increase in Revenue | |
| - write back of sales in advance of carriage | 2,936.30 |
| - frequent flyer program | <u>192.59</u> |
| Decrease in Loss | <u>3,128.89</u> |
| Balance Sheet | |
| Decrease in | |
| - sales in advance of carriage | 2,936.30 |
| - deferred revenue liability | <u>192.59</u> |
| Decrease in Current Liabilities | <u>3,128.89</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 were as follows:

| | 2012 Rs. M | 2011 Rs. M |
|---|-----------------|-----------------|
| Contracted but not provided for | | |
| Tangible | 111.25 | 189.54 |
| Intangible | 15.16 | - |
| Engine Overhaul | 1,530.30 | 677.71 |
| Cabin Retrofit | <u>1,031.71</u> | <u>1,155.75</u> |
| | <u>2,688.42</u> | <u>2,023.00</u> |
| Authorised by the Board, but not contracted for | | |
| Tangible | 103.33 | 108.70 |
| Intangible | <u>31.95</u> | <u>17.61</u> |
| | <u>135.28</u> | <u>126.31</u> |
| | <u>2,823.70</u> | <u>2,149.31</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 | |
|---|------------------|------------------|
| | 2012 Rs. M | 2011 Rs. M |
| Within one year | 13,269.28 | 7,411.28 |
| After one year but not more than five years | 55,150.99 | 24,187.00 |
| Later than five years | 9,575.19 | 1,894.18 |
| | <u>77,995.46</u> | <u>33,492.46</u> |

- (b) As at 31 March 2012 the Company had entered into a non-cancellable operating lease agreement for the lease of one A320 aircraft.

- (c) The remaining lease rental commitment for the land in Katunayake, leased by the Company and Subsidiary for a period of 16 and 22 years respectively is as follows:

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2012 Rs. M | 2011 Rs. M | 2012 Rs. M | 2011 Rs. M |
| Instalment payable: | | | | |
| Within one year | 347.18 | 322.21 | 336.73 | 310.72 |
| After one year but not more than five years | 1,473.91 | 1,439.04 | 1,412.78 | 1,377.06 |
| Later than five years | 4,028.91 | 4,301.51 | 3,461.75 | 3,787.36 |

24.3 Contingencies**Company**

Management estimates contingent liabilities arising from legal cases pending against the Company as at 31 March 2012 at Rs. 2,976.20 million. (2011: Rs. 2,760.79 million) Based on the Company's legal officer's opinion the Directors do not anticipate any significant liabilities in respect of such contingent liabilities. Accordingly, a provision has not been made in relation to contingent liabilities in these financial statements.

The Company has guaranteed the loan outstanding of USD 1.63 million obtained by its Subsidiary SriLankan Catering Limited for the construction of the new flight kitchen.

Subsidiary

There are several cases pending before the Labour Tribunal against the Subsidiary as at 31 March 2012. 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 assets against banking facilities obtained. Please refer Note 14.

Pledged to

| | | |
|----------------|--|--------------------|
| Bank of Ceylon | Share Certificate of SriLankan Catering Limited | 59,999,999 shares* |
| | Coupon Interest from Treasury Bond | Rs.616.92 mn** |

* 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.

** The first coupon interest receivable on 1 July 2012 from the investment in the Treasury Bond (Refer Note 7.3) was pledged as security against a short term loan.

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

In April 2012, the Company took delivery of one A320 aircraft under an operating lease agreement with a lease term of 6 years (Note 24.2.(b)).

On 31 May 2012, the Company entered into a financing arrangement with a syndicate of foreign banks to secure financing amounting to USD 175 Million.

27 RELATED PARTY DISCLOSURES**27.1 GROUP & COMPANY****27.1.1 Transactions with Key Management Personnel (KMP)**

Related parties include KMPs 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.

| | 2012 Rs. M | 2011 Rs. M |
|--------------------------|---------------|---------------|
| Short Term benefits | 113.53 | 54.22 |
| Post Employment Benefits | 18.97 | 17.01 |

27.2 Group

27.2.1 (a) Transactions including the following have been carried out with entities controlled by the Government of Sri Lanka (GOSL) in the ordinary course of business.

| | 2012 Rs. M | 2011 Rs. M |
|---|-------------------------|-------------------------|
| | Receipts/ (Payments) | Receipts/ (Payments) |
| Sales | 572.40 | 750.71 |
| Loans | 2,558.99 | 2,038.92 |
| - Receipt | | |
| - Repayment including Interest | (725.59) | (2,915.92) |
| Purchase of Goods/Services and Statutory Dues | (8,730.78) | (18,220.19) |

27.2.1 (b) As at the Balance Sheet date, the following facilities exists with entities controlled by the GOSL:

- Short term loan amounting to USD 20 million.
- Overdraft facilities amounting to USD 31 million.
- Bank guarantee facilities amounting to Rs. 285 million.

27.2.2 As at the Balance Sheet date the following Assets and Liabilities exists with entities controlled by the GOSL:

- Net outstanding payable balance of Rs. 27,598.47 million (2011: Rs. 5,685.06 million) *
- Short Term Deposits to the value of Rs.91.78 million (2011:Rs. 39.07 million).
- Investment in Treasury Bond with a face value of Rs.15.4 billion (Note 7.3).
- 10 million 15% Non-Voting Redeemable Cumulative Convertible (10 year) Preference Shares.

* Balances from / to entities controlled by the GOSL are included under Trade and Other Receivables / Payables in the Balance Sheet.

SriLankan Airlines Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

27.2.3 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 | Presidential Secretariat | Sri Lanka Customs |
| Civil Aviation Authority | Sri Lanka Convention Bureau | Department of Examinations |
| Sri Lanka Army | Sri Lanka Handicrafts Board | Medical Supplies Division |
| Sugathadasa National Sports Complex Authority | Sri Lanka Standards Institution | Sri Lanka Cashew Corporation |
| Sri Lanka Printing Corporation | Sri Lanka Tourism Development Authority | Central Bank of Sri Lanka |
| State Engineering Corporation of Sri Lanka | Sri Lanka Tourism Promotion 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).

27.3 COMPANY

27.3.1 Transactions including the following have been carried out with the Subsidiary in the ordinary course of business.

| Nature of transaction | 2012 | 2011 |
|------------------------------------|---------------------------------|---------------------------------|
| | Rs.M (Payments)/ Receipts | Rs.M (Payments)/ Receipts |
| Freight Services | 9.38 | 19.34 |
| Flight Catering and Other Services | (2,347.97) | (1,975.38) |
| Dividend | 150.00 | 695.34 |
| Ordinary share distribution | - | 900.00 |
| Preference Shares | - | 2,000.00 |
| Repayment of Long Term Loan | (227.84) | - |
| Transfer to Long Term Loan | - | 1,501.96 |

27.3.2 As at the Balance Sheet date the outstanding balances with the Subsidiary were as follows:

- Amounts due amounting to Rs 2,869.98 million(2011: Rs.2,369.51 million).
- Loan balance amounting to Rs. 1,494.13 million (2011: Rs. 1,486.55 million).The interest applicable-one month LIBOR subject to an agreed cap.
- 10 million 15% Non-Voting Redeemable Cumulative (5 year) Preference Shares.

27.3.3 Transactions including the following have been carried out with entities controlled by the GOSL in the ordinary course of business.

| | 2012 | 2011 |
|--------------------------------|---------------------------------|---------------------------------|
| | Rs.M Receipts/ (Payments) | Rs.M Receipts/ (Payments) |
| Sales | 438.28 | 672.60 |
| Loans - Receipt | 2,558.99 | 2,038.92 |
| - Repayment including Interest | (575.59) | (2,915.92) |
| Purchase of Goods and Services | (8,439.33) | (17,873.88) |

List of facilities obtained by the Company are same as those disclosed under Note 27.2.1 (b).

27.3.4 As at the Balance Sheet date the following Assets and Liabilities exists with entities controlled by the GOSL:

- Net outstanding payable balance Rs. 27,655.45 million (2011: Rs. 5,712.07 million) *
- Short Term Deposits to the value of Rs.91.78 million (2011:Rs. 39.07 million).
- Investment in Treasury Bond with a face value of Rs.15.4 billion (Note 7.3).

* Balances from / to entities controlled by the GOSL are included under Trade and Other Receivables / Payables in the Balance Sheet.

27.3.5 List of Government controlled entities are same as those disclosed under the Group (Note 27.2.3).

TEN YEAR REVIEW - COMPANY

| INCOME STATEMENT | | 2003 | 2004 | 2005 |
|---------------------------------|----------------|-----------|-----------|------------|
| Revenue | Rs. Million | 36,235.04 | 45,397.54 | 53,808.85 |
| Operating expenditure | Rs. Million | 33,440.83 | 39,441.82 | 54,145.20 |
| Net profit/(loss) | Rs. Million | 3,347.23 | 7,424.48 | 479.87 |
| BALANCE SHEET | | | | |
| Share capital / Stated Capital | Rs. Million | 5,146.35 | 5,146.35 | 5,146.35 |
| Non Current Assets | Rs. Million | 12,229.44 | 13,072.68 | 10,908.79 |
| Current assets | Rs. Million | 18,713.33 | 24,954.44 | 22,303.26 |
| Total assets | Rs. Million | 31,038.66 | 38,123.01 | 33,307.94 |
| Current liabilities | Rs. Million | 16,641.12 | 20,612.84 | 22,381.67 |
| YIELD/UNIT COST | | | | |
| Overall yield | Rs. tkm | 43.0 | 47.3 | 48.1 |
| Unit cost | Rs. tkm | 31.5 | 34.8 | 36.2 |
| Breakeven load factor | % | 73.3 | 68.7 | 74.9 |
| Revenue per RPK | Rs./RPK | 4.3 | 4.9 | 5.1 |
| PRODUCTION | | | | |
| Passenger capacity | ASK Millions | 8,422.77 | 9,692.08 | 11,326.54 |
| Overall capacity | ATK Millions | 1,121.89 | 1,289.94 | 1,484.02 |
| TRAFFIC | | | | |
| Passengers carried | Nos. Thousands | 1,806 | 2,065 | 2,423 |
| Passengers carried | RPK Millions | 6,408.38 | 7,276.35 | 8,142.54 |
| Passenger load factor | % | 76.08 | 75.08 | 71.89 |
| Cargo carried | Tonnes | 47,650 | 54,943 | 66,977 |
| Cargo load carried | RTK Millions | 200.45 | 240.90 | 296.68 |
| Overall load carried | RTK Millions | 785.11 | 896.59 | 1,039.34 |
| Cargo load factor | % | 46.22 | 52.08 | 56.95 |
| Overall load factor | % | 69.98 | 69.51 | 70.04 |
| STAFF | | | | |
| Staff strength | Nos. | 4,182 | 4,714 | 5,163 |
| Revenue per employee | Rs. | 8,664,524 | 9,630,365 | 10,422,012 |
| Capacity per employee | Tonne-km | 268,266 | 273,640 | 287,433 |
| Load carried per employee | Tonne-km | 187,735 | 190,197 | 201,305 |
| FLEET | | | | |
| A320-200 | Nos. | 2 | 3 | 5 |
| A330-200 | Nos. | 4 | 4 | 4 |
| A340-300 | Nos. | 3 | 5 | 5 |
| Turbo Otter / Twin Otter | Nos. | - | - | 2 |
| Aircraft in service at year end | Nos. | 9 | 12 | 16 |

TEN YEAR REVIEW - COMPANY

| 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|------------|------------|------------|------------|------------|------------|-------------|
| 61,160.14 | 67,963.76 | 79,128.56 | 73,307.77 | 62,363.58 | 77,125.45 | 90,544.22 |
| 60,720.29 | 69,406.68 | 82,154.01 | 84,794.86 | 69,026.74 | 81,334.34 | 109,376.82 |
| 476.53 | 568.04 | 4,428.23 | (9,305.94) | (2,698.20) | (381.61) | (19,678.71) |
| 5,146.35 | 5,146.35 | 5,146.35 | 5,146.35 | 5,146.35 | 5,146.35 | 19,432.67 |
| 16,136.77 | 16,568.73 | 15,730.43 | 19,333.18 | 28,531.75 | 19,862.87 | 44,835.93 |
| 21,866.73 | 21,347.46 | 32,209.67 | 15,008.38 | 15,910.82 | 18,276.59 | 21,735.12 |
| 38,003.50 | 37,916.19 | 47,940.10 | 34,341.56 | 44,442.57 | 38,139.46 | 66,571.05 |
| 25,485.05 | 25,006.65 | 29,134.89 | 25,012.31 | 28,399.92 | 28,017.97 | 58,259.86 |
| 52.2 | 55.71 | 61.01 | 64.85 | 54.94 | 60.27 | 62.74 |
| 37.62 | 40.30 | 46.48 | 50.71 | 43.37 | 45.92 | 56.03 |
| 72.0 | 72.34 | 76.18 | 78.19 | 78.94 | 76.19 | 86.53 |
| 5.3 | 5.6 | 6.5 | 6.8 | 5.8 | 6.3 | 6.4 |
| 11,934.86 | 12,375.62 | 12,599.58 | 11,731.56 | 10,724.83 | 12,481.41 | 14,248.94 |
| 1,590.55 | 1,695.91 | 1,741.10 | 1,635.62 | 1,541.03 | 1,755.23 | 1,978.33 |
| 3,005 | 3,176 | 3,196 | 2,735 | 2,558 | 2,867 | 3,459 |
| 9,050.44 | 9,535.79 | 9,793.05 | 8,546.44 | 8,357.89 | 9,584.02 | 11,270.23 |
| 75.83 | 77.05 | 77.73 | 72.85 | 77.93 | 76.79 | 79.10 |
| 82,142 | 88,833 | 93,161 | 73,106 | 72,058 | 86,053 | 87,750 |
| 300.73 | 325.97 | 350.35 | 302.36 | 283.83 | 332.98 | 345.67 |
| 1,102.77 | 1,150.84 | 1,232.62 | 1,065.15 | 1,028.11 | 1,184.13 | 1,338.30 |
| 56.11 | 58.44 | 61.60 | 53.17 | 56.42 | 56.80 | 53.78 |
| 69.33 | 67.86 | 70.80 | 65.12 | 66.72 | 67.46 | 67.65 |
| 5,395 | 5,272 | 5,113 | 4,837 | 4,614 | 4,998 | 5,594 |
| 11,336,449 | 12,891,457 | 15,475,955 | 15,155,627 | 13,516,164 | 15,431,263 | 16,185,953 |
| 294,820 | 321,683 | 340,523 | 338,148 | 333,991 | 351,186 | 353,652 |
| 204,406 | 218,293 | 241,077 | 220,210 | 222,825 | 236,922 | 239,238 |
| 5 | 5 | 5 | 3 | 3 | 4 | 7 |
| 4 | 4 | 4 | 4 | 4 | 5 | 7 |
| 5 | 5 | 5 | 5 | 5 | 5 | 6 |
| 2 | 2 | - | - | - | 2 | 2 |
| 16 | 16 | 14 | 12 | 12 | 16 | 22 |

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 Fourth Annual General Meeting of the Shareholders of SriLankan Airlines Limited will be held on **Monday 24 September 2012 at 3.00 p.m** at the **LAHES** [Laugfs Australia Higher Education Services (Private) Limited], Level 22 – **West Tower**, World Trade Centre, Echelon Square, Colombo 01 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 31 March 2012 with the Report of the Auditors thereon.
2. To re-appoint M/s Ernst & Young as Auditors and authorize the Directors to determine their remuneration.

By Order of the Board

A handwritten signature in black ink, appearing to read "M Peries".

Company Secretary
Mildred Peries

17 August 2012
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/We, of

.....

being a member/s of SriLankan Airlines Limited hereby appoint:

..... of

.....or failing
him/her,

one of the following Directors;

- Mr Nishantha Wickremasinghe
- Mr Kapila Chandrasena
- Mr Nihal Jayamanne PC
- Mr Shameendra Rajapaksa
- Mr Manilal Fernando
- Mrs Lakshmi Sangakkara
- Mr Sanath Ukwatte
- Mr Susantha Ratnayake

as my/our proxy to represent me/us and vote on my/our behalf at the Thirty Fourth Annual General Meeting of the Shareholders of SriLankan Airlines Limited to be held on Monday – 24 September 2012 at 3.00 p.m and at any adjournment thereof.

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

.....
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

